

# STATE of TENNESSEE



COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR  
THE FISCAL YEAR ENDED JUNE 30, 2012



*Mockingbird*



*Honeybee*



*Tulip Poplar*



*Raccoon*



*Passion Flower*



*Iris*

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012



# Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2012

BILL HASLAM, Governor



**DEPARTMENT OF AUDIT**  
**JUSTIN P. WILSON, Comptroller of the Treasury**  
Division of State Audit  
**ARTHUR A. HAYES, JR., Director**

**DEPARTMENT OF FINANCE AND ADMINISTRATION**  
**MARK EMKES, Commissioner**  
Division of Accounts  
**JAN I. SYLVIS, CHIEF OF ACCOUNTS**



**STATE OF TENNESSEE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2012**

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# INTRODUCTORY SECTION

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**STATE OF TENNESSEE  
DEPARTMENT OF FINANCE AND ADMINISTRATION  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0285**

**MARK A. EMKES  
COMMISSIONER**

December 21, 2012

To the Citizens, Governor, and Legislators of the State 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, 2012. 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 presented in three sections: *Introductory*, *Financial* and *Statistical*. The *Introductory Section* is designed to provide the background and context that readers need to benefit fully from the information contained in the *Financial Section*, and includes this transmittal letter and an organization chart. The *Financial Section* includes the auditor's report, management's discussion and analysis (MD&A), audited government-wide and fund financial statements and related notes thereto, required supplementary information, and the underlying combining and individual fund financial statements and supporting schedules. The *Statistical Section* contains selected unaudited financial, economic and demographic data on a multi-year basis that is useful in evaluating the economic condition of the government.

This report consists of management's representations concerning the financial information of the State of Tennessee. Consequently, management assumes full responsibility for the completeness and reliability of the information contained in the CAFR. To provide a reasonable basis for making these representations, management of the state has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the state's financial statements in conformity with U.S. generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the state's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

State statutes require an annual audit of all financial statements of the state. As part of the meeting of this requirement, the Office of the Comptroller of the Treasury, Department of Audit, Division of State Audit has examined the accompanying financial statements, and has issued an unqualified opinion on the state's basic financial statements. The independent auditor's report is located at the front of the *Financial Section* of this report.

Federal regulations also require the state to undergo an annual "Single Audit" in conformance with the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to the Single Audit, including the schedule of federal awards, audit findings and recommendations, summary of prior audit findings, and the Office of the Comptroller of the Treasury's report, is issued in a separate report and will be available at a later date.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The state's MD&A can be found immediately following the report of the independent auditors.

## Profile of the State of Tennessee

The State of Tennessee is rooted in the Watauga Association, a 1772 frontier pact generally regarded as the first constitutional government west of the Appalachians. What is now Tennessee was initially part of North Carolina, and later part of the Southwest Territory. Tennessee was admitted to the Union as the 16th state on June 1, 1796. It was the first state created from territory under the jurisdiction of the United States federal government. Tennessee has played a critical role in the development of many forms of American popular music, including rock and roll, country and rockabilly, and, of the 50 states, ranks 36<sup>th</sup> in total area (42,146 square miles) and 19<sup>th</sup> in the number of persons per square mile, with an estimated population of 6.4 million.

Under the Tennessee Constitution, legislative authority of the state is vested in the General Assembly, which consists of a Senate and a House of Representatives, both popularly elected. The name of the legislative authority may vary from state to state, but usually it is called the Legislature or the General Assembly. The official title in our state is the "General Assembly of the State of Tennessee".

The Senate is composed of 33 members who are elected to four-year terms of office. They are elected by the voters of their Senate legislative district. The House of Representatives is composed of 99 members who are elected to two-year terms of office. They are elected by the voters of their House legislative district. In general, the functions of the Legislature are to enact, amend, and repeal the laws of Tennessee. Some of the specific powers granted to the General Assembly by the State Constitution include: the appropriation of all money to be paid out of the state treasury; the levy and collection of taxes; and the right to authorize counties and incorporated towns to levy taxes.

The state and its component units provide a full range of services to its citizens, including education, health and welfare, transportation, public safety, economic development, culture and recreation, conservation and general government services. The financial statements present information on the financial position and operations of state government associated with these services as a single comprehensive reporting entity. The component units are legally separate entities for which the State of Tennessee has financial responsibility and include state funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Tennessee. Further information about the financial reporting entity can be found in Note 1A. to the financial statements.

State legislation grants the Governor the authority and duty to develop and submit to the General Assembly a recommended budget. (Annual budgets are adopted for the general, education and highway funds, the special revenue funds (except Fraud and Economic Crime and the Agricultural Promotion Board), and the debt service fund.) The law directs the Commissioner of Finance and Administration to prepare the budget in accordance with the Governor's directives. After receipt of operational and capital budget requests, analysts with the Department of Finance and Administration's Division of Budget begin the process of balancing expenditures against estimated revenues. Within this constraint, funds must be provided for administration initiatives of high priority, activities mandated by state or federal statute, and the day-to-day operation of state government. The budget must be presented to the General Assembly prior to February 1, or prior to March 1 when a newly elected Governor takes office, unless the General Assembly by joint resolution allows submission on a later date. At the time the budget is presented, the appropriation process is initiated. Invariably, there are changes to the budget presented by the Governor to the General Assembly. These changes are made by amending the appropriations act during its adoption process. The Division of Budget establishes an annual allotment for each agency using the appropriations act. This annual allotment, called the official work program, is used for budgetary control. Budgetary control is maintained at the program level by the individual departments and agencies, acting in conjunction with the Department of Finance and Administration. The budget details the separation between payroll and operational funds by program. Any movement of funds between the payroll and operational funds requires approval and a revision to the budget by the Division of Budget on behalf of the Commissioner of Finance and Administration and the Governor. Other budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, require certain executive and legislative branch approval, pursuant to law. Agencies may not expand programs or implement new programs on their own authority. In Tennessee, as in other states, appropriation of funds is a legislative power, not an executive power. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law.

## Information Useful in Assessing Tennessee's Economic Condition

### Local economy

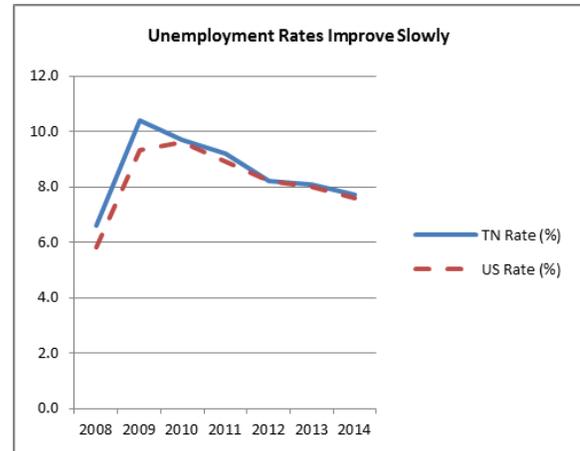
The economy remains the number-one topic of conversation throughout the country. Where do we stand, and when is full recovery in sight? Most recessions have only a short-term impact on economic growth. The Great Recession is an exception to this rule. Having started in December, 2007 and ended in the summer of 2009, the last recession continues to influence national and state economic growth. Long-term trend economic growth is primarily affected by growth in the labor force, along with investments in infrastructure capital, private productive capital, and human capital investments in the workforce that enhance productivity. While all of these factors will continue to influence Tennessee's growth in the next ten years, the recession will likewise continue to play a role, although this will certainly diminish as time passes.

The outlook for Tennessee calls for economic growth to accelerate in 2013, with gains in employment (including manufacturing) and continued reductions in the unemployment rate. This growth is expected to be sustained in 2014 and 2015 as the economy moves closer to a restoration of pre-recession levels of an array of economic barometers. The state economy has a long way to go to overcome the setbacks of the last recession, but it is finally on the right track.

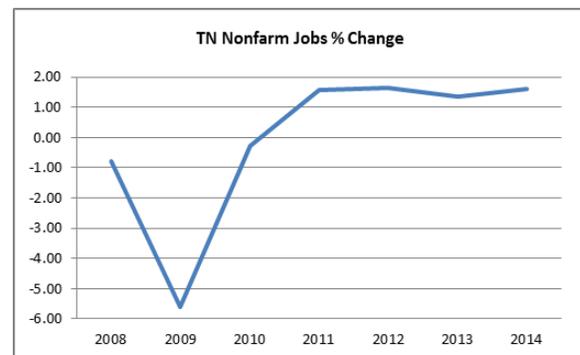
Situated in the eastern south-central United States, Tennessee's location places it within a day's drive from nearly 75 percent of the major markets that represent approximately 50 percent of the entire United States population. Maintaining a temperate climate with warm summers and mild winters, Tennessee is a strategic business choice because of its central location and a strong transportation infrastructure. Recently released census data reveals that Tennessee grew at a faster pace than the nation as a whole, achieving an 11.5 percent increase in population as compared with a 9.7 percent rise for the U.S. since Census 2000.

Although Tennessee is now primarily industrial with most of its people residing in urban areas, many Tennesseans still derive their livelihood from the land. The state's leading crops are cotton, soybeans, and tobacco; cattle, dairy products, and hogs are also principal farm commodities. Tennessee has been very aggressive in attracting new industry, and as a result industry in the state is being continually diversified. Leading manufactures are chemicals and related products, foods, electrical machinery, primary metals, automobiles, textiles and apparel, and stone, clay, and glass items. Tennessee has also long been a major tourist destination, owing largely to its beautiful scenery and music legacy.

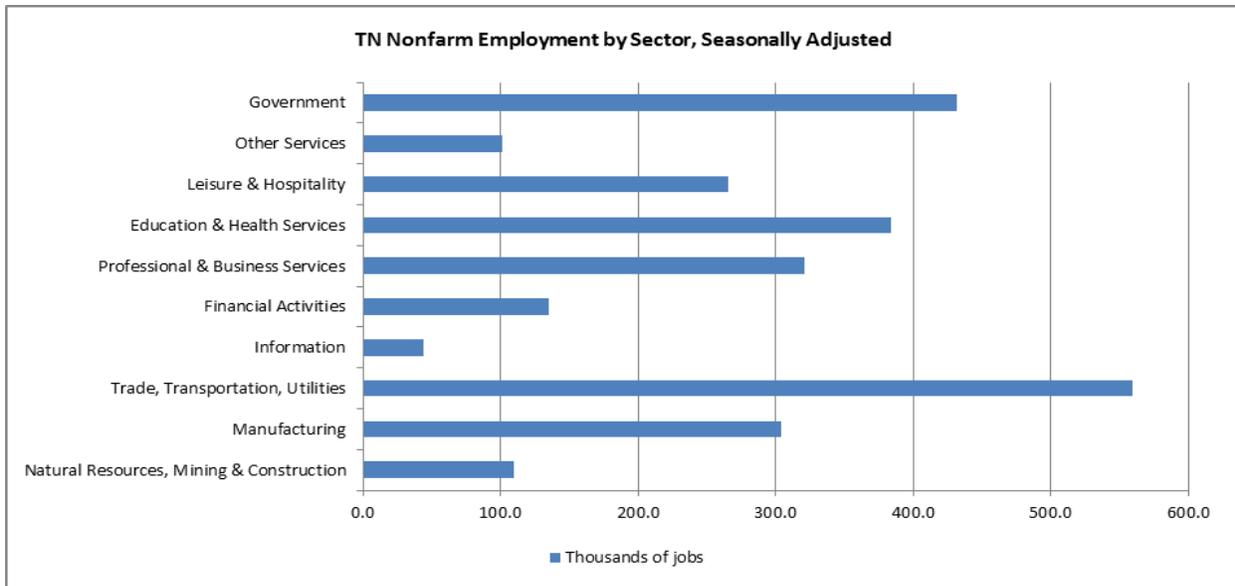
Tennessee's nonfarm employment outlook and composition is presented in the following charts. The overall outlook remains largely positive, with most sectors showing growth prospects. The strongest growth will take place in natural resources, mining and construction, which will be buoyed by an improving outlook in the housing sector. Professional and business services are also expected to see strong growth, while the information, trade, transportation and utilities and financial activities sectors will display a more mixed pattern of growth. Manufacturing will enjoy its second consecutive year of employment gains this year, the first time such back-to-back gains have been seen since the 1990s.



Source: Center for Business and Economic Research, University of Tennessee



Source: Center for Business and Economic Research, University of Tennessee



Source: Center for Business and Economic Research, University of Tennessee

### Long-term financial planning

- Tennessee enacted its Governmental Accountability Act in 2002. This law altered the budget law to require strategic planning and performance based budgeting. In addition to setting forth program objectives, strategic plans must include performance measures and standards for each program, partly defined as a budgetary unit. With the state's strategic planning unit being part of the central budget office, and the definition of programs as budgetary units, planning and budgeting are closely linked for the state's executive branch. Annual budget documents must include a program statement and performance measures, and annual reporting on compliance with strategic plans and performance measures is required. The act also provides for performance reviews by the state's Comptroller of the Treasury. These reviews include consideration of the efficient use of state and federal funds, additional non-state revenue or cost savings that could be achieved and the extent to which strategic plan objectives are achieved.
- 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.

- An 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. The goal is to utilize departmental and programmatic specific forecasting data 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 are intended to enhance cash flows based on historical data alone, and help the state better plan and position itself for fluctuations in available cash balances.

### Relevant financial policies

- 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. The state is authorized to issue general obligation tax revenue anticipation notes 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.

- In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated state tax revenues to be allocated to the general fund and education trust fund. 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.
- Monthly reports comparing budgeted to actual revenues and expenditures (month and year-to-date, including prior year comparative data) are distributed to the Governor and agency heads. Significant variations are researched and followed up on by the Department of Finance and Administration’s Division of Budget. 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.

**Major initiatives**

The 2012 legislative agenda was designed to move Tennessee forward by supporting an overarching goal of making Tennessee the No. 1 location in the Southeast for high quality jobs through economic development efforts, meaningful education reform, a more efficient and effective state government and improved public safety.

The actions taken were highlighted by significant reforms of how the state operates, and a responsible budget that encompassed strategic investments, reductions and savings for the future, and included:

- Reform of the state’s outdated employment system
- Decreases in the inheritance tax and the state’s portion of the sales tax on food
- A complete rewrite of Tennessee’s school accountability system
- An expansion of the FastTrack grant program
- Bills to improve public safety as part of a multi-year public safety action plan

The budget restored more than \$133 million of a total of \$160 million in reductions to “core services” first identified as cuts in the FY 2010-2011 budget but delayed through the use of one-time money, and included:

- \$3.9 billion to fully fund the Basic Education Program
- \$342.6 million for higher education capital improvements and maintenance
- \$5 million for Tennessee career centers
- \$29.6 million for Tennessee state parks
- \$40 million in payments to local jails
- \$50 million to rebuild the “rainy day fund”

**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, 2011. This was the thirty-second 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.

The state also received GFOA's Distinguished Budget Presentation Award for its Annual Budget beginning July 1, 2011. Prepared by the Department of Finance and Administration's Division of Budget, this was the twentieth time the state's budget publications have received this award by meeting program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This CAFR is an example of state leadership's continuing commitment to maintaining the highest standards of accountability in financial reporting. We express our appreciation to the Department of Finance and Administration, Division of Accounts personnel who participated in its preparation, as well as to the personnel of all state agencies, for their interest in planning and conducting the financial operations of Tennessee in a professional, responsible, and progressive manner.

Respectfully submitted,

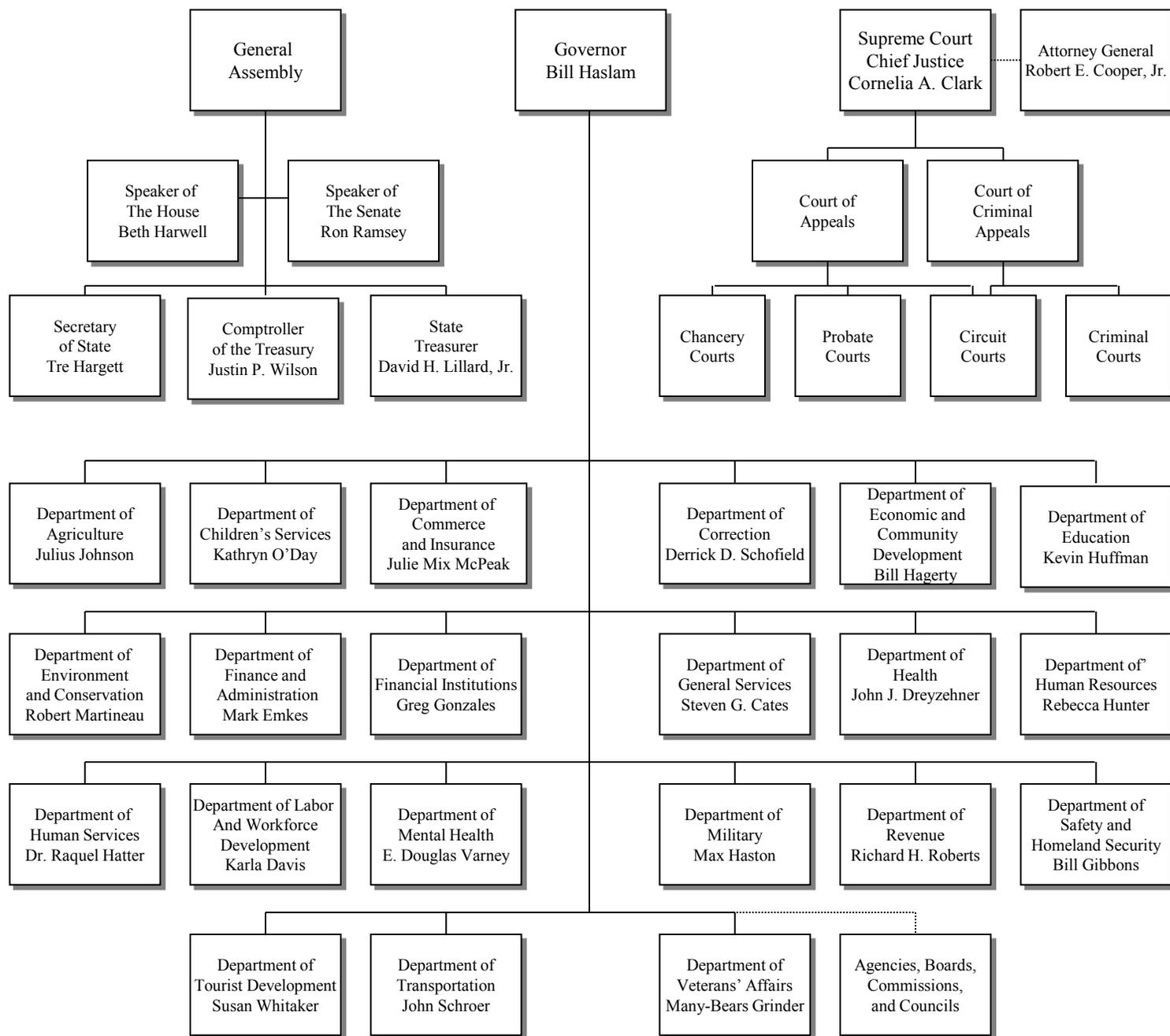


Mark A. Emkes  
Commissioner



Jan Sylvis  
Chief of Accounts

STATE OF TENNESSEE  
ORGANIZATION CHART  
As of June 30, 2012



# 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, 2011

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



*Linda C. Davison*

President

*Jeffrey R. Emery*

Executive Director

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# FINANCIAL SECTION

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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402  
PHONE (615) 401-7897 FAX (615) 532-2765

**Independent Auditor's Report**

December 21, 2012

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

Ladies and Gentlemen:

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, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. 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 generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Assistance Corporation, and the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in these capacities affected our ability to conduct an independent audit of the State of Tennessee.

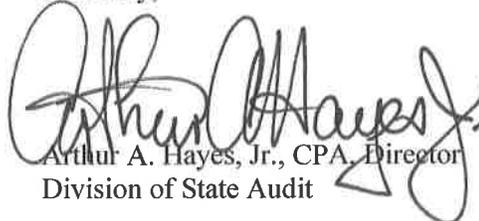
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 who 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 the 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.

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 other supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the 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, statistical section, and the 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 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.

In accordance with generally accepted government auditing standards, we will issue our report dated December 21, 2012, 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 generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/geb

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## 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, 2012. 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 3-8 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 Assets - The assets of the state exceeded its liabilities at June 30, 2012, by \$29.9 billion (reported as net assets). Of this amount, \$3.1 billion represents unrestricted net assets, which may be used to meet the state's ongoing obligations to citizens and creditors while \$25.6 billion represents *invested in capital assets, net of related debt*.

Changes in Net Assets - The state's net assets increased by \$1.4 billion. This increase was largely the result of an increase in capital assets.

Component units - Component units reported net assets of \$6.5 billion, an increase of \$213.7 million.

- **Fund Level:**

At June 30, 2012, the state's governmental funds reported combined ending fund balances of \$4.5 billion, an increase of \$435.10 million (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately \$3.25 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, \$306 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 \$341.95 million during the fiscal year to total \$2.310 billion. This change primarily results from the state's decision to issue general obligation bonds during the fiscal year to obtain long-term financing for capital projects.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The *statement of net assets and the statement of activities* (on pages 27 and 28-29) 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 32. 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 Assets and the Statement of Activities*

Our analysis of the state as a whole begins on page 17. 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 assets* 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 and liabilities 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 *statement of net assets* displays all the state's financial and capital resources in the format of assets minus liabilities equal net assets. The *statement 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 20. The fund financial statements begin on page 32 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 focus on the near-term inflows and outflows of funds and the balances left at year-end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the state's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the *statement of net assets* are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

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 necessary 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 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 assets may serve over time as a useful indicator of a government's financial position. In the case of the state, combined assets exceeded liabilities by \$29.87 billion as of June 30, 2012.

By far, the largest portion of the state's net assets (86%) reflects its 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 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 Assets as of June 30						
(Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 6,943,239	\$ 6,081,500	\$ 1,969,082	\$ 1,675,676	\$ 8,912,321	\$ 7,757,176
Capital assets	26,173,249	25,149,111			26,173,249	25,149,111
Total assets	33,116,488	31,230,611	1,969,082	1,675,676	35,085,570	32,906,287
Current and other liabilities	1,685,069	1,340,386	81,098	93,765	1,766,167	1,434,151
Noncurrent liabilities	3,446,303	2,959,097	7,172	7,247	3,453,475	2,966,344
Total liabilities	5,131,372	4,299,483	88,270	101,012	5,219,642	4,400,495
Net assets:						
Invested in capital assets, net of related debt	25,628,600	24,420,662			25,628,600	24,420,662
Restricted net assets	1,172,812	1,179,519			1,172,812	1,179,519
Unrestricted net assets	1,183,704	1,330,947	1,880,812	1,574,664	3,064,516	2,905,611
Total net assets	\$ 27,985,116	\$ 26,931,128	\$ 1,880,812	\$ 1,574,664	\$ 29,865,928	\$ 28,505,792

An additional portion of the state's net assets (3.93%) 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 assets (\$3.06 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted.

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

The state's net assets increased by \$1.36 billion during the year ended June 30, 2012. A significant portion of this increase was attributable to the improvement of tax collections compared to the prior year and base budget reductions in the fiscal year's spending.

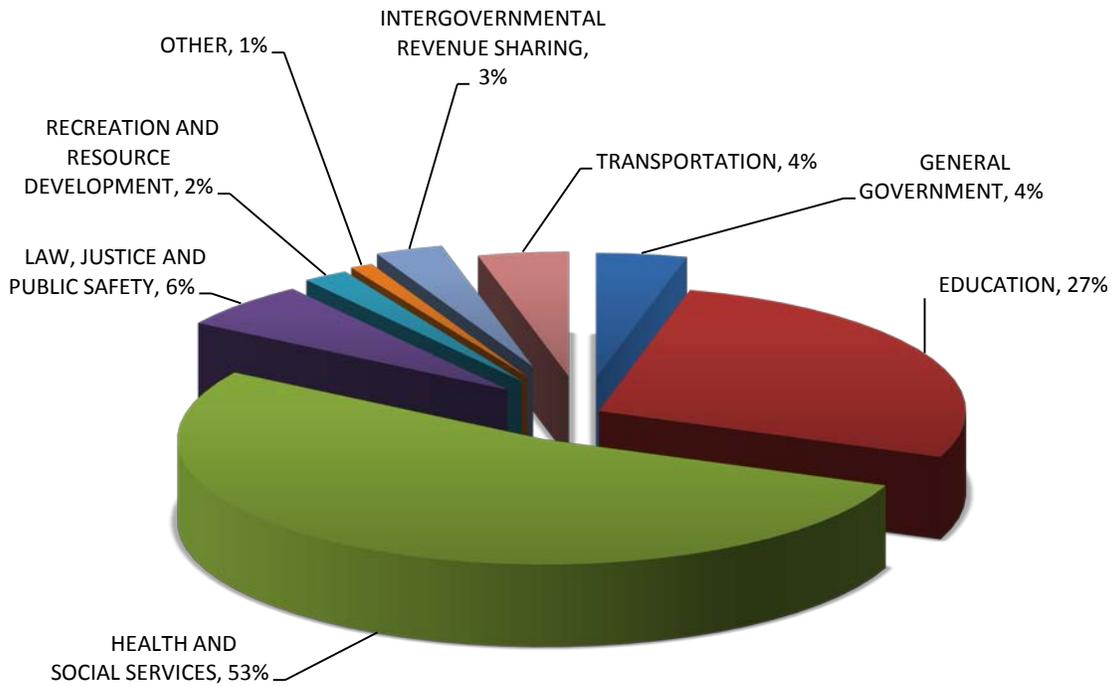
State of Tennessee  
Changes in Net Assets  
For the Fiscal Year Ended June 30  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 1,979,308	\$ 2,069,585	\$ 1,327,935	\$ 1,318,871	\$ 3,307,243	\$ 3,388,456
Operating grants and contributions	11,897,517	12,677,291	749,005	1,035,693	12,646,522	13,712,984
Capital grants and contributions	903,281	901,798			903,281	901,798
General revenues:						
Sales Taxes	6,884,762	6,461,461			6,884,762	6,461,461
Other taxes	5,377,461	4,907,776			5,377,461	4,907,776
Other	254,261	222,232			254,261	222,232
Total revenues	27,296,590	27,240,143	2,076,940	2,354,564	29,373,530	29,594,707
Expenses:						
General government	942,465	1,048,500			942,465	1,048,500
Education	7,018,189	7,127,754			7,018,189	7,127,754
Health and social services	13,952,342	13,740,315			13,952,342	13,740,315
Law, justice and public safety	1,567,730	1,436,519			1,567,730	1,436,519
Recreation and resources development	646,494	606,471			646,494	606,471
Regulation of business and professions	126,395	127,918			126,395	127,918
Transportation	1,012,399	836,130			1,012,399	836,130
Intergovernmental revenue sharing	851,535	825,777			851,535	825,777
Interest on long-term debt	62,119	63,555			62,119	63,555
Payments to fiduciary funds	58,453	63,114			58,453	63,114
Employment security			1,232,324	1,613,716	1,232,324	1,613,716
Insurance programs			540,746	552,626	540,746	552,626
Loan programs			1,757	1,544	1,757	1,544
Other			620	42	620	42
Total expenses	26,238,121	25,876,053	1,775,447	2,167,928	28,013,568	28,043,981
Increase in net assets						
before contributions and transfers	1,058,469	1,364,090	301,493	186,636	1,359,962	1,550,726
Transfers	(4,655)	(2,134)	4,655	2,134		
Contributions to permanent funds	174	180			174	180
Increase (decrease) in net assets	1,053,988	1,362,136	306,148	188,770	1,360,136	1,550,906
Net assets, July 1	26,931,128	25,568,992	1,574,664	1,385,894	28,505,792	26,954,886
Net assets, June 30	\$ 27,985,116	\$ 26,931,128	\$ 1,880,812	\$ 1,574,664	\$ 29,865,928	\$ 28,505,792

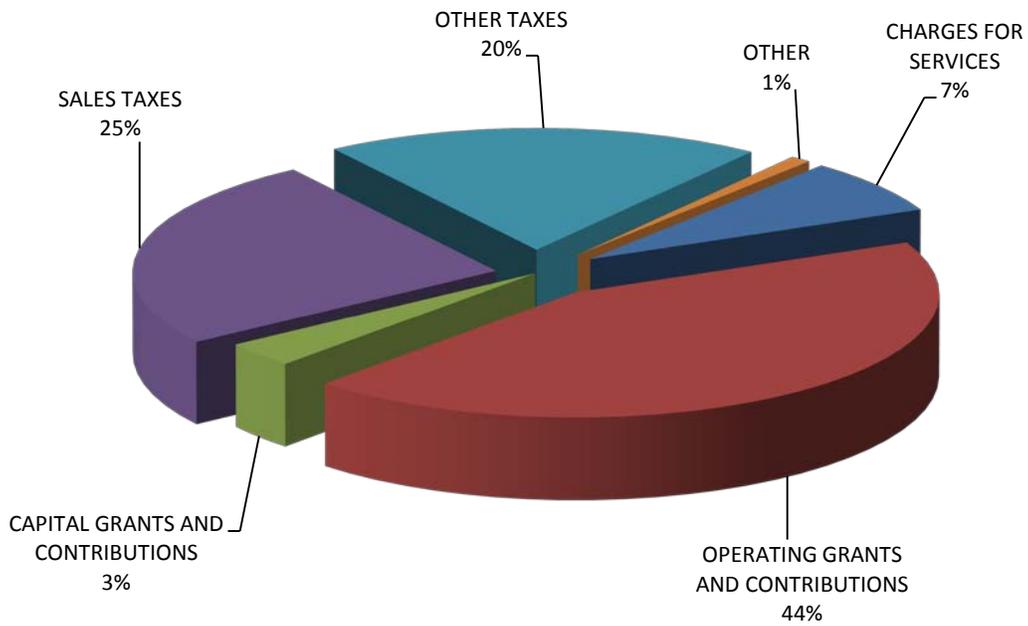
**Governmental activities.** Net assets of the state's governmental activities increased by \$1.05 billion (4%). This increase accounts for 78% of the total increase in net assets of the primary government and is primarily the result of the use of funds to increase capital assets and a \$925 million increase in tax revenues. The primary tax revenue increase was from an increase in sales and business tax collections.

See notes to the financial statements, note 4, on page 55 for an explanation on prior year net assets adjustments.

## EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



## REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



**Business-type activities.** Net assets of the state's business-type activities increased by \$306.15 million (19%). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net assets of \$250.35 million. The Employment Security fund increase is due to a decrease in unemployment benefits paid combined with a smaller decrease in operating grants received. The Sewer Treatment Loan program increase is primarily due to operating grants received and a decrease in other nonoperating expenses. The Nonmajor Enterprise funds' activity resulted in a \$55.80 million increase in net assets. The Energy Efficient Schools Initiative fund experienced an increase to net assets of \$43.85 million due to an increase in operating grants and loans issued.

## THE STATE'S FUNDS

Tax collections and expenditures increased overall for the year. Details are in the following paragraphs. The Revenue Fluctuation account (Rainy-Day fund) has been increased to \$306 million or 1.69% of the general fund's expenditures.

The general fund revenue collections decreased in total with a decline in federal revenue of \$470 million contributing to the majority of the decrease. However, there was an overall increase in tax revenues of \$630 million. Contributing to the decrease in federal revenue was a decrease in federal reimbursements funded under the American Recovery and Reinvestment Act. The \$630 million increase in taxes is primarily related to an increase in sales and use tax collections and an increase in the collections of the franchise and excise tax.

The general fund expenditures increased approximately \$126 million. TennCare expenditures increased by \$418 million but a \$349 million decrease in the Department of Intellectual and Developmental Disabilities expenditures offsets most of this increase as a result of the waiver payment process transferring to TennCare. The net increase in TennCare expenditures reflect the rising cost and demand of medical and pharmacy costs. An increase in Military expenditures also accounts for an additional \$69 million of the total increase which is derived from the reimbursements to local governments for disaster relief.

Assets in the general fund increased by approximately 21%. The fund balance of the general fund increased by 13%. The increase in assets is primarily the result of an increase in short-term investments which was offset by a 36% increase in liabilities which resulted in a net increase in fund balance.

The education fund revenue and expenditures decreased overall approximately \$110 and \$150 million, respectively for the year. The overall decrease was primarily the result of a reduction in federal reimbursements received through the American Recovery and Reinvestment Act (ARRA).

Capital projects fund expenditures increased by approximately \$91.76 million (23%) primarily as a result of improving budget conditions. Overall fund balance increased by \$184.91 million (36%) primarily due to a significantly higher amount of bond proceeds received during the year that were unspent at year end. Unspent bond proceeds are restricted for use by bond covenants.

Overall revenues and expenditures increased \$91 million and \$68 million, respectively for the highway fund. Revenues and expenditures increased primarily as a result of the increase of federal funds. The excess of expenditures over revenues was funded with state reserves in the highway fund.

The total plan net assets of the pension trust funds were \$34.9 billion, an increase of approximately \$1.2 billion from the prior year. As a result of the improvement in the performance of the financial markets, the pension trust funds incurred a net investment gain of \$1.8 billion.

### General Fund Budgetary Highlights

A significant variance occurred in tax revenues in the general fund between final and actual amounts primarily because of the overcollection of sales and business taxes. Total tax collections were \$467.3 million over estimates due to higher than expected improved economic conditions. Federal revenue collections were significantly below estimated expenditure levels due to the timing difference of the actual expenditures and appropriation of multi-year projects primarily for disaster relief programs. Actual expenditures in the TennCare program, Labor and Workforce Development, Economic and Community Development, and Military were significantly less than was projected in the final budget primarily due to unexpended reserved amounts that were appropriated and those multi-year projects such as the aforementioned as well as for community infrastructure programs. These allotments were non-lapsing and carried forward into the next fiscal year.

## Capital Asset and Debt Administration

### Capital Assets

The state's investment in capital assets at June 30, 2012, of \$26.2 billion, net of \$1.6 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government  
(Expressed in Thousands)

	Governmental Activities	
	2012	2011
Land	\$ 1,939,324	\$ 1,815,157
Infrastructure	21,289,577	20,324,140
Construction in progress	1,279,852	1,340,760
Structures and improvements	2,299,712	2,273,697
Machinery and equipment	871,310	826,904
Software in development	56,631	32,198
Subtotal	27,736,406	26,612,856
Accumulated depreciation	(1,563,157)	(1,463,745)
Total	\$ 26,173,249	\$ 25,149,111

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

Capital assets, including those under construction, increased from fiscal year 2011 to 2012 by approximately 4.07 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure (highways and bridges). Infrastructure increased in total by \$965.4 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by \$823.9 million and decreased (projects completed and capitalized) by \$974.6 million. Infrastructure right-of-way acreage increased the land classification by \$91.9 million. The structures and improvements increase of \$26.02 million consisted largely of improvements and new structures at state parks and a new mental health facility and 4 new welcome centers across the state. The change in machinery and equipment of \$44.4 million resulted primarily from an \$11.8 million upgrade of the state's telecommunications system and an \$8 million mobile equipment upgrade for the Department of Transportation. During fiscal year 2012, the state had several systems projects in the application development stage, resulting in the capitalization of \$29.28 million in new software in development costs and there were \$4.84 million system projects that were placed in operation and are now classified as equipment as previously mentioned.

In accordance with generally accepted accounting standards, 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 8,240 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 119), indicated that bridges were rated at 8 points above the state's established condition level and roadways were 14 points above the state's benchmark level. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the 2011-2012 fiscal year reflects a \$95.2 million decrease from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included \$50 million for economic development projects, \$20 million for Cates Landing in Lake County, and various upgrades to the state's veterans cemeteries and state parks.

### 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. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding \$100 thousand (for new construction) and maintenance to existing facilities. 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:

<u>Purpose</u>	<u>Unissued June 30, 2012</u>
Highway	\$ 1,033,700
Higher Education	319,049
Environment and Conservation	12,077
Economic and Community Development	61,267
General Government	<u>569,813</u>
Total	<u>\$ 1,995,906</u>

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

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

	<u>Governmental Activities</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Bonds, net	\$ 2,112,602	\$ 1,754,208
Commercial Paper	<u>197,770</u>	<u>214,217</u>
Total	<u>\$ 2,310,372</u>	<u>\$ 1,968,425</u>

The state issued \$255.4 million in tax-exempt and \$208.93 million in taxable 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 \$531.40 million of tax-exempt general obligation refunding bonds to provide for the advance refunding of \$541.52 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 5H to the financial statements.

The state's bonds are rated AAA, Aaa, and AA+ 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 an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2012, the state's annual debt service limit of \$641.58 million was well above the debt service required \$209.82 million, with a legal debt service margin of \$431.76 million.

## FACTORS THAT WILL AFFECT THE FUTURE

Three areas of Governor Bill Haslam's priorities to move Tennessee forward are: Jobs and economic development, education and workforce development, fiscal strength and efficient government.

In 2011, job creation in Tennessee hit its highest mark of the last five years and since the onset of the global recession. Economic and community development projects and tracked private sector growth accounted for 28,535 jobs created in Tennessee in 2011 and more than \$4 billion in investment. Two of the largest expansions were made by General Motors and Amazon. Since 2011, the following are expanding their presence to and in Tennessee:

- Eagle Bend Manufacturing in Clinton, TN, is creating 188 new jobs and investing \$64 million to increase its production of automotive parts for original equipment manufacturers of cars and light trucks.
- OTICS, USA, Inc. will expand its Morristown, TN, facility with an investment of \$24.8 million and add 67 new jobs in its automotive parts plant.
- Hospital Corporation of America will build a new data center in Antioch, TN, to expand its IT operations for the Nashville region. The investment is in excess of \$200 million and will create approximately 155 jobs.
- Kyowa America Corporation will open a new automotive plastic injection molding facility in Portland, TN, creating 160 jobs and investing \$12 million.
- P&G Duracell, will expand its battery manufacturing facility in Cleveland, TN, by adding 60 jobs with a \$36 million investment.
- Magneti Marelli will expand its Pulaski, TN, plant with a \$53.7 million investment that will create 800 new jobs. Magneti Marelli is a top global automotive systems and component supplier.
- MacLean Power Systems will locate a manufacturing plant in Trenton, TN, that represents an investment of \$12 million and will create 250 new jobs. MacLean Power Systems is a leading manufacturer of products used for building power transmission and distribution lines and substations.

Tennessee's Department of Education received a four-year \$500 million grant from the federal government's Race to the Top initiative in 2010 to implement innovative activities to improve educational results. Tennessee's plan, called First to the Top, places renewed focus on the classroom teacher and a more dedicated focus on encouraging student achievement. The Department has developed specific goals for measuring students' progress. Also, a state-level school district, called the Achievement School District, has been established to address the state's lowest five percent performing schools. It is charged with creating the conditions under which teachers and students can succeed and work toward sustainable higher academic proficiency levels.

Federal spending reductions identified in the Budget Control Act of 2011 will take effect in January 2013, if congress does not take action by December 2012. The state has not determined the effect of those potential reductions on its operations. The state has determined that it will not set up its own health insurance exchange. Tennesseans will use a federally-managed health insurance exchange, an online marketplace to comparison shop for health insurance plans. Health insurance exchanges are required by the federal Patient Protection and Affordable Care Act with open enrollment beginning October 2013 for health plans starting in January 2014.

Two initiatives will affect how the state does business in the future. The TEAM Act (Tennessee Excellence Accountability and Management) was passed in 2012. The Act updated and reformed state government's antiquated employment system by simplifying the hiring process, providing flexibility to retain and reward outstanding employees and streamlining the appeals process for employees. Also, state agencies have begun using LEAN principles to reduce business process complexity and improve quality and timeliness. LEAN is a philosophy and set of tools which help employees and leadership streamline business processes to be more customer-focused. It is a proven methodology adapted from the manufacturing environment which a number of states and other governments have used to reduce bureaucracy and increase efficiency.

### 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 1400, Nashville, TN 37243.

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# BASIC FINANCIAL STATEMENTS

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State of Tennessee  
Statement of Net Assets  
June 30, 2012

(Expressed in Thousands)

Assets	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and cash equivalents	\$ 3,595,419	\$ 613,679	\$ 4,209,098	\$ 2,432,988
Cash on deposit with fiscal agent		561,768	561,768	
Investments	566,568		566,568	1,338,210
Receivables, net	2,454,594	192,691	2,647,285	612,569
Internal balances	(219)	219		
Due from primary government				31,707
Due from component units	90,155	9	90,164	
Inventories, at cost	30,698		30,698	9,947
Prepayments	97		97	14,149
Loans receivable, net	15,068	600,716	615,784	3,584,811
Lease receivable	2,387		2,387	
Deferred charges and other	929		929	61,665
Deferred outflow- derivatives				2,128
Restricted assets:				
Cash and cash equivalents	187,543		187,543	148,767
Investments				272,036
Receivables, net				2,864
Capital assets:				
Land, at cost	1,939,324		1,939,324	200,611
Infrastructure	21,289,577		21,289,577	430,471
Structures and improvements, at cost	2,299,712		2,299,712	4,459,538
Machinery and equipment, at cost	871,310		871,310	1,016,569
Less-Accumulated depreciation	(1,563,157)		(1,563,157)	(2,532,197)
Construction in progress	1,279,852		1,279,852	607,722
Software in development	56,631		56,631	
<b>Total assets</b>	<b>33,116,488</b>	<b>1,969,082</b>	<b>35,085,570</b>	<b>12,694,555</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	1,296,011	66,528	1,362,539	426,038
Due to primary government				91,121
Due to component units	31,669	38	31,707	
Unearned revenue	270,531	14,532	285,063	168,043
Advance from other governments	73,620		73,620	
Fair value of derivatives				2,128
Other	2,769		2,769	80,768
Noncurrent liabilities:				
Due within one year	278,797		278,797	325,709
Due in more than one year	3,167,506	7,172	3,174,678	5,100,519
<b>Total liabilities</b>	<b>5,131,372</b>	<b>88,270</b>	<b>5,219,642</b>	<b>6,194,326</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	25,628,600		25,628,600	2,921,861
Restricted for:				
Education	446,590		446,590	
Health and social services	22,463		22,463	
Public protection and regulation	117,951		117,951	
Single family bond programs				508,687
Recreation and resource development	102,058		102,058	
Transportation	18,984		18,984	
Capital Projects	177,074		177,074	90,924
Other purposes	3,820		3,820	564,289
Permanent:				
Expendable	145,846		145,846	96,531
Nonexpendable	138,026		138,026	818,275
Unrestricted	1,183,704	1,880,812	3,064,516	1,499,662
<b>Total net assets</b>	<b>\$ 27,985,116</b>	<b>\$ 1,880,812</b>	<b>\$ 29,865,928</b>	<b>\$ 6,500,229</b>

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, 2012

(Expressed in Thousands)

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 942,465	\$ 673,945	\$ 67,439	
Education	7,018,189	56,898	1,639,722	
Health and social services	13,952,342	772,850	9,518,967	
Law, justice and public safety	1,567,730	125,879	238,764	\$ 6,122
Recreation and resources development	646,494	151,545	199,752	13,617
Regulation of business and professions	126,395	168,590	2,076	
Transportation	1,012,399	29,601	230,797	883,542
Intergovernmental revenue sharing	851,535			
Interest on long-term debt	62,119			
Payments to fiduciary fund	58,453			
<b>Total governmental activities</b>	<u>26,238,121</u>	<u>1,979,308</u>	<u>11,897,517</u>	<u>903,281</u>
Business-type activities:				
Employment security	1,232,324	769,446	678,498	
Insurance programs	540,746	542,756	166	
Loan programs	1,757	15,600	70,338	
Other	620	133	3	
<b>Total business-type activities</b>	<u>1,775,447</u>	<u>1,327,935</u>	<u>749,005</u>	
<b>Total primary government</b>	<u>\$ 28,013,568</u>	<u>\$ 3,307,243</u>	<u>\$ 12,646,522</u>	<u>\$ 903,281</u>
<b>Component units:</b>				
Higher education institutions	\$ 4,398,846	\$ 1,524,754	\$ 1,580,992	\$ 223,541
Loan programs	736,497	245,723	469,664	
Lottery program	1,220,613	1,220,509	48	
Other	85,847	62,739	3,957	
<b>Total component units</b>	<u>\$ 6,441,803</u>	<u>\$ 3,053,725</u>	<u>\$ 2,054,661</u>	<u>\$ 223,541</u>

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 assets

Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (201,081)		\$ (201,081)	
(5,321,569)		(5,321,569)	
(3,660,525)		(3,660,525)	
(1,196,965)		(1,196,965)	
(281,580)		(281,580)	
44,271		44,271	
131,541		131,541	
(851,535)		(851,535)	
(62,119)		(62,119)	
<u>(58,453)</u>		<u>(58,453)</u>	
<u>(11,458,015)</u>		<u>(11,458,015)</u>	
	\$ 215,620	215,620	
	2,176	2,176	
	84,181	84,181	
	<u>(484)</u>	<u>(484)</u>	
	<u>301,493</u>	<u>301,493</u>	
<u>(11,458,015)</u>	<u>301,493</u>	<u>(11,156,522)</u>	
			\$ (1,069,559)
			(21,110)
			(56)
			<u>(19,151)</u>
			<u>(1,109,876)</u>
6,884,762		6,884,762	
842,133		842,133	
3,926,566		3,926,566	
608,762		608,762	
			1,122,775
			154,360
772		772	12,113
253,489		253,489	4,434
174		174	29,870
<u>(4,655)</u>	<u>4,655</u>		
<u>12,512,003</u>	<u>4,655</u>	<u>12,516,658</u>	<u>1,323,552</u>
1,053,988	306,148	1,360,136	213,676
<u>26,931,128</u>	<u>1,574,664</u>	<u>28,505,792</u>	<u>6,286,553</u>
<u>\$ 27,985,116</u>	<u>\$ 1,880,812</u>	<u>\$ 29,865,928</u>	<u>\$ 6,500,229</u>

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# GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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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. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

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, 2012

(Expressed in Thousands)

	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 1,853,240	\$ 12	\$ 211,438	\$ 581,885	\$ 370,824	\$ 3,017,399
Investments		330,607			235,961	566,568
Receivables, net	1,488,891	479,171	440,775	10,424	19,505	2,438,766
Due from other funds	257,325	99				257,424
Due from component units	402	89,438			315	90,155
Inventories, at cost	13,729	73	9,369			23,171
Deferred charges and other	237					237
Loans receivable, net	3,217		1,768		10,083	15,068
Leases receivable	776					776
Restricted assets:						
Cash and cash equivalents				187,543		187,543
<b>Total assets</b>	<b>\$ 3,617,817</b>	<b>\$ 899,400</b>	<b>\$ 663,350</b>	<b>\$ 779,852</b>	<b>\$ 636,688</b>	<b>\$ 6,597,107</b>
<b>Liabilities and fund balances</b>						
<b>Liabilities:</b>						
Accounts payable and accruals	\$ 973,286	\$ 58,848	\$ 97,980	\$ 44,060	\$ 14,665	\$ 1,188,839
Due to other funds	8,853	257,545	878	5	315	267,596
Due to component units	2,186			27,530	1,953	31,669
Deferred revenue	295,261	66,396	183,633	191	12,859	558,340
Advance from other governments	20,062	2,418	18,695		32,445	73,620
Payable from restricted assets				10,469		10,469
Other	110		2,459		200	2,769
<b>Total liabilities</b>	<b>1,299,758</b>	<b>385,207</b>	<b>303,645</b>	<b>82,255</b>	<b>62,437</b>	<b>2,133,302</b>
<b>Fund balances:</b>						
Nonspendable						
Inventories	13,729	73	9,369			23,171
Long term portion of accounts receivable	4,880					4,880
Permanent fund corpus					138,026	138,026
Restricted	63,192	446,590	18,984	177,074	338,324	1,044,164
Committed	286,918	7,760	244,580		92,356	631,614
Assigned	1,250,677	59,770	86,772	520,523	5,545	1,923,287
Unassigned	698,663					698,663
<b>Total fund balances</b>	<b>2,318,059</b>	<b>514,193</b>	<b>359,705</b>	<b>697,597</b>	<b>574,251</b>	<b>4,463,805</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,617,817</b>	<b>\$ 899,400</b>	<b>\$ 663,350</b>	<b>\$ 779,852</b>	<b>\$ 636,688</b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,641,467
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	330,553
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 Assets.	655,933
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,106,642)
<b>Net assets of governmental activities</b>	<b>\$ 27,985,116</b>

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, 2012

(Expressed in Thousands)

	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Taxes:						
Sales	\$ 2,815,903	\$ 3,970,174	\$ 64,574		\$ 48,961	\$ 6,899,612
Fuel	15,613		704,214		122,305	842,132
Business	3,408,814	279,276	6,226		232,469	3,926,785
Other	593,515	133			18,021	611,669
Licenses, fines, fees, and permits	329,334	1,551	215,908		184,959	731,752
Investment income	7,059	50			10,302	17,411
Federal	9,967,880	1,278,970	1,040,353	\$ 6,122	40,931	12,334,256
Departmental services	1,933,234	22,311	45,230	64,509	12,145	2,077,429
Other	240,558	350,690	4,023		34	595,305
Total revenues	<u>19,311,910</u>	<u>5,903,155</u>	<u>2,080,528</u>	<u>70,631</u>	<u>670,127</u>	<u>28,036,351</u>
<b>Expenditures</b>						
Current:						
General government	551,237				24,682	575,919
Education		6,821,313			7,306	6,828,619
Health and social services	14,807,999					14,807,999
Law, justice and public safety	1,522,804				5,962	1,528,766
Recreation and resources development	541,000				164,043	705,043
Regulation of business and professions	86,856				49,021	135,877
Transportation			1,952,887			1,952,887
Intergovernmental revenue sharing	561,585		289,950			851,535
Debt service:						
Principal					115,935	115,935
Interest					65,471	65,471
Debt issuance costs					4,793	4,793
Capital outlay				483,279		483,279
Total expenditures	<u>18,071,481</u>	<u>6,821,313</u>	<u>2,242,837</u>	<u>483,279</u>	<u>437,213</u>	<u>28,056,123</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,240,429</u>	<u>(918,158)</u>	<u>(162,309)</u>	<u>(412,648)</u>	<u>232,914</u>	<u>(19,772)</u>
<b>Other financing sources (uses)</b>						
Bonds and commercial paper issued				637,868		637,868
Commercial paper redeemed				(201,235)		(201,235)
Refunding bond proceeds					464,809	464,809
Refunding bond premium					88,775	88,775
Refunding payment to escrow					(552,898)	(552,898)
Bond premium					37,069	37,069
Insurance claims recoveries	192			2,520	22	2,734
Proceeds from pledged revenue	58,453					58,453
Transfers in	107,843	899,561	101,600	162,148	14,549	1,285,701
Transfers out	(1,119,772)		(1,437)	(3,736)	(241,455)	(1,366,400)
Total other financing sources (uses)	<u>(953,284)</u>	<u>899,561</u>	<u>100,163</u>	<u>597,565</u>	<u>(189,129)</u>	<u>454,876</u>
Net change in fund balances	<u>287,145</u>	<u>(18,597)</u>	<u>(62,146)</u>	<u>184,917</u>	<u>43,785</u>	<u>435,104</u>
Fund balances, July 1	<u>2,030,914</u>	<u>532,790</u>	<u>421,851</u>	<u>512,680</u>	<u>530,466</u>	<u>4,028,701</u>
Fund balances, June 30	<u>\$ 2,318,059</u>	<u>\$ 514,193</u>	<u>\$ 359,705</u>	<u>\$ 697,597</u>	<u>\$ 574,251</u>	<u>\$ 4,463,805</u>

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

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 Year Ended June 30, 2012

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	\$	435,104
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.		1,034,976
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.		(7,779)
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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(358,453)
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.		(100,651)
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.		<u>50,791</u>
Changes in net assets of governmental activities	\$	<u><u>1,053,988</u></u>

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

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# PROPRIETARY FUNDS FINANCIAL STATEMENTS

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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 Assets  
Proprietary Funds  
June 30, 2012

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 393,409	\$ 567	\$ 219,703	\$ 613,679	\$ 578,020
Cash on deposit with fiscal agent		561,768		561,768	
Receivables:					
Accounts receivable		183,728	3,360	187,088	14,927
Interest		5,603		5,603	
Loans receivable	28,823		12,532	41,355	
Due from other funds		221		221	348
Due from component units		9		9	
Inventories, at cost					7,527
Prepaid expenses					97
<b>Total current assets</b>	<u>422,232</u>	<u>751,896</u>	<u>235,595</u>	<u>1,409,723</u>	<u>600,919</u>
Noncurrent assets:					
Accounts receivable					901
Deferred charges					184
Due from other funds					174
Loans receivable	408,150		151,211	559,361	
Lease receivable					1,611
<b>Total noncurrent assets</b>	<u>408,150</u>		<u>151,211</u>	<u>559,361</u>	<u>534,651</u>
Capital assets:					
Land, at cost					62,966
Structures and improvements, at cost					571,261
Machinery and equipment, at cost					377,714
Less-accumulated depreciation					(490,965)
Construction in progress					10,805
<b>Total capital assets, net of accumulated depreciation</b>					<u>531,781</u>
<b>Total noncurrent assets</b>	<u>408,150</u>		<u>151,211</u>	<u>559,361</u>	<u>534,651</u>
<b>Total assets</b>	<u>830,382</u>	<u>751,896</u>	<u>386,806</u>	<u>1,969,084</u>	<u>1,135,570</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	10	29,195	37,323	66,528	78,012
Due to other funds		2		2	357
Due to component units		38		38	
Lease obligations payable					153
Bonds payable					19,364
Unearned revenue		14,390	142	14,532	42,624
Other					34,095
<b>Total current liabilities</b>	<u>10</u>	<u>43,625</u>	<u>37,465</u>	<u>81,100</u>	<u>174,605</u>
Noncurrent liabilities:					
Lease obligations payable					371
Commercial paper payable					51,318
Bonds payable, net					179,147
Other noncurrent liabilities	4,693		2,479	7,172	74,196
<b>Total noncurrent liabilities</b>	<u>4,693</u>		<u>2,479</u>	<u>7,172</u>	<u>305,032</u>
<b>Total liabilities</b>	<u>4,703</u>	<u>43,625</u>	<u>39,944</u>	<u>88,272</u>	<u>479,637</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt					281,427
Unrestricted	825,679	708,271	346,862	1,880,812	374,506
<b>Total net assets</b>	<u>\$ 825,679</u>	<u>\$ 708,271</u>	<u>\$ 346,862</u>	<u>\$ 1,880,812</u>	<u>\$ 655,933</u>

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 Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Operating revenues</b>					
Charges for services	\$ 13,402		\$ 2,331	\$ 15,733	\$ 483,189
Investment income	322		74	396	
Premiums		\$ 769,446	542,756	1,312,202	679,584
Other					343
<b>Total operating revenues</b>	<u>13,724</u>	<u>769,446</u>	<u>545,161</u>	<u>1,328,331</u>	<u>1,163,116</u>
<b>Operating expenses</b>					
Personal services					73,061
Contractual services	1,292		26,352	27,644	199,262
Materials and supplies					108,587
Rentals and insurance					44,087
Depreciation and amortization					47,382
Benefits		1,229,664	508,167	1,737,831	637,840
Other		2,660	7,312	9,972	15,779
<b>Total operating expenses</b>	<u>1,292</u>	<u>1,232,324</u>	<u>541,831</u>	<u>1,775,447</u>	<u>1,125,998</u>
Operating income (loss)	<u>12,432</u>	<u>(462,878)</u>	<u>3,330</u>	<u>(447,116)</u>	<u>37,118</u>
<b>Nonoperating revenues (expenses)</b>					
Taxes					2
Operating grants	29,013	667,785	54,479	751,277	323
Insurance claims recoveries					2,841
Interest income		10,713	172	10,885	405
Interest expense					(7,489)
Other	(11,132)		(2,421)	(13,553)	
<b>Total nonoperating revenues (expenses)</b>	<u>17,881</u>	<u>678,498</u>	<u>52,230</u>	<u>748,609</u>	<u>(3,918)</u>
Income (loss) before contributions and transfers	30,313	215,620	55,560	301,493	33,200
Transfers in	4,417		2,011	6,428	17,909
Transfers out			(1,773)	(1,773)	(318)
Change in net assets	34,730	215,620	55,798	306,148	50,791
Net assets, July 1	790,949	492,651	291,064	1,574,664	605,142
Net assets, June 30	<u>\$ 825,679</u>	<u>\$ 708,271</u>	<u>\$ 346,862</u>	<u>\$ 1,880,812</u>	<u>\$ 655,933</u>

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, 2012

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Cash flows from operating activities</b>					
Receipts from customers and users		\$ 764,618	\$ 549,375	\$ 1,313,993	\$ 351,120
Receipts from interfund services provided		5,309		5,309	849,290
Payments to suppliers			(541,781)	(541,781)	(986,264)
Payments to employees			(2)	(2)	(73,260)
Payments for unemployment benefits		(1,231,934)		(1,231,934)	
Payments for interfund services used	\$ (1,292)	(2,660)	(7,683)	(11,635)	(60,390)
Net cash from (used for) operating activities	(1,292)	(464,667)	(91)	(466,050)	80,496
<b>Cash flows from noncapital financing activities</b>					
Operating grants received	29,013	674,330	54,479	757,822	
Negative cash balance implicitly repaid		(5,905)		(5,905)	
Transfers in	4,417		2,011	6,428	17,909
Transfers out			(1,773)	(1,773)	(318)
Tax revenues received					2
Net cash from (used for) noncapital financing activities	33,430	668,425	54,717	756,572	17,593
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets					(43,292)
Bond and commercial paper proceeds					23,724
Proceeds from sale of capital assets					2,020
Insurance claims recoveries					2,841
Bond issuance cost					(102)
Principal payments					(31,257)
Interest paid					(8,399)
Net cash from (used for) capital and related financing activities					(54,465)
<b>Cash flows from investing activities</b>					
Loans issued and other disbursements to borrowers	(61,299)		(56,822)	(118,121)	
Collection of loan principal	193,638		12,361	205,999	
Interest received	13,731	10,713	2,435	26,879	405
Net cash from (used for) investing activities	146,070	10,713	(42,026)	114,757	405
Net increase (decrease) in cash and cash equivalents	178,208	214,471	12,600	405,279	44,029
Cash and cash equivalents, July 1	215,201	347,864	207,103	770,168	533,991
Cash and cash equivalents, June 30	\$ 393,409	\$ 562,335	\$ 219,703	\$ 1,175,447	\$ 578,020

(continued from previous page)

State of Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 12,432	\$ (462,878)	\$ 3,330	\$ (447,116)	\$ 37,118
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					47,383
Loss on disposal of capital assets					1,861
Bond issuance cost					117
Investment income			(2,208)	(2,208)	
Charges for services			(29)	(29)	
Interest income	(13,724)			(13,724)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		5,540	(971)	4,569	(875)
(Increase) decrease in due from other funds		240		240	1,491
(Increase) decrease in due from component units		(4)		(4)	98
(Increase) decrease in inventories					(481)
(Increase) decrease in prepaid expenses					68
Increase (decrease) in accounts payable		(7,493)	(341)	(7,834)	(7,670)
Increase (decrease) in due to other funds					(209)
Increase (decrease) in unearned revenue		(72)	128	56	1,595
Total adjustments	(13,724)	(1,789)	(3,421)	(18,934)	43,378
Net cash provided by (used for) operating activities	\$ (1,292)	\$ (464,667)	\$ (91)	\$ (466,050)	\$ 80,496
<b>Noncash investing, capital and financing activities</b>					
Bond refunding proceeds					\$ 78,221
Bond refunding premium					1,505
Bond refunding proceeds to escrow					(79,726)
Total noncash investing, capital and financing activities					\$ -

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

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# FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

Investment Trust Fund—This fund was created in July 1980 to account for local government deposits with the state treasurer and the related interest earnings. Through this program, the participating local governments achieve higher investment income by pooling their funds than they could realize individually.

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 Assets  
Fiduciary Funds  
June 30, 2012

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 427,574	\$ 434,640	\$ 64,939	\$ 436,845
Receivables:				
Accounts				2,509
Taxes			34	385,259
Interest and dividends	149,977	5,972		
Due from sale of investments	502,791	29,367		
Derivative instruments	391,114			
Due from other governments	61,250			
Real estate income	833			
Other	27,314			
Total receivables	<u>1,133,279</u>	<u>35,339</u>	<u>34</u>	<u>387,768</u>
Due from other funds	9,788			
Due from component units	9,025			
Investments, at fair value:				
Short-term securities	19,782	1,681,924		
Government bonds	8,251,135			
Corporate bonds	5,668,023			
Corporate stocks	18,829,821			
Mutual funds			91,673	
Derivative instruments	650			
Private equities	173,949			
Real estate	1,349,052			
Total investments	<u>34,292,412</u>	<u>1,681,924</u>	<u>91,673</u>	
Capital assets, at cost				
Software in development	9,749			
Machinery and equipment	1,721			
Accumulated depreciation	(43)			
Total assets	<u>35,883,505</u>	<u>2,151,903</u>	<u>156,646</u>	<u>824,613</u>
<b>Liabilities</b>				
Accounts payable and accruals	591,900		141	710,437
Derivative instruments	377,619			
Amounts held in custody for others				114,176
Total liabilities	<u>969,519</u>		<u>141</u>	<u>824,613</u>
<b>Net assets</b>				
Held in trust for:				
Pension benefits	34,912,773			
Employees' flexible benefits	1,213			
Pool participants		2,151,903		
Individuals, organizations and other governments			156,505	
Total net assets	<u>\$ 34,913,986</u>	<u>\$ 2,151,903</u>	<u>\$ 156,505</u>	<u>\$ -</u>

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

State of Tennessee  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
<b>Additions</b>			
Contributions:			
Members	\$ 271,816		
Employers	1,002,713		
Federal			\$ 6,305
Private			58,855
Other			4,281
	1,274,529		69,441
Investment income:			
Net increase in fair value of investments	825,367		834
Interest	506,160	\$ 3,849	1,394
Dividends	431,301		
Real estate income	69,615		
	1,832,443	3,849	2,228
Total investment income			
Less: Investment expenses	32,379		
Administrative fee		1,111	
	1,800,064	2,738	2,228
Net investment income			
Capital share transactions:			
Shares sold		3,649,049	
Less: Shares redeemed		3,641,797	
Net capital share transactions		7,252	
Total additions	3,074,593	9,990	71,669
<b>Deductions</b>			
Annuity benefits:			
Retirement benefits	1,461,141		
Cost of living	302,464		
Death benefits	6,204		
Other	8,322		52,560
Refunds	40,092		3,637
Administrative expenses	7,124		6,819
Depreciation expense	43		
	1,825,390		63,016
Total deductions			
Change in net assets held in trust for:			
Pension benefits	1,249,465		
Employees' flexible benefits	(262)		
Individuals, organizations and other governments		9,990	8,653
Net assets, July 1	33,664,783	2,141,913	147,852
Net assets, June 30	\$ 34,913,986	\$ 2,151,903	\$ 156,505

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

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**State of Tennessee**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2012**  
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STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012

**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 (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 (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 (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 (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the governor and the state provides a substantial amount of funding.
6. The University of Tennessee Board of Trustees (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 (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the board consists of state officials; therefore, the state can impose its will on the Authority.
8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the governor and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board.
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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

10. The Tennessee State School Bond Authority (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; therefore, the state is able to impose its will on the organization.
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, and the state provides a substantial amount of funding.
12. The Access Tennessee (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  
1114 Parkway Towers  
404 James Robertson Parkway  
Nashville, TN 37243

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

Tennessee State Veterans' Homes Board  
P.O. Box 11328  
Murfreesboro, TN 37129

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

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

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

Tennessee Education Lottery Corporation  
Plaza Tower Metro Center  
200 Athens Way  
Nashville, TN 37228

All others may be obtained at the following:  
Finance & Administration  
Division of Accounts  
14th Floor William R. Snodgrass Tennessee  
Tower  
312 Rosa L. Parks Avenue  
Nashville, TN 37243

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets 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 is 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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

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. 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, and warehousing of records and supplies.

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the employee pension plan and a flexible benefits plan. Also included is *Baccalaureate Education*, a trust created to permit the purchase of tuition units that may be used at certain higher education institutions. *Children in State Custody* is a fund used to hold monies for the benefit of children in state custody. *Oak Ridge Monitoring* is a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage. *TNInvestco* is a fund that accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act. Three agency funds account for 1) funds distributed to local governments in the state, 2) refundable deposits and other receipts held in trust until the state is authorized to disburse the funds, and 3) premiums and claims expense of retired employees who participate in the state's healthcare plans.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The state has elected not to follow subsequent private-sector guidance.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

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 on 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, and net assets or equity**

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. Investments in the State Cash Pool are stated at cost or amortized cost as this pool is a 2a7-like pool. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the state's policy to include cash management pools as cash.

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.

STATE OF TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2012 (Continued)

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 Motor Vehicle Management, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2012, 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.
  
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 assets. The commercial paper program provides short-term financing for the state’s capital projects.

Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans’ Homes Board – 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.

5. Capital assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure and land, 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 assets’ lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building improvements	20
Machinery and equipment	3-20

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

6. Compensated absences—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. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.
7. Long-term obligations—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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

8. Net assets—Consists of three components: *Invested in capital assets, net of related debt* 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 assets* consist of net assets in which constraints are placed on the use of those net assets 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 \$1.2 billion restricted by the primary government, \$492.2 million was by enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of “restricted net assets” or “invested in capital assets, net of related debt.”

9. Fund equity—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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

- *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.

10. 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.
11. Comparative data/reclassifications—Comparative total data for the prior year have 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 assets**

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. 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 \$3,106.642 million difference are as follows (expressed in thousands):

Bonds payable	\$ 1,803,497
Plus: premium on bonds issued (to be amortized as interest expense)	181,259
Less: deferred charge for issuance costs (to be amortized over life of debt)	(625)
Less: deferred charge for bond refundings (to be amortized as interest expense)	(70,665)
Commercial paper payable	146,452
Accrued interest payable	21,941
Capital leases payable	14,142
Claims and judgments	142,385
Compensated absences	230,676
Other post employee benefits	462,618
Pollution remediation	62,120
Other long-term liabilities and accounts payable	<u>112,842</u>
Net adjustment to reduce fund balance—total governmental funds to arrive at net assets—governmental activities	<u>\$ 3,106,642</u>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**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 reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets 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 \$1,034.976 million difference are as follows (expressed in thousands):

Capital outlay	\$ 1,109,881
Depreciation expense	<u>(74,905)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 1,034,976</u>

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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$358.453 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	\$ 464,809
Issuance of general obligation bonds	456,338
Issuance of commercial paper	181,530
Bond premium capitalized	125,844
Debt reduced:	
General obligation bonds/payments to escrow	(552,898)
General obligation debt	(115,935)
Commercial paper redeemed	<u>(201,235)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 358,453</u>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

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 \$100.651 million difference are as follows (expressed in thousands):

Compensated absences	\$	2,080
Claims and judgments		19,245
Accrued interest		4,976
Capital lease		(721)
Other postemployment benefits		75,738
Pollution remediation		10,305
Pledged tax credits		(13,959)
Amortization of deferred charge		40
Loss on disposal of capital assets		11,077
Amortization of issuance costs		197
Amortization of bond premiums		(12,842)
Amortization of deferred amount on bond refunding		4,515
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$	100,651

**NOTE 3 – Deficit fund equity**

The purchasing fund, an internal service fund, has a total net asset deficit of \$209 thousand. The deficit occurred primarily as a result of the reporting of other post employment 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 changes**

**Prior period adjustments**

Primary government

- Governmental activities—\$1.506 million is a correction of an error resulting from the overstatement of machinery and equipment, net of accumulated depreciation, in previous years (motor vehicle management, an internal service fund).
- Governmental activities—approximately \$75.675 million is a correction of an error resulting from the understatement of construction in progress and land related to infrastructure in previous years.

Component units

- The University of Tennessee recorded a prior period adjustment of \$12.435 million to correct an understatement of liabilities to beneficiaries.
- Institutions of the Tennessee Board of Regents (TBR) recorded prior period adjustments for a net decrease to net assets of \$18.916 million for various misstatements in capital assets, revenues and expenses (e.g., Pell grant expenses, tuition and fees, payroll expense).

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
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- The Tennessee Student Assistance Corporation recorded a prior period adjustment to correct the fund classification of the federal family education loan program, formerly reported as a fiduciary fund, to a proprietary fund type component unit. As a result of the reclassification, the beginning balance of the component units net assets on the government wide statement of net assets increased by \$100.379 million.

Fiduciary funds

- The investment trust fund recorded a prior period adjustment of \$257.731 million to correct an overstatement of cash at June 30, 2011.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2012, (expressed in thousands):

	<u>6/30/2011</u> Net Assets As Reported	<u>Adjustments</u> to Net Assets	<u>6/30/2011</u> Net Assets As Restated
Government-wide statements:			
Primary Government			
Governmental Activities	\$ 26,856,959	\$ 74,169	\$ 26,931,128
Total Primary Government	<u>\$ 26,856,959</u>	<u>\$ 74,169</u>	<u>\$ 26,931,128</u>
Component units	\$ 6,217,525	\$ 69,028	\$ 6,286,553
Total component units	<u>\$ 6,217,525</u>	<u>\$ 69,028</u>	<u>\$ 6,286,553</u>
Fiduciary funds statements:			
Investment trust fund	\$ 2,399,644	\$ (257,731)	\$ 2,141,913
Total fiduciary funds	<u>\$ 2,399,644</u>	<u>\$ (257,731)</u>	<u>\$ 2,141,913</u>

**Fund reclassification**

The state reclassified the Department of Human Resources, previously reported in the general fund, to an internal service fund. As a result, fund balance was decreased by \$11.825 million in the general fund and net assets increased by \$11.236 million in internal service funds.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

**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 is required by court order, contract, state or federal law or federal regulation to receive interest on invested funds and which are authorized by the State Treasurer to participate in the SPIF. In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) 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 collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, 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, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; the Lottery for Education 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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

As of June 30, 2012, the state's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS  
INVESTMENTS

Investment Type	Fair Value	United States <sup>1</sup> Treasury/Agency	
Debt Investments			
U.S. Government			AAA
U.S. Government Treasuries, Notes, Bonds	\$ 3,957,998	\$ 3,957,998	
U.S. Government STRIPS	2,683,418	2,683,418	
U.S. Government Agencies	3,827,797	2,348	\$ 69,330
U.S. Government Asset-Backed	81,382	81,382	
Municipal Bonds	161,940		2,920
Mortgage-Backed			
Government Pass-through	3,357,803	275,217	
Corporate Pass-through	279,760		178,905
Collateralized Mortgage Obligations			
Corporate CMO's	232,639		33,643
Corporate			
Corporate Bonds	4,521,628		111,181
Corporate Asset-Backed	782,930		573,832
Non-U.S. - Government/Sovereign	325,983		113,408
Short Term			
Commercial Paper	891,836		
Agencies	304,269		
Total Debt Investments	<u>21,409,383</u>	<u>\$ 7,000,363</u>	<u>\$ 1,083,219</u>
Other Investments			
Equity			
U.S.	12,887,225		
Non-U.S.	5,974,207		
Derivatives	650		
Real Estate	1,349,052		
Private Equities	173,949		
Commingled Funds			
U.S. Equity	121,853		
U.S. Fixed Income	59,757		
Non-U.S. Equity	28,918		
Money Market Funds (rated AAA)	37,021		
Money Market Funds (rated NR)	4,375		
Escrow Claim	3,468		
Total Other Investments	<u>20,640,475</u>		
Total Investments	<u>\$ 42,049,858</u>		

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS  
INVESTMENTS (continued)

Credit Quality Rating									
AA	A	BBB	BB	B	CCC	CC	D	A1 <sup>2</sup>	Not Rated <sup>3</sup>
\$ 2,262,353									\$ 1,493,765
104,851	\$ 54,169								
13,277									3,069,309
100,380					\$ 475				
				\$ 43,223	121,425	\$ 24,197	\$ 10,151		
120,770	1,275,627	\$ 2,726,954	\$ 211,398	26,616		738			48,344
98,607	35,353	24,745	1,291		8,020				41,082
212,575									
								\$ 891,836	
									304,269
<u>\$ 2,912,813</u>	<u>\$ 1,365,149</u>	<u>\$ 2,751,699</u>	<u>\$ 212,689</u>	<u>\$ 69,839</u>	<u>\$ 129,920</u>	<u>\$ 24,935</u>	<u>\$ 10,151</u>	<u>\$ 891,836</u>	<u>\$ 4,956,769</u>

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

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

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, 2012, 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 an AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2012, the state had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

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

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 BEST 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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

The Lottery for Education Fund investment policy states that the fund may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required.

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 twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed fifty percent (50%) of the total book value of the pool on such date.

In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or \$25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to \$100 million, not including commercial paper maturing the next business day. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST, Lottery for Education Fund, or other state funds in any one issuer.

As of June 30, 2012, the combined SPIF, TCRS, COE Trust, BEST, Lottery for Education Fund, and other state funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

<u>Issuer Organization</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal Home Loan Mortgage Corporation	\$ 2,581,204	6.14
Federal National Mortgage Association	2,289,049	5.44

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 dollar weighted average maturity of the pool shall not exceed one hundred twenty (120) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. At June 30, 2012, the weighted average maturity of the pool was one hundred twenty four (124) days, which was in violation of the investment policy. The SPIF was in compliance with the policy at June 28, 2012, but was over the limit due to large outflows at year end. The weighted average maturity for the pool returned to one hundred twenty (120) days on July 5, 2012. In addition, it is the intent of the Funding Board that the market 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 market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. 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. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 14 to 271 days at June 30, 2012. Interest rates on certificates of deposit held at June 30, 2012, ranged from 0.20 percent to 0.30 percent. The days to maturity on U.S. Government Agencies ranged from 32 to 397 days at June 30, 2012. Interest rates on U.S. Government Agencies held at June 30, 2012 ranged from 0 percent to 5.125 percent. The days to maturity on commercial paper ranged from 3 to 42 days at June 30, 2012. Interest rates on commercial paper held at June 30, 2012, ranged from 0.04 percent to 0.20 percent.

As of June 30, 2012, 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

<u>Deposit/Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Months)</u>
U.S. Government Agencies	\$ 3,576,657	5.5
U.S. Government Treasuries	2,329,353	5.4
Commercial paper	777,983	0.2

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
DEBT INVESTMENTS  
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2012	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 215,919	8.63
Government Bonds	1,856,853	12.08
Government Inflation Indexed	2,654,938	8.82
Government Mortgage-Backed	3,291,737	1.38
Government Asset-Backed	76,372	5.06
Municipal Bonds	155,316	10.97
Corporate Fixed Income		
Collateralized Mortgage Obligations	232,639	3.40
Commercial Mortgage Backed	268,585	2.22
Asset Backed Securities	782,669	1.52
Corporate Bonds	4,349,054	6.91
Short Term		
Commercial Paper	113,853	0.19
Short Term Bills and Notes	304,269	0.13
Total Debt Investments	<u>\$ 14,302,204</u>	

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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, 2012	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	\$ 14,599	8.48
U.S. TIPS	28,480	8.53
U.S. Agencies	5,314	3.62
Government Mortgage-Backed	29,843	1.23
Government Asset-Backed	991	4.39
Municipal Bonds	3,626	7.53
Corporate Fixed Income		
Corporate Mortgage-Backed	4,781	1.44
Corporate Bonds	33,797	6.24
Corporate Asset-Backed	261	0.00
Total Debt Investments	<u>\$ 121,692</u>	

The investment policy of the Lottery for Education fund recommends a mix of investment grade fixed income securities of the Long and Intermediate Term Portfolio that, when combined with income earned from amounts allocated to meet liquidity needs, has a high probability of meeting such scholarship objectives.

LOTTERY FOR EDUCATION  
DEBT INVESTMENTS  
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2012	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 57,371	3.53
Government Bonds	55,713	7.61
Government Mortgage-Backed	36,223	0.48
Government Asset-Backed	4,018	7.24
Municipal Bonds	2,998	10.09
Corporate Fixed Income		
Commercial Mortgage Backed	6,394	7.52
Corporate Bonds	138,777	4.75
Total Debt Investments	<u>\$ 301,494</u>	

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

The investment policy for BEST 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. The effective duration for the SSgA Aggregate Bond Index Fund that BEST utilizes was 5.05 years at June 30, 2012.

Asset-Backed Securities-The TCRS invests in collateralized mortgage obligations which are mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

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 TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2012, was as follows (expressed in thousands):

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	\$ 285,935		\$ 285,556	\$ 379
British Pound Sterling	945,058	\$ 36,073	908,427	558
Canadian Dollar	1,543,638	8,430	1,535,028	180
Danish Krone	76,389		76,373	16
Euro Currency	1,066,157	63,906	968,412	33,839
Hong Kong Dollar	106,932		106,775	157
Japanese Yen	1,145,912	212,575	927,031	6,306
New Israeli Shekel	14,916		14,819	97
New Zealand Dollar	6,410		6,337	73
Norwegian Krone	46,034	13,429	32,603	2
Singapore Dollar	67,835		67,753	82
Swedish Krona	93,496		93,286	210
Swiss Franc	318,426		317,464	962
Total	<u>\$ 5,717,138</u>	<u>\$ 334,413</u>	<u>\$ 5,339,864</u>	<u>\$ 42,861</u>

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. 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 TCRS 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 TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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, 2012, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into an agreement to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS 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 TCRS 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, 2012, 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):

	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2012</u>			
	<u>Financial Statement Classification</u>	<u>Amount</u>	<u>Financial Statement Classification</u>	<u>Amount</u>	<u>Notional Amount</u>	<u>Currency</u>
Fiduciary Funds:						
Foreign Currency Forward Contracts						
		\$ (360)		\$ (360)	11,210	AUD
		(248)	Derivative	(248)	18,710	EUR
	Investment	<u>120</u>	Instruments	<u>120</u>	1,489,342	JPY
	Income	\$ <u>(488)</u>	Payable	\$ <u>(488)</u>		
Future Contracts						
	Investment		Derivative			
	Income	\$ (5,479)	Instruments			
			Receivable	\$ (2,393)	\$ 1,520,747	
Option Contracts						
	Investment		Derivative			
	Income	\$ (9)	Instruments	\$ 2	\$ 2	
TBA Mortgage-Backed Securities						
	Investment		Derivative			
	Income	\$ 648	Instruments			
			Payable	\$ 648	\$ 324,377	

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

6. Custodial Credit Risk

Custodial Credit Risk—Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2012 and June 30, 2011, the TCRS had uninsured and uncollateralized cash deposits of \$42,861,324 and \$16,218,307, respectively in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

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, 2012, the University's investments were rated as follows (expressed in thousands):

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

Rated Debt Instruments	Fair Value	Credit Quality Rating		
		US Treasury/ Agency	Aaa	Aa1
U.S. Treasuries	\$ 3,628	\$ 3,628		
U.S. Agencies	9,731		\$ 9,731	
Commercial Paper	54,972			
Corporate Bonds	16,745		1,004	
Municipal Bonds	3,718			\$ 236
Mutual Funds – Bonds	29,383		1,163	
Mortgages and Notes	16			
Money Market Mutual Fund	1,908		1,908	
Total	\$ <u>120,101</u>	\$ <u>3,628</u>	\$ <u>13,806</u>	\$ <u>236</u>

(Continued)

Rated Debt Instruments	Credit Quality Rating			
	Aa2	Aa3	A1	A2
U.S. Treasuries				
U.S. Agencies				
Commercial Paper			\$ 54,972	
Corporate Bonds		\$ 380	1,585	\$ 1,961
Municipal Bonds	\$ 933	1,195	205	
Mutual Funds – Bonds				1,712
Mortgages and Notes				
Money Market Mutual Fund				
Total	\$ <u>933</u>	\$ <u>1,575</u>	\$ <u>56,762</u>	\$ <u>3,673</u>

(Continued)

Rated Debt Instruments	Credit Quality Rating			
	A3	Baa1	Baa2	Baa3
U.S. Treasuries				
U.S. Agencies				
Commercial Paper				
Corporate Bonds	\$ 3,982	\$ 4,245	\$ 2,924	\$ 586
Municipal Bonds		503	241	
Mutual Funds – Bonds			1,417	
Mortgages and Notes				
Money Market Mutual Fund				
Total	\$ <u>3,982</u>	\$ <u>4,748</u>	\$ <u>4,582</u>	\$ <u>586</u>

(Continued)

Rated Debt Instruments	Credit Quality Rating			
	Ba2	B1	B2	Unrated
U.S. Treasuries				
U.S. Agencies				
Commercial Paper				
Corporate Bonds				\$ 78
Municipal Bonds				405
Mutual Funds – Bonds	\$ 2,436	\$ 94	\$ 499	22,062
Mortgages and Notes				16
Money Market Mutual Fund				
Total	\$ <u>2,436</u>	\$ <u>94</u>	\$ <u>499</u>	\$ <u>22,561</u>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2012, the University had the following debt investments and maturities (expressed in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More Than 10</u>
Investments					
U.S. Treasuries	\$ 3,628		\$ 2,151	\$ 716	\$ 761
U.S. Agencies	9,731	\$ 884	6,068	1,594	1,185
Commercial Paper	54,972	54,972			
Corporate Bonds	16,745	4,104	6,635	5,874	132
Municipal Bonds	3,718	503	1,386		1,829
Mortgages and Notes	16		16		
Bond Mutual Funds	29,383		2,830	21,547	5,006
	<u>\$ 118,193</u>	<u>\$ 60,463</u>	<u>\$ 19,086</u>	<u>\$ 29,731</u>	<u>\$ 8,913</u>

University foundations' investments in the amount of \$129.954 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 eighty-nine limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2012, the estimated fair value of these assets is \$368.6 million and total capital contributions, less returns of capital, equal \$317.9 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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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, 2012, 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):

Rated Debt Instruments	Fair Value	Credit Quality Rating						Not Rated
		U.S. Treasury/ Agency	AAA	AA	A	BBB	BB	
U.S. Treasuries	\$ 55,021	\$ 55,021						
U. S. Agencies	70,672	2,812	\$ 6,655	\$ 60,805				\$ 400
Commercial Paper	2,249				\$ 2,249			
Corporate Bonds	17,364		260	900	12,806	\$ 2,257		1,141
Municipal Bonds	632		109	435	88			
Mutual Funds—Bonds	25,172		11,894	1,197	2,673	1,663	\$ 628	7,117
Mortgage Backed Securities	1,124			1,124				
Collateralized Mortgage Obligation	990		643	345				2
Money Market Mutual Fund	126							126
<b>Total Debt Instruments</b>	<b>\$ 173,350</b>	<b>\$ 57,833</b>	<b>\$ 19,561</b>	<b>\$ 64,806</b>	<b>\$ 17,816</b>	<b>\$ 3,920</b>	<b>\$ 628</b>	<b>\$ 8,786</b>

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, 2012, 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
U.S. Treasuries	\$ 55,021	\$ 28,668	\$ 23,883	\$ 2,443	\$ 27
U.S. Agencies	70,672	2,663	58,017	7,441	2,551
Commercial Paper	2,249	2,249			
Corporate Bonds	17,364	2,223	11,577	3,349	215
Municipal Bonds	632		311	321	
Mutual Funds—Bonds	25,172	1,706	3,804	5,033	14,629
Mortgage Backed Securities	1,124			80	1,044
Collateralized Mortgage Obligation	990		616	29	345
<b>Total Debt Investments</b>	<b>\$ 173,224</b>	<b>\$ 37,509</b>	<b>\$ 98,208</b>	<b>\$ 18,696</b>	<b>\$ 18,811</b>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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 \$211.942 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 one hundred 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 fifty 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, 2012, were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	Credit Quality Rating		
			AA+	AA-2	Not Rated
U.S. Agencies	\$ 135,888		\$ 118,089	\$ 5,238	\$ 12,561
U.S. Treasuries	91,381	\$ 91,381			
Repurchase Agreements	<u>110,000</u>				<u>110,000</u>
Total Debt Instruments	\$ <u>337,269</u>	\$ <u>91,381</u>	\$ <u>118,089</u>	\$ <u>5,238</u>	\$ <u>122,561</u>

Concentration of Credit Risk

At June 30, 2012, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	\$ 20,609	6.10
Federal National Mortgage Association	73,998	21.90
Repurchase Agreements – UBS	110,000	32.60
Federal Home Loan Mortgage Corp	22,155	6.60

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

Interest Rate Risk

As of June 30, 2012, the Agency had the following debt investments and effective duration (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration (Years)</u>
U.S. Agency Coupon	\$ 135,888	2.100
U.S. Treasury Coupon	<u>91,381</u>	4.700
Total	<u>\$ 227,269</u>	

**B. Accounts and notes receivable**

Receivables at June 30, 2012, for the state's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

		<b>Primary Government</b>					
		Due From		Total		Allowance	
		Other		Receivables		for	
<u>Accounts</u>	<u>Taxes</u>	<u>Government</u>	<u>Other</u>	<u>Receivables</u>	<u>Uncollectibles</u>	<u>Net Total Receivables</u>	
Governmental activities:							
General	\$ 163,577	\$ 797,100	\$ 624,590	\$ 14,598	\$ 1,599,865	\$ (110,974)	\$ 1,488,891
Education	377	493,479	27,777	3,253	524,886	(45,715)	479,171
Highway	391	72,871	362,832	4,692	440,786	(11)	440,775
Capital projects			5,687	4,737	10,424		10,424
Nonmajor							
governmental	1,107	11,975	6,173	859	20,114	(609)	19,505
Internal service	<u>5,103</u>		<u>9,795</u>		<u>14,898</u>	<u>(172)</u>	<u>14,726</u>
Total—governmental activities	<u>\$ 170,555</u>	<u>\$ 1,375,425</u>	<u>\$ 1,036,854</u>	<u>\$ 28,139</u>	<u>\$ 2,610,973</u>	<u>\$ (157,481)</u>	<u>\$ 2,453,492</u>
Amounts not expected to be collected within one year							
		<u>\$ 95,124</u>	<u>\$ 901</u>				<u>\$ 96,025</u>
Business-type activities:							
Employment security	\$ 83,187	\$ 161,891	\$ 2,132	\$ 5,603	\$ 252,813	\$ (63,482)	\$ 189,331
Nonmajor enterprise	<u>3,479</u>				<u>3,479</u>	<u>(119)</u>	<u>3,360</u>
Total—business-type activities	<u>\$ 86,666</u>	<u>\$ 161,891</u>	<u>\$ 2,132</u>	<u>\$ 5,603</u>	<u>\$ 256,292</u>	<u>\$ (63,601)</u>	<u>\$ 192,691</u>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**C. Capital assets**

Capital asset activity for the year ended June 30, 2012, was as follows (expressed in thousands):

**Primary government**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,815,157	\$ 124,418	\$ (251)	\$ 1,939,324
Infrastructure	20,324,140	974,633	(9,196)	21,289,577
Construction in progress	1,340,760	940,450	(1,001,358)	1,279,852
Software in development	32,198	29,280	(4,847)	56,631
Total capital assets, not being depreciated	23,512,255	2,068,781	(1,015,652)	24,565,384
Capital assets, being depreciated:				
Structures and improvements	2,273,697	28,814	(2,799)	2,299,712
Machinery and equipment	826,904	76,324	(31,918)	871,310
Total capital assets being depreciated	3,100,601	105,138	(34,717)	3,171,022
Less accumulated depreciation for:				
Structures and improvements	(947,601)	(49,156)	1,735	(995,022)
Machinery and equipment	(516,144)	(73,115)	21,124	(568,135)
Total accumulated depreciation	(1,463,745)	(122,271)	22,859	(1,563,157)
Total capital assets, being depreciated, net	1,636,856	(17,133)	(11,858)	1,607,865
Governmental activities capital assets, net	\$ 25,149,111	\$ 2,051,648	\$ (1,027,510)	\$ 26,173,249

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

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

Governmental activities:	
General government	\$ 3,176
Education	1,211
Health and social services	12,490
Law, justice and public safety	27,638
Recreation and resource development	13,129
Regulation of business and professions	591
Transportation	16,670
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>47,366</u>
Total depreciation expense – governmental activities	<u>\$ 122,271</u>

Highway construction commitments — At June 30, 2012, the Department of Transportation had contractual commitments of approximately \$806.6 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$703.5 million) and general obligation bond proceeds (\$103.1 million).

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**Discretely presented component units**

Capital asset activity for the year ended June 30, 2012, for the discretely presented component units was as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 168,414	\$ 17,091	\$ (725)	\$ 184,780
Construction in progress	516,476	302,187	(210,941)	607,722
Total capital assets, not being depreciated	<u>684,890</u>	<u>319,278</u>	<u>(211,666)</u>	<u>792,502</u>
Capital assets, being depreciated:				
Infrastructure	360,408	69,054		429,462
Structures and improvements	4,093,528	233,870	(5,715)	4,321,683
Machinery and equipment	1,016,474	89,750	(121,400)	984,824
Total capital assets being depreciated	<u>5,470,410</u>	<u>392,674</u>	<u>(127,115)</u>	<u>5,735,969</u>
Less accumulated depreciation for:				
Infrastructure	(176,249)	(17,792)		(194,041)
Structures and improvements	(1,600,219)	(109,212)	3,646	(1,705,785)
Machinery and equipment	(592,147)	(114,256)	116,219	(590,184)
Total accumulated depreciation	<u>(2,368,615)</u>	<u>(241,260)</u>	<u>119,865</u>	<u>(2,490,010)</u>
Total capital assets, being depreciated, net	<u>3,101,795</u>	<u>151,414</u>	<u>(7,250)</u>	<u>3,245,959</u>
Total capital assets, net	<u>\$ 3,786,685</u>	<u>\$ 470,692</u>	<u>\$ (218,916)</u>	<u>\$ 4,038,461</u>

The University of Tennessee foundations, and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2012, balances are available as follows (expressed in thousands):

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 15,831
Total capital assets, not being depreciated	<u>15,831</u>
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	137,855
Machinery and equipment	31,745
Total capital assets being depreciated	<u>170,609</u>
Less: total accumulated depreciation	<u>(42,187)</u>
Total capital assets, being depreciated, net	<u>128,422</u>
Total capital assets, net	<u>\$ 144,253</u>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**D. Interfund balances**

1. Interfund balances at June 30, 2012, consisted of the following (expressed in thousands):

		<b>DUE FROM</b>							
		<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Capital Projects</u>	<u>Employment Security</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
<b>D</b>	General		\$ 257,238	\$ 8	\$ 5	\$ 2	\$ 45	\$ 27	\$ 257,325
<b>U</b>	Education	\$ 99							99
<b>E</b>	Employment security	221							221
<b>T</b>	Internal service funds	522							522
<b>O</b>	Fiduciary funds	<u>8,011</u>	<u>307</u>	<u>870</u>			<u>270</u>	<u>330</u>	<u>9,788</u>
	<b>Total</b>	<u>\$ 8,853</u>	<u>\$ 257,545</u>	<u>\$ 878</u>	<u>\$ 5</u>	<u>\$ 2</u>	<u>\$ 315</u>	<u>\$ 357</u>	<u>\$ 267,955</u>

Of the \$257.238 million due to the general fund from the education fund, \$257.188 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund. The amounts due to fiduciary funds resulted from a time lag in payment of payroll tax liabilities. The office for information resources, an internal service fund, made loans of \$236 thousand to various general fund agencies for computer systems development. Of this amount, \$174 thousand is considered long term and not expected to be repaid within one year.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

2. COMPONENT UNITS PAYABLES

Component units accounts payable to the primary government at June 30, 2012, 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
<b>P</b>						
<b>A</b> PRIMARY GOVERNMENT:						
<b>Y</b> General	\$ 7		\$ 259	\$ 16	\$ 120	\$ 402
<b>A</b> Education		\$ 89,438				89,438
<b>B</b> Employment security					9	9
<b>L</b> Nonmajor governmental funds				315		315
<b>E</b> Fiduciary funds	71		4,782	4,149	23	9,025
<b>T</b>						
<b>O</b> Total	\$ <u>78</u>	\$ <u>89,438</u>	\$ <u>5,041</u>	\$ <u>4,480</u>	\$ <u>152</u>	\$ <u>99,189</u>

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2012, consisted of the following (expressed in thousands):

**RECEIVABLE FROM  
PRIMARY GOVERNMENT**

	General	Capital Projects	Employment Security	Nonmajor Governmental Funds	Total
<b>R</b>					
<b>E</b>					
<b>C</b>					
<b>E</b> COMPONENT UNITS:					
<b>I</b>					
<b>V</b> Tennessee Board of Regents		\$ 263		\$ 912	\$ 1,175
<b>A</b> University of Tennessee		27,267		1,041	28,308
<b>B</b> Nonmajor component					
<b>L</b> units	\$ <u>2,186</u>		\$ <u>38</u>		<u>2,224</u>
<b>E</b>					
Total	\$ <u>2,186</u>	\$ <u>27,530</u>	\$ <u>38</u>	\$ <u>1,953</u>	\$ <u>31,707</u>
<b>T</b>					
<b>O</b>					

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**E. Transfers**

Transfers between the various primary government funds for fiscal year ended June 30, 2012, are as follows (expressed in thousands):

<b>Transfers Out</b>	<b><u>Transfers In</u></b>				
	<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>
General		\$ 899,540		\$ 123,340	\$ 14,549
Highway	\$ 1,437				
Capital projects	3,715	21			
Nonmajor governmental funds	100,600		\$ 101,600	38,808	
Nonmajor enterprise funds	1,773				
Internal service funds	318				
Totals	<u>\$ 107,843</u>	<u>\$ 899,561</u>	<u>\$ 101,600</u>	<u>\$ 162,148</u>	<u>\$ 14,549</u>

(Continued)

<b>Transfers Out</b>	<b><u>Transfers In</u></b>				
	<u>Sewer Treatment</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Total</u>
General	\$ 4,417	\$ 2,011	\$ 17,462	\$ 58,453	\$ 1,119,772
Highway					1,437
Capital projects					3,736
Nonmajor governmental funds			447		241,455
Nonmajor enterprise funds					1,773
Internal service funds					318
Totals	<u>\$ 4,417</u>	<u>\$ 2,011</u>	<u>\$ 17,909</u>	<u>\$ 58,453</u>	<u>\$ 1,368,491</u>

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, 2012, the general fund transferred \$1.1 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: \$899.5 million to subsidize the activities

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

of the education fund, \$123.3 million for capital outlay expenditures, \$88.8 million to provide appropriations to finance various programs in other funds, \$4.3 million for payments for interfund services used, and \$3.6 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for \$101.6 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

**F. 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
2013	\$ 20,089
2014	14,422
2015	11,061
2016	5,688
2017	4,431
2018-2022	17,500
Total minimum payments required	\$ 73,191

Expenditures for rent under leases for the years ended June 30, 2012 and 2011 amounted to \$60.3 million and \$60.6 million, respectively.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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 15 years. The effective interest rates for these leases range from 4.48% to 5%. 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	\$	350
Buildings	\$ 31,110	
Less: accumulated depreciation	3,456	27,654
		\$ 28,004

At June 30, 2012, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30		Governmental Activities Lease Obligation Payable
2013	\$	1,561
2014		1,562
2015		1,522
2016		1,431
2017		1,362
2018-2022		6,838
2023-2027		5,813
Total		20,089
Less - Interest		5,352
Less - executory costs		71
Present value of net minimum lease payments	\$	14,666

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**G. Lease receivables**

Capital lease receivable — The state, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Farmers' Market Facility. The lease term is 20 years with an option to renew the lease for an unlimited period of time. The agreement was signed in June 1995; an initial cash payment was made and the first of 19 payments began in fiscal year 1997. The state is subsidizing a part of the cost of this building.

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. Minimum future lease payments to be received as of June 30, 2012 (expressed in thousands):

Year Ended June 30	Total
2013	\$ 461
2014	458
2015	460
2016	201
2017	201
2018-2021	806
Total minimum future lease payments	\$ 2,587
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	\$ 2,587
Plus: deferred charges	261
Net investment in direct financing lease	\$ 2,848

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**H. Long term debt**

1. General obligation bonds – Bonds Payable at June 30, 2012, are shown below (expressed in thousands):

	<u>Amount</u>
<u>Governmental activities:</u>	
General obligation bonds, .50% to 5.59%, due in generally decreasing amounts of principal and interest from \$130.114 million in 2013 to \$23.753 million in 2032	\$ 1,092,269
General obligation refunding bonds, 1999 Series A, 4.63% to 5%, principal and interest due in amounts from \$21.186 million in 2013 to \$5.398 million in 2015	38,129
General obligation refunding bonds, 2004 Series C, 3.63% to 5.25%, principal and interest due in amounts from \$41.948 million in 2013 to \$11.388 million in 2018	148,269
General obligation refunding bonds, 2005 Series A, 5% to 5.25%, principal and interest due in amounts from \$10.093 million in 2013 to \$7.628 million in 2020	98,476
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from \$3.939 million in 2013 to \$7.544 million in 2022	98,333
General obligation refunding bonds, 2009 Series D, 1.87% to 5.59%, principal and interest due in amounts from \$4.1 million in 2013 to \$3.889 million in 2029	43,985
General obligation refunding bonds, 2010 Series B, 2% to 4%, principal and interest due in amounts from \$9.106 million in 2013 to \$7.375 million in 2024	46,867
General obligation refunding bonds, 2011 Series B, 2% to 5%, principal and interest due in amounts from \$3.281 million in 2013 to \$187.775 thousand in 2026	72,145
General obligation refunding bonds, 2011 Series C, .50% to 3.53%, principal and interest due in amounts from \$1.265 million in 2013 to \$1.175 million in 2024	20,055
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from \$17.203 million in 2013 to \$7.334 million in 2028	535,281
	<u>2,193,809</u>
Less: unamortized bond refunding costs	(81,207)
Total governmental activities	<u>\$ 2,112,602</u>

General obligation bonds issued during the year ended June 30, 2012:

October 2011	Bond Series 2011A in the amount of \$255.400 million Refunding Bond Series 2011B in the amount of \$62.270 million Bond Series 2011C in the amount of \$208.93 million Refunding Bond Series 2011C in the amount of \$20.055 million
March 2012	Refunding Bond Series 2012A in the amount of \$449.070 million

The October 2011, bond series 2011A, general obligation bond issuance in the amount of \$255.4 million represents tax-exempt bonds maturing serially through 2031 at interest rates ranging from 2 percent to 5 percent. The bonds were sold at a premium of \$37.047 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In October 2011, the state issued general obligation refunding bonds, series 2011B, in the amount of \$62.270 million to provide for the advance refunding of \$1.345 and \$65.250 million of general obligation bonds issued in series 2003A and 2005B 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 assets. The refunding bonds were sold at a premium of \$10.567 million.

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JUNE 30, 2012 (Continued)

The net carrying amount of the refunded bonds was \$68.127 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4.554 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through 2026 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 15 years by \$3.838 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of \$3.288 million.

The October 2011, bond series 2011C, general obligation bond issuance in the amount of \$208.930 million represents taxable bonds maturing serially through 2032 at interest rates ranging from .5 percent to 4.182 percent. The bonds were sold at a premium of \$21 thousand. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In October 2011, the state issued general obligation refunding bonds, series 2011C, in the amount of \$20.055 million to provide for the advance refunding of \$6.750 and \$11.785 million of general obligation bonds issued in series 2002B and 2003B 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 assets. The refunding bonds were not sold at a premium.

The net carrying amount of the refunded bonds was \$18.519 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1.489 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through 2024 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 12 years by \$2.687 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of \$2.276 million.

In March 2012, the state issued general obligation refunding bonds, series 2012A, in the amount of \$449.070 million to provide for the advance refunding of \$21.750 million, \$66.00 million, \$90.00 million, \$50.320 million, \$145.750 million and \$82.565 million of general obligation bonds issued in series 2005B, 2006A, 2007A, 2008A, 2009A and 2009C 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 assets. The refunding bonds were sold at a premium of \$91.451 million.

The net carrying amount of the refunded bonds was \$484.189 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$55.745 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through 2022 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 16 years by \$41.877 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of \$34.047 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, 2012, \$552.270 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2012, is shown below (expressed in thousands).

	<u>Commercial paper</u>
General obligation commercial paper, interest rates ranging from .12% to .36% for tax exempt and .25% to .40% for taxable, varying maturities	\$ 197,770

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General obligation bonds and commercial paper are secured by the full faith and credit of the state. In addition, pursuant to state statute, the state has pledged the annual proceeds of a portion of the gasoline tax, the annual proceeds of the petroleum products fee and franchise tax, and one half of the annual proceeds of the motor vehicle registration fee for the payment of outstanding bonds and obligations. Annual debt service for the current year and total available pledged revenues were \$209.8 million and \$962.4 million respectively. For fiscal year 2012, 62.8% of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds.

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 April 1, 2015. At June 30, 2012, \$197.770 million of commercial paper was outstanding (\$174.471 million tax exempt and \$23.299 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. Debt service requirements to maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds		Total
	Principal	Interest	Requirements
2013	\$ 174,250	\$ 67,985	242,235
2014	167,367	64,061	231,428
2015	158,780	57,268	216,048
2016	152,738	51,267	204,005
2017	146,789	45,354	192,143
2018-2022	624,942	153,650	778,592
2023-2027	507,176	51,640	558,816
2028-2032	261,767	9,528	271,295
	\$ 2,193,809	\$ 500,753	\$ 2,694,562

The above principal for bonds does not reflect an \$81.207 million deduction from bonds payable for the deferred amount on refunding.

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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

4. General obligation bonds authorized and unissued - A summary of general obligation bonds authorized and unissued at June 30, 2012, 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, 2011	Authorized	Canceled	Unissued June 30, 2012
Highway	\$ 1,055,300	\$ 80,000	\$ 101,600	\$ 1,033,700
Higher Education	131,063	196,950	8,964	319,049
Environment & Conservation	4,777	7,300		12,077
Economic & Community Development	384,732	14,000	337,465	61,267
General government	<u>645,762</u>	<u>83,650</u>	<u>159,599</u>	<u>569,813</u>
Totals	<u>\$ 2,221,634</u>	<u>\$ 381,900</u>	<u>\$ 607,628</u>	<u>\$ 1,995,906</u>

5. Changes in long-term obligations - A summary of changes in long-term obligations for the year ended June 30, 2012, follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and commercial paper					
Payable:					
General obligation debt	\$ 1,993,191	\$ 1,331,971	\$ (933,583)	\$ 2,391,579	\$ 159,260
Less deferred amount on refundings	<u>(24,765)</u>	<u>(61,788)</u>	<u>5,346</u>	<u>(81,207)</u>	
Total bonds and commercial paper payable	1,968,426	1,270,183	(928,237)	2,310,372	159,260
Capital leases	15,503		(837)	14,666	875
Compensated absences	234,969	148,869	(146,728)	237,110	82,379
Claims and judgments	180,219	61,321	(69,226)	172,314	34,095
Pollution remediation	99,490	32,419	(1,738)	130,171	2,188
Other post employment benefits	392,378	76,686		469,064	
Other long-term liabilities	<u>68,112</u>	<u>58,453</u>	<u>(13,959)</u>	<u>112,606</u>	
Governmental activities Long-term obligations	<u>\$ 2,959,097</u>	<u>\$ 1,647,931</u>	<u>\$ (1,160,725)</u>	<u>\$ 3,446,303</u>	<u>\$ 278,797</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Deposits payable	<u>\$ 7,247</u>	<u>\$ 357</u>	<u>\$ (432)</u>	<u>\$ 7,172</u>	
Business-type activities Long-term obligations	<u>\$ 7,247</u>	<u>\$ 357</u>	<u>\$ (432)</u>	<u>\$ 7,172</u>	

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the general fund and special revenue funds liquidate compensated absences. Claims and judgments are obligations of Underground Storage Tanks and Highway Funds (special revenue funds), Risk Management (internal service fund) and the general fund.

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NOTES TO THE FINANCIAL STATEMENTS  
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**I. Payables**

Payables as of June 30, 2012, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Due To Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>						
General	\$ 762,850	\$ 79,322			\$ 139,125	\$ 981,297
Education	39,497	3,593			16,065	59,155
Highway	91,666	7,169			15	98,850
Capital projects	44,060					44,060
Nonmajor governmental	12,583	2,331	\$ 21,956		6	36,876
Internal service	<u>70,866</u>	<u>2,652</u>	<u>2,255</u>			<u>75,773</u>
 Total— governmental activities	 <u>\$ 1,021,522</u>	 <u>\$ 95,067</u>	 <u>\$ 24,211</u>		 <u>\$ 155,211</u>	 <u>\$ 1,296,011</u>
 <b>Business-type activities:</b>						
Employment security	\$ 42			\$ 5,215	\$ 23,938	\$ 29,195
Sewer treatment loan			\$ 10			10
Other proprietary	<u>37,320</u>		<u>3</u>			<u>37,323</u>
 Total—business-type activities	 <u>\$ 37,362</u>		 <u>\$ 13</u>	 <u>\$ 5,215</u>	 <u>\$ 23,938</u>	 <u>\$ 66,528</u>

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**J. Governmental fund balances—restricted, committed, and assigned** (expressed in thousands):

	<u>Restricted Purposes</u>	<u>Committed Purposes</u>	<u>Assigned Purposes</u>
<b>General fund</b>			
General government	\$ 2,224	\$ 27,259	\$ 523,517
Health and social services	22,463	122,540	370,160
Law, justice and public safety	23,638	83,261	45,220
Recreation and resources development	9,416	24,417	310,467
Regulation of business and professions	5,451	29,441	1,313
Total general fund	<u>\$ 63,192</u>	<u>\$ 286,918</u>	<u>\$ 1,250,677</u>
<b>Education fund</b>			
After school program	\$ 19,882		
Lottery for education	406,872		
Energy efficient school initiative	19,410		
Other	426	\$ 7,760	\$ 59,770
Total education fund	<u>\$ 446,590</u>	<u>\$ 7,760</u>	<u>\$ 59,770</u>
<b>Highway fund</b>			
State matching	\$ 18,984		
Railway, aeronautics, and waterway program		\$ 155,484	
State aid		87,265	
Future highway projects			\$ 74,851
Railroad inspection		1,831	
Other			11,921
Total highway fund	<u>\$ 18,984</u>	<u>\$ 244,580</u>	<u>\$ 86,772</u>
<b>Capital projects fund</b>			
Total capital projects fund	<u>\$ 177,074</u>		<u>\$ 520,523</u>
<b>Nonmajor funds</b>			
Debt service		\$ 10,800	\$ 5,545
General government	\$ 1,632	13,871	
Education	145,810		
Law, justice and public safety	1,456	3,459	
Recreation and resources development	101,822	61,159	
Regulation of business and professions	87,604	3,067	
Total nonmajor funds	<u>\$ 338,324</u>	<u>\$ 92,356</u>	<u>\$ 5,545</u>

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% of the estimated growth in state tax revenues to be allocated to the general and education funds must

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JUNE 30, 2012 *(Continued)*

be allocated to this account. Once the amount equals 5% of the estimated state tax revenues allocated to the general fund and education fund, the following must be allocated to the account:

The lessor of:

- (1) At least 10% 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 five percent (5%) 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 \$306 million as of June 30, 2012.

(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, 2012, this account has a balance of \$100 million and is reported as restricted fund balance in the education fund.

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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2012 (expressed in thousands):

Condensed Statement of Net Assets Component Units						
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
<b>Assets</b>						
Cash, investments, and other assets	\$ 2,414,052	\$ 140,027	\$ 1,733,376	\$ 2,029,997	\$ 550,108	\$ 6,867,560
Due from primary government			1,175	28,308	2,224	31,707
Due from other component units					1,188,907	1,188,907
Restricted assets	222,463	2,902			198,302	423,667
Capital assets, net	113	1,101	2,139,133	2,015,924	26,443	4,182,714
Total assets	2,636,628	144,030	3,873,684	4,074,229	1,965,984	12,694,555
<b>Liabilities</b>						
Accounts payable and other current liabilities	46,999	50,749	228,405	289,440	52,721	668,314
Due to primary government	78	89,438	5,041	4,480	152	99,189
Due to other component units			614,042	574,865		1,188,907
Long-term liabilities	2,031,633	3,830	184,664	326,324	1,691,465	4,237,916
Total liabilities	2,078,710	144,017	1,032,152	1,195,109	1,744,338	6,194,326
<b>Net assets</b>						
Invested in capital assets, net of related debt	114	1,101	1,527,605	1,371,908	21,133	2,921,861
Restricted	517,980	13	501,448	1,030,115	29,150	2,078,706
Unrestricted	39,824	(1,101)	812,479	477,097	171,363	1,499,662
Total net assets	\$ 557,918	\$ 13	\$ 2,841,532	\$ 2,879,120	\$ 221,646	\$ 6,500,229

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Condensed Statement of Activities  
Component Units

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units:				
Housing Development Agency	\$ 402,609	\$ 133,708	\$ 306,857	
Tennessee Education Lottery	1,220,613	1,220,509	48	
Board of Regents	2,440,428	915,381	731,216	\$ 106,652
University of Tennessee	1,958,418	609,373	849,776	116,889
Nonmajor component units	419,735	174,754	166,764	
Total	\$ 6,441,803	\$ 3,053,725	\$ 2,054,661	\$ 223,541

General revenues:

- Payments from primary government
- Unrestricted grants and contributions
- Unrestricted investment earnings
- Miscellaneous
- Total general revenues
- Contributions to permanent funds
- Change in net assets
- Net assets – July 1
- Net assets – 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 \$624.1 million were made to the TBR and \$439.3 million to the UT.

Capital project expenditures in the amount of \$124 million were made for the TBR and \$82 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 \$54 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of \$310 million for the state’s Lottery for Education Account.

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Net (Expense) Revenue and Changes in Net Assets						
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total	
\$ 37,956						\$ 37,956
	\$ (56)					(56)
		\$ (687,179)				(687,179)
			\$ (382,380)			(382,380)
				\$ (78,217)		(78,217)
<u>37,956</u>	<u>(56)</u>	<u>(687,179)</u>	<u>(382,380)</u>	<u>(78,217)</u>		<u>(1,109,876)</u>
			618,205	432,546	72,024	1,122,775
			141,704	2,252	10,404	154,360
6	68		5,101	6,744	194	12,113
			4,434			4,434
<u>6</u>	<u>68</u>	<u>769,444</u>	<u>441,542</u>	<u>82,622</u>		<u>1,293,682</u>
			8,622	21,248		29,870
37,962	12		90,887	80,410	4,405	213,676
519,956	1		2,750,645	2,798,710	217,241	6,286,553
<u>\$ 557,918</u>	<u>\$ 13</u>	<u>\$ 2,841,532</u>	<u>\$ 2,879,120</u>	<u>\$ 221,646</u>		<u>\$ 6,500,229</u>

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, 2012, the Authority's loan receivable (expressed in thousands) consisted of:

	<u>Current</u>	<u>Noncurrent</u>
Tennessee Board of Regents	\$ 22,496	\$ 575,404
University of Tennessee	<u>27,539</u>	<u>539,741</u>
Total	<u>\$ 50,035</u>	<u>\$ 1,115,145</u>

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JUNE 30, 2012 (Continued)

**L. Major component units – long term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2012, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, homeownership program revenue bonds, and housing finance program bonds, various Series, .25% to 6.13%, due in amounts of principal and interest ranging from \$285.935 million in 2013 to \$2.614 million in 2043	\$ 2,020,575
Less: unamortized bond refunding costs	(5,394)
Net bonds payable	<u>\$ 2,015,181</u>

The revenue bonds and notes listed above are not obligations of the state. They are secured by pledge 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, 2012, included the following issues:

December 2011—Program bonds of \$141.255 million

On December 1, 2011, the agency issued \$141.255 million in Homeownership Program Bonds, Issue 2011-1. The agency used \$135.095 million of these bonds to refund bonds.

Current refundings

During the year ended June 30, 2012, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$11.200 million, in the Homeownership Program in the amount of \$316.065 million, and in the Housing Finance Program in the amount of \$17.055 million. The respective carrying values of the bonds were \$11.158 million, \$317.936 million, and \$17.099 million. This resulted in an expense to the Mortgage Finance Program of \$42 thousand and in income to the Homeownership Program of \$1.871 million and to the Housing Finance Program of \$44 thousand.

On December 1, 2011, the agency used \$135.095 million of Homeownership Program bonds, 2011-1, to refund bonds previously issued in the Homeownership Program (this amount consists of \$135.095 million early redemption). The carrying amount of these bonds was \$134.394 million. The refunding resulted in a difference of \$701 thousand between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by \$37.847 million over the next 18 years, and the agency realized an economic gain (difference between present values of old and new debt service payments) of \$17.104 million.

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Debt Service requirements to maturity for revenue bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total Requirements
	Principal	Interest	
2013	\$ 202,479	\$ 83,456	\$ 285,935
2014	53,213	76,706	129,919
2015	53,718	75,200	128,918
2016	52,728	73,590	126,318
2017	54,358	71,869	126,227
2018-2022	220,266	332,017	552,283
2023-2027	309,448	279,007	588,455
2028-2032	236,731	213,838	450,569
2033-2037	264,630	160,831	425,461
2038-2042	570,449	65,557	636,006
2043	2,555	59	2,614
	<u>\$ 2,020,575</u>	<u>\$ 1,432,130</u>	<u>\$ 3,452,705</u>

The debt principal in the preceding table is \$5.394 million more than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65 million. On April 1, 1999, the Trust Indenture was supplemented providing for the maximum aggregate principal amount of \$200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of \$450 million.

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2012 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 3,250	\$ -	\$ 3,250	-

The above Preserve Loan Program notes matured on December 22, 2011. Interest rates were 3% and charged quarterly.

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**M. Nonmajor component units – long term debt**

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2012, are shown below (expressed in thousands):

Revenue bonds, 3.4% to 5%, due in generally decreasing amounts of principal and interest from \$1.373 million in 2013 to \$26 thousand in 2029	\$ 7,832
Less: unamortized bond refunding costs	<u>(426)</u>
Net bonds payable	<u>\$ 7,406</u>

The revenue bonds 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 TLDA.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2012, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total Requirements
	Principal	Interest	
2013	\$ 1,063	\$ 310	\$ 1,373
2014	1,093	264	1,357
2015	937	218	1,155
2016	809	179	988
2017	799	142	941
2018-2022	2,106	358	2,464
2023-2027	986	145	1,131
2028-2029	39	14	53
	<u>\$ 7,832</u>	<u>\$ 1,630</u>	<u>\$ 9,462</u>

The above principal for revenue bonds does not reflect a \$426 thousand deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2012, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from \$94.106 million in 2013 to \$4.414 million in 2040	\$ 1,439,457
Less: unamortized bond refunding costs	<u>(16,291)</u>
Net bonds payable	<u>\$ 1,423,166</u>
Commercial paper, interest rates ranging from .10% to .33%, varying maturities	<u>\$ 253,676</u>

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

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Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2012, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2013	\$ 51,901	\$ 42,205	\$ 94,106
2014	53,456	40,078	93,534
2015	49,301	37,976	87,277
2016	61,341	35,957	97,298
2017	50,856	33,777	84,633
2018-2022	294,117	135,453	429,570
2023-2027	626,600	79,630	706,230
2028-2032	155,839	34,543	190,382
2033-2037	74,097	10,107	84,204
2038-2040	21,949		21,949
	<u>\$ 1,439,457</u>	<u>\$ 449,726</u>	<u>\$ 1,889,183</u>

The above principal for revenue bonds is more than that presented on the accompanying financial statements by \$16.291 million, representing the deferred amount on bond refunding. This amount is the amount deducted from bonds payable in the accompanying financial statements but is included in the debt service schedule above.

Commercial paper program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed \$300 million. At June 30, 2012, \$214.328 million of tax-exempt and \$39.348 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from .10% to .33% during the fiscal year. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under a Credit Agreement, is State Street Bank and Trust Company with a termination date of March 30, 2014, subject to extension and earlier termination. The total available commitment is \$304.594 million. The obligation of State Street Bank and Trust Company is to purchase unremarketed Commercial Paper. 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.

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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

**N. Component units – changes in long-term obligations**

A summary of changes in long-term obligations for the year ended June 30, 2012, follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Changes in long term obligations</b>					
Revenue bonds, notes and loans payable:					
University of Tennessee (UT)					
Loans and notes payable	\$ 540,222	\$ 60,063	\$ (25,149)	\$ 575,136	\$ 27,539
Tennessee Board of Regents (TBR)					
Loans and notes payable	605,419	51,228	(31,256)	625,391	23,660
Tennessee Housing Development Agency (THDA) bonds payable	2,146,560	248,382	(374,367)	2,020,575	149,235
Less deferred amount on refunding	(6,074)	(710)	1,390	(5,394)	
THDA notes payable	3,250		(3,250)		
Nonmajor component units bonds, Notes, and loans payable	1,682,760	97,000	(73,420)	1,706,340	51,413
Less deferred amount on refunding	(18,086)		1,139	(16,947)	
Total revenue bonds, notes and loans payable	\$ 4,954,051	\$ 455,963	\$ (504,913)	\$ 4,905,101	\$ 251,847
UT compensated absences	76,013	46,334	(43,031)	79,316	43,031
UT other post employment benefits	66,561	9,946		76,507	
UT due to grantors, deferred revenue and annuities payable	57,208	13,267	(3,343)	67,132	
UT capital leases	651		(651)		
TBR compensated absences	56,804	34,513	(32,470)	58,847	15,522
TBR other post employment benefits	81,749	6,051		87,800	
TBR due to grantors, deferred revenue and other	24,868	2,462	(1,048)	26,282	
THDA escrow deposits, arbitrage rebate payable, and deferred revenue	5,993	1,902	(4,164)	3,731	433
THDA compensated absences	994	162		1,156	555
THDA other post employment benefits	994	163		1,157	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	2,414	775	(156)	3,033	144
TELC compensated absences	564	535	(564)	535	535
TELC deferred lease	420		(158)	262	61
Nonmajor component units compensated absences	1,128	493	(358)	1,263	703
Nonmajor component units other post employment benefits	507	301		808	
Component units long-term obligations	\$ 5,330,919	\$ 572,867	\$ (590,856)	\$ 5,312,930	\$ 312,831

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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 \$102.890 million (\$2.472 million due within one year).

#### **O. 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 three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, 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, 2012, net appreciation of \$84.910 million is available to be spent, of which \$83.200 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, 2012, net appreciation of \$11.621 million is available to be spent, of which \$11.414 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, 2012, included 123 local education agencies and one education cooperative, with 51,337 active teachers and support personnel enrolled in one of two health care options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO). 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,

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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. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. 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, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

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):

	2012	2011
Unpaid claims at beginning of year	\$ 29,070	\$ 30,681
Incurred Claims:		
Provision for insured events of the current year	414,752	429,286
Increase (decrease) in provision for insured events of prior years	2,939	3,184
Total Incurred Claims Expenses	417,691	432,470
Payments:		
Claims attributable to insured events of the current year	384,734	400,378
Claims attributable to insured events of prior years	31,918	33,703
Total payments	416,652	434,081
Total unpaid claims at end of the year	\$ 30,109	\$ 29,070

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* 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2012, included 59 counties, 156 municipalities and 147 quasi-governmental organizations, with 12,247 active employees maintaining coverage through one of three options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the PPO limited plan. The state does not retain any risk for losses by this fund.

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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. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. 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, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

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):

	<u>2012</u>	<u>2011</u>
Unpaid claims at beginning of year	\$ 6,919	\$ 7,716
Incurred claims:		
Provision for insured events of the current year	93,418	100,159
Increase (decrease) in provision for insured events of prior years	<u>(302)</u>	<u>(1,153)</u>
Total incurred claims expenses	<u>93,116</u>	<u>99,006</u>
Payments:		
Claims attributable to insured events of the current year	86,510	93,242
Claims attributable to insured events of prior years	<u>6,616</u>	<u>6,561</u>
Total payments	<u>93,126</u>	<u>99,803</u>
Total unpaid claims at end of the year	<u>\$ 6,909</u>	<u>\$ 6,919</u>

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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, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the RMF. 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 \$10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the \$10 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 \$90,030,000 (discounted at 1.5%) at June 30, 2012 and \$86,167,698 (discounted at 2.0%) at June 30, 2011. The accrued liability for incurred property losses was \$7,950,503 at June 30, 2012 and \$17,559,929 at June 30, 2011. The changes in the balances of the claims liabilities during fiscal years 2011 and 2012 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability		Current Year Claims and Changes in Estimates	Claim Payments	Advance of Insurance Proceeds	Balance at Fiscal Year-End
2011-2012	\$ 103,728	\$	41,464	\$ (47,211)		\$ 97,981
2010-2011	\$ 106,630	\$	38,928	\$ (49,330)	\$ 7,500	\$ 103,728

The RMF held \$97.2 million in cash at June 30, 2012 and \$107.6 million in cash at June 30, 2011 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

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injuries are eligible to participate. Fund members at June 30, 2012, included 63,461 active employees enrolled in one of two options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO).

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):

	2012	2011
Unpaid claims at beginning of year	\$ 45,911	\$ 50,139
Incurred claims:		
Provision for insured events of the current year	610,942	655,683
Increase (decrease) in provision for insured events of prior years	(810)	(414)
Total incurred claims expenses	610,132	655,269
Payments:		
Claims attributable to insured events of the current year	568,226	609,829
Claims attributable to insured events of prior years	45,098	49,668
Total payments	613,324	659,497
Total unpaid claims at end of the year	\$ 42,719	\$ 45,911

5. CoverTN – The CoverTN program was established in 2006 to provide an affordable, basic health care option to small businesses and the working uninsured. In accordance with *Tennessee Code Annotated* 56-7-3001, the CoverTN program serves eligible uninsured Tennesseans and their spouses, who work for qualifying businesses, or who are self-employed or work but do not have insurance. There are no deductibles for CoverTN and members pay reasonable co-pays and premiums. CoverTN is portable, allowing individuals to take coverage with them if they change jobs or experience periods of unemployment. As a result of reaching budgetary capacity, new enrollment was suspended November 2009 and remains closed to new members with the exception of the annual open enrollment and at the time of hire to already participating businesses. At June 30, 2012, enrollment was reported at 17,029 covered members.

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On January 1, 2012, the CoverTN program moved from being a fully insured program to an administrative services only arrangement with Blue Cross Blue Shield of Tennessee. The CoverTN program provides health care financing based in part upon member premiums, and uses traditional insurance components, including co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. Individual shares of the monthly premium range from \$37 to \$109. Less than 1 percent of member's exhausted the maximum benefit limit of \$25,000 in fiscal year 2012. Two year data will be provided when data is available.

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

	2012
Incurring claims:	
Provision for insured events of the current year	\$ 15,735
Total incurred claims expenses	15,735
Payments:	
Claims attributable to insured events of the current year	13,454
Total payments	13,454
Total unpaid claims at end of the year	\$ 2,281

6. CoverKids – The CoverKids program was launched in 2007 as part of the federal 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 place 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 56,871 at June 30, 2012

On January 1, 2012, the CoverKids program moved from being a fully insured program to an administrative services only arrangement with Blue Cross Blue Shield of Tennessee. As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 76/24 ration match. For qualifying families there are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. Two year data will be provided when data is available.

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

	2012
Incurred claims:	
Provision for insured events of the current year	\$ 56,443
Total incurred claims expenses	56,443
Payments:	
Claims attributable to insured events of the current year	48,996
Total payments	48,996
Total unpaid claims at end of the year	\$ 7,447

7. Component unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state’s uninsured. In accordance with *Tennessee Code Annotated 56-7-2901*, the target population is those Tennessean residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2012, the plan had 3,013 participants. Three plans exist with deductibles of \$1,000, \$3,000, and \$5,000. The benefit plans are based on PPO plans with an 80% in-network benefit and 60% out-of-network benefit and modeled after the state employee plans. The state does not retain any risk for losses by this fund.

This insurance fund provides health care financing based in part upon member premiums, and uses traditional insurance components, including deductibles, co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. The state’s enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The 2012 assessment determination should be made by the AccessTN Board following the end of fiscal year 2012 at the September 18, 2012, board meeting. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

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The following represents changes in those aggregate liabilities during the current year (expressed in thousands):

	<u>2012</u>	<u>2011</u>
Unpaid claims at beginning of year	\$ 3,017	\$ 3,731
Incurred claims:		
Provision for insured events of the current year	40,071	44,448
Increase (decrease) in provision for insured events of prior years	<u>(579)</u>	<u>(238)</u>
Total incurred claims expenses	<u>39,492</u>	<u>44,210</u>
Payments:		
Claims attributable to insured events of the current year	37,683	41,463
Claims attributable to insured events of prior years	<u>2,455</u>	<u>3,461</u>
Total payments	<u>40,138</u>	<u>44,924</u>
Total unpaid claims at end of the year	<u>\$ 2,371</u>	<u>\$ 3,017</u>

**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, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, 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 state in conjunction with 37 other states and Puerto Rico are members of the Pest Control Compact.

The state in conjunction with 12 other states is a member of the Southern Growth Policies Board. Tennessee paid \$44,586 for 2012 membership dues.

The Southern Regional Education Compact has 16 member states, including Tennessee. Tennessee paid \$21,000 for 2012 membership dues.

The Compact for Education was entered into with 48 other states, plus Puerto Rico, the Virgin Islands, American Samoa and the District of Columbia. Tennessee paid \$77,300 for 2012 membership dues.

The Interstate Mining Compact has 19 member states, including Tennessee. Tennessee paid \$18,174 for 2012 membership dues.

The Southern States Nuclear Compact is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid \$34,267 for 2012 membership dues.

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

The Interstate Insurance Product Regulation Commission is comprised of 40 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 49 states, plus the District of Columbia and the Virgin Islands.

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.

The Interstate Compact on Educational Opportunities for Military Children has 43 member states, including Tennessee.

**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):

	<u>2011</u>	<u>2010 *</u>
Current assets	\$ 268	\$ 219
Capital assets, less depreciation	<u>366</u>	<u>371</u>
Total assets	<u>634</u>	<u>590</u>
Total liabilities	308	327
Net assets	<u>326</u>	<u>263</u>
Total liabilities and net assets	<u><u>634</u></u>	<u><u>590</u></u>
Revenues	324	353
Expenses	<u>261</u>	<u>307</u>
Excess of revenues over Expenses	63	46
Beginning net assets	<u>263</u>	<u>217</u>
Ending net assets	<u><u>\$ 326</u></u>	<u><u>\$ 263</u></u>

\*Revised

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

**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 TCA 8-27-701 for 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.

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 teachers in each plan. The state is not the sole "employer" contributor in the Teacher Group Plan since some Local Education Agencies provide a level of support. However, the state is the sole contributor for the vast majority of teachers that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

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

	<u>Employee Group Plan</u>	<u>Teacher Group Plan (State Share)</u>	<u>Medicare Supplement Plan State</u>	<u>Teachers</u>
Annual required contribution	\$ 97,758	\$ 23,806	\$ 16,484	\$ 12,011
Interest on the net OPEB obligation	11,543	1,328	1,679	1,145
Adjustment to the ARC	<u>(12,253)</u>	<u>(1,409)</u>	<u>(1,782)</u>	<u>(1,215)</u>
Annual OPEB cost	97,048	23,725	16,381	11,941
Amount of contribution	<u>(45,336)</u>	<u>(17,232)</u>	<u>(4,533)</u>	<u>(5,308)</u>
Increase in net OPEB obligation	51,712	6,493	11,848	6,633
Net OPEB obligation				
—beginning of year	288,584	33,195	41,977	28,622
Net OPEB obligation				
—end of year	<u>\$ 340,296</u>	<u>\$ 39,688</u>	<u>\$ 53,825</u>	<u>\$ 35,255</u>

<u>Year End</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year End</u>
6/30/2010	Employee Group	\$ 102,674	35%	\$ 220,458
6/30/2011	Employee Group	93,288	27%	288,584
6/30/2012	Employee Group	97,048	47%	340,296
6/30/2010	Teacher Group (State Share)	24,649	69%	27,977
6/30/2011	Teacher Group (State Share)	22,545	77%	33,195
6/30/2012	Teacher Group (State Share)	23,725	73%	39,688
6/30/2010	Medicare Supp State	15,604	32%	31,374
6/30/2011	Medicare Supp State	15,912	33%	41,977
6/30/2012	Medicare Supp State	16,381	28%	53,825
6/30/2010	Medicare Supp Teachers	11,548	33%	20,804
6/30/2011	Medicare Supp Teachers	11,780	34%	28,622
6/30/2012	Medicare Supp Teachers	11,941	44%	35,255

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

	<u>Employee Group Plan</u>	<u>Local Government Group Plan</u>
Annual required contribution	\$ 49,946	\$ 122
Interest on the net OPEB obligation	6,020	15
Adjustment to the ARC	<u>(6,391)</u>	<u>(16)</u>
Annual OPEB cost	49,575	121
Amount of contribution	<u>(33,418)</u>	<u>(31)</u>
Increase in net OPEB obligation	16,157	90
Net OPEB obligation		
—beginning of year	150,510	374
Net OPEB obligation		
—end of year	<u>\$ 166,667</u>	<u>\$ 464</u>

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (Continued)

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2010	Employee Group	\$ 58,521	40%	\$ 126,336
6/30/2011	Employee Group	53,192	55%	150,510
6/30/2012	Employee Group	49,575	67%	166,667
6/30/2010	Local Government Group	132	33%	160
6/30/2011	Local Government Group	215	26%	374
6/30/2012	Local Government Group	121	26%	464

Funded status and funding progress

The funded status of the plans as of July 1, 2011, was as follows (expressed in thousands):

*Primary government*

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Teachers
Actuarial valuation date	7/1/2011	7/1/2011	7/1/2011	7/1/2011
Actuarial accrued liability (AAL)	\$ 1,023,529	\$ 216,600	\$ 220,509	\$ 163,305
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	\$ <u>1,023,529</u>	\$ <u>216,600</u>	\$ <u>220,509</u>	\$ <u>163,305</u>
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%	0.00%	0.00%
Covered payroll (active plan members)	\$ 1,613,128	N/A	N/A	N/A
UAAL as a percentage of covered payroll	63%	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	7/1/2011	7/1/2011
Actuarial accrued liability (AAL)	\$ 452,669	\$ 363
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	\$ <u>452,669</u>	\$ <u>363</u>
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%
Covered payroll (active plan members)	\$1,445,364	\$ 21,458
UAAL as a percentage of covered payroll	31%	2%

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

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, 2011, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent in fiscal year 2012 for the Employee Group plan, and the Local Education plan and 6.50 percent for the Medicare Supplement plan. In the Employee Group and Local Education plans, the rate decreased to 8.75 percent in fiscal year 2013, and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. In the Medicare Supplement plan, the rate decreased to 6.25 percent in fiscal year 2013, and then reduced by decrements to a ultimate rate of 5 percent in fiscal year 2018. All rates include a 2.5 percent inflation assumption. 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.

**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, 2012, there were 8,079 retirees enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). 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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

- 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 123 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, 2012, there were 6,013 retirees enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). 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) 8-27-302, 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 59 counties, 156 municipalities, and 147 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, 2012, there were 146 retirees enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

- 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) 8-27-207, 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. 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, 2012, there were 25,239 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 Coded Annotated* 8-27-701, 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 455 former employees during fiscal year 2011-2012, and the State Plan paid approximately \$5.48 million in benefits to this group.

## F. Pension plans

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

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

Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 14.91% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The state's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010, were \$731.352 million, \$721.759 million, and \$578.404 million respectively, equal to the required contributions for each year.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the TCRS website at [www.treasury.tn.gov/TCRS/](http://www.treasury.tn.gov/TCRS/) or by calling (615) 741-7063.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSP), which is an agent multiple-employer defined benefit pension plan that covers employees of 503 participating political subdivisions. The PSP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

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

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report is available on the TCRS website at [www.treasury.tn.gov/TCRS/](http://www.treasury.tn.gov/TCRS/) or by calling (615) 741-7063.

3. Defined contribution plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were \$85.4 million for the year ended June 30, 2012.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Treasury Department 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 of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

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

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2012, contributions totaling \$146.0 million were made to the plans.

#### **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.

A copy of the SPIF report can be obtained at [www.treasury.tn.gov](http://www.treasury.tn.gov) or by calling (615) 741-7063.

#### **H. Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75% of their principal amounts. At June 30, 2012, TSAC was guarantor of \$3.383 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 (*Continued*)

**I. 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 \$154 million.

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. The non-participating manufacturers' adjustment is currently the subject of dispute, and some of the sums related to it are being withheld from the payments to the states. Furthermore, there is a possibility that additional amounts, which were paid in previous years, could be subject to refund as a result of these ongoing disputes. These refunds could reduce future payments received by some of the MSA participants. Third party lawsuits may also affect future payments. The net effect of these adjustments on future payments is unclear.

3. Pollution remediation obligations

The state has recognized a liability for its pollution remediation obligations based on guidance in GASB Statement No. 49. 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 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.

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012 *(Continued)*

During the fiscal year, the state spent \$4 million for remediation activities and had an expected recovery of \$920 thousand from responsible parties. At June 30, 2012, the state had a pollution remediation obligation of \$130 million and an estimated potential recovery of \$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.

**J. Subsequent events**

Primary government

Subsequent to June 30, the state issued \$55.5 million in general obligation commercial paper. In November 2012, the state issued 2012 Series B tax-exempt general obligation bonds in the amount of \$140 million at a premium of \$12 million and 2012 Series C tax-exempt general obligation bonds in the amount of \$30.5 million at par. The Series B issuance was used to redeem commercial paper and to finance the purchase of capital assets, and the Series C issuance was used to refund a portion of 2005 Series A.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuances: 2012-1 in July 2012 in the amount of \$133.1 million and 2012-2 in November 2012 in the amount of \$97.6 million. The agency used mortgage prepayments and foreclosures proceeds to redeem \$75.4 million of outstanding bonds in July 2012, \$43.8 million in September 2012, and \$68.4 million in October 2012.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued \$30 million in commercial paper. In August 2012, TSSBA issued 2012 Series A tax-exempt bonds in the amount of \$208.2 million at a premium of \$24.3 million, 2012 Series B taxable bonds in the amount of \$103.7 million at par, and 2012 Refunding Series C bonds in the amount of \$125.6 million at a premium of \$18.1 million. The 2012 Series A was used to redeem commercial paper and finance new construction projects. The 2012 Series B was used to redeem commercial paper, refund 2004 Series C and 2005 Series B bonds, and finance new construction projects. The 2012 Series C was used to refund 1998 Series D, 2004 Series A, 2004 Series B, 2006 Series A bonds, and finance new construction projects.

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# REQUIRED SUPPLEMENTARY INFORMATION

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**STATE OF TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

**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.

<u>For the Period Ended</u>	<u>Maintenance Rating Index</u>
June 30, 2012	88.90
June 30, 2011	89.20
June 30, 2010	89.40

**BRIDGES**

Measurement Scale

The state maintains information on its 8,247 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.

<u>For the Two-Year Period Ended</u>	<u>Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete</u>
June 30, 2012	83.00%
June 30, 2010	82.00%
June 30, 2008	81.00%

**STATE OF TENNESSEE  
REQUIRED SUPPLEMENTARY INFORMATION (RSI)  
(Continued)**

**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 <u>June 30</u>	<u>Roadways</u>		<u>Bridges</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
2012	\$387,204	\$411,633	\$36,904	\$33,332
2011	376,965	482,271	36,904	11,044
2010	259,147	425,681	39,707	44,312
2009	374,003	405,453	40,217	46,815
2008	270,331	310,164	36,224	29,178
2007	236,556	286,663	35,624	28,183

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)**

<u>Date</u>	<u>Plan</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) — (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
7/1/09	State Plan	\$ 0	\$ 1,104,073	\$ 1,104,073	0 %	\$ 1,729,937	64%
7/1/10	State Plan	\$ 0	\$ 977,935	\$ 977,935	0 %	\$ 1,560,085	63%
7/1/11	State Plan	\$ 0	\$ 1,023,529	\$ 1,023,529	0 %	\$ 1,613,128	63%
7/1/09	Teacher Grp (State-Share)	\$ 0	\$ 240,919	\$ 240,919	0 %	N/A	N/A
7/1/10	Teacher Grp (State-Share)	\$ 0	\$ 215,202	\$ 215,202	0 %	N/A	N/A
7/1/11	Teacher Grp (State-Share)	\$ 0	\$ 216,600	\$ 216,600	0 %	N/A	N/A
7/1/07	MedSup S	\$ 0	\$ 200,080	\$ 200,080	0 %	N/A	N/A
7/1/09	MedSup S	\$ 0	\$ 209,622	\$ 209,622	0 %	N/A	N/A
7/1/11	MedSup S	\$ 0	\$ 220,509	\$ 220,509	0 %	N/A	N/A
7/1/07	MedSup T	\$ 0	\$ 140,464	\$ 140,464	0 %	N/A	N/A
7/1/09	MedSup T	\$ 0	\$ 158,789	\$ 158,789	0 %	N/A	N/A
7/1/11	MedSup T	\$ 0	\$ 163,305	\$ 163,305	0 %	N/A	N/A

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

<u>Date</u>	<u>Plan</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) — (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
7/1/09	State P	\$ 0	\$ 577,744	\$ 577,744	0 %	\$ 1,371,949	42%

**STATE OF TENNESSEE**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**  
**(Continued)**

7/1/10	State P	\$ 0	\$ 518,083	\$ 518,083	0 %	\$ 1,362,560	38%
7/1/11	State P	\$ 0	\$ 452,669	\$ 452,669	0 %	\$ 1,445,364	31%
7/1/09	Loc Gov	\$ 0	\$ 404	\$ 404	0 %	\$ 20,978	1%
7/1/10	Loc Gov	\$ 0	\$ 2,166	\$ 2,166	0 %	\$ 21,500	10%
7/1/11	Loc Gov	\$ 0	\$ 363	\$ 363	0 %	\$ 21,458	2%

State of Tennessee  
AccessTN Insurance Fund  
Required Supplementary Information  
Ten-Year Claims Development Table  
(expressed in thousands)

The table below illustrates how the AccessTN Insurance Fund's earned revenues and investment income compared to related costs of loss and other expenses assumed by the AccessTN Insurance Fund as of the end of each of the last five fiscal years since inception of the fund in April 2007. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund including overhead and claims expense not allocable to individual claims. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year). (4) This section shows the cumulative net amounts paid as of the end of successive years for each year. (5) This section shows how each year's net incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive fiscal and policy years.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773	18,579	21,146
(2) Unallocated expenses	3,520	2,830	2,085	1,195	888	1,277
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	45,418	41,328	*
(4) Net paid (cumulative) as of:						
End of policy year	6,591	34,095	36,859	45,389	41,378	*
One year later	9,044	38,791	40,277	45,073	*	
Two years later	9,056	40,010	40,232	*		
Three years later	9,452	40,000				
(5) Reestimated net incurred claims and expenses:						
End of policy year	8,922	38,764	39,811	45,418	41,328	*
One year later	8,975	38,715	40,276	45,066	*	
Two years later	9,051	40,010	40,232	*		
Three years later	9,452	40,000				
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	530	1,246	421	(352)	-	*

\* Data not available

See the notes to the financial statements for instructions on obtaining the stand alone reports containing the above table for the remainder of the state's insurance funds not presented here.

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, 2012

(Expressed in Thousands)

	General Fund			Variance With Final Budget - Positive (Negative)
	Budgeted Amounts		Actual (Budgetary Basis)	
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	\$ 2,030,914	\$ 2,030,914	\$ 2,030,914	
Add:				
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	2,030,914	2,030,914	2,030,914	
Revenues:				
Taxes	6,366,587	6,366,587	6,833,845	\$ 467,258
Licenses, fines, fees, and permits	299,531	299,531	329,334	29,803
Interest on investments	4,010	4,010	7,059	3,049
Federal	9,919,598	10,519,616	9,967,880	(551,736)
Departmental services	2,062,879	2,332,756	1,933,234	(399,522)
Other	32,234	32,234	240,558	208,324
Other financing sources:				
Transfers in	107,843	107,843	107,843	
Bond authorization				
Insurance claims recoveries		192	192	
Proceeds from pledged revenue		58,453	58,453	
Total sources of financial resources	<u>20,823,596</u>	<u>21,752,136</u>	<u>21,509,312</u>	<u>(242,824)</u>
Uses of financial resources:				
Expenditures and budgetary commitments:				
General government	744,512	721,498	551,237	170,261
Education				
Health and social services	15,194,865	15,988,012	14,807,999	1,180,013
Law, justice and public safety	1,619,270	1,630,203	1,522,804	107,399
Recreation and resource development	913,055	1,046,129	541,000	505,129
Regulation of business and professions	109,810	113,435	86,856	26,579
Transportation				
Intergovernmental revenue sharing	561,585	561,585	561,585	
Other financing uses:				
Transfers out	988,232	1,119,772	1,119,772	
Total uses of financial resources	<u>20,131,329</u>	<u>21,180,634</u>	<u>19,191,253</u>	<u>1,989,381</u>
Fund balances (budgetary basis), June 30	\$ <u>692,267</u>	\$ <u>571,502</u>	\$ <u>2,318,059</u>	\$ <u>1,746,557</u>

Education Fund				Highway Fund			
Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final			Original	Final		
\$ 532,790	\$ 532,790	\$ 532,790		\$ 8,929	\$ 8,929	\$ 8,929	
				412,922	412,922	412,922	
532,790	532,790	532,790		421,851	421,851	421,851	
4,138,200	4,138,200	4,249,583	\$ 111,383	767,200	767,200	775,014	\$ 7,814
1,800	1,800	1,551	(249)	220,100	220,100	215,908	(4,192)
		50	50				
1,434,398	1,494,443	1,278,970	(215,473)	904,031	3,810,022	1,040,353	(2,769,669)
43,395	44,205	22,311	(21,894)	38,264	134,799	45,230	(89,569)
314,200	314,200	350,690	36,490	4,300	4,300	4,023	(277)
895,900	899,561	899,561			101,600	101,600	
				161,500	59,900		(59,900)
7,360,683	7,425,199	7,335,506	(89,693)	2,517,246	5,519,772	2,603,979	(2,915,793)
7,085,610	7,166,719	6,821,313	345,406				
				2,227,582	5,241,983	2,303,223	2,938,760
				291,200	291,200	289,950	1,250
				1,437	1,437	1,437	
7,085,610	7,166,719	6,821,313	345,406	2,520,219	5,534,620	2,594,610	2,940,010
\$ 275,073	\$ 258,480	\$ 514,193	\$ 255,713	\$ (2,973)	\$ (14,848)	\$ 9,369	\$ 24,217

State of Tennessee  
Required Supplementary Information  
Reconciliation of Budget to GAAP  
Note to RSI  
For the Fiscal Year Ended June 30, 2012

(Expressed in thousands)

1. Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures

	General Fund	Education Fund	Highway Fund
<b>Sources of financial resources</b>			
Actual amounts (budgetary basis)	\$ 21,509,312	\$ 7,335,506	\$ 2,603,979
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(2,030,914)	(532,790)	(421,851)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(166,488)	(899,561)	(101,600)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 19,311,910	\$ 5,903,155	\$ 2,080,528
<b>Uses of financial resources</b>			
Actual amounts (budgetary basis)	\$ 19,191,253	\$ 6,821,313	\$ 2,594,610
Differences - budget to GAAP:			
Certain construction contract commitments are reported in the year of federal appropriation for budgetary purposes, but in the year the services are received for financial reporting purposes.			(350,336)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(1,119,772)	-	(1,437)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 18,071,481	\$ 6,821,313	\$ 2,242,837

2. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime and Agricultural Promotion Boards), and 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 departmental level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

Most appropriations generally lapse at the end of each fiscal year. There were no outstanding encumbrances reported as of June 30, 2012. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$185.3 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of contract obligations and certain budgetary commitments in the highway fund. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis. Appropriations for contract obligations in the highway fund do not lapse at year-end, but are carried forward for subsequent year expenditures. In addition, it is the State's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. These appropriations do not lapse at year-end but are also reappropriated for subsequent year expenditure.

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# SUPPLEMENTARY INFORMATION

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# NONMAJOR GOVERNMENTAL FUNDS

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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, 2012

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 308,863	\$ 12,099	\$ 49,862	\$ 370,824
Investments			235,961	235,961
Receivables:				
Taxes	6,170	5,183	13	11,366
Due from other governments	6,173			6,173
Interest			859	859
Other	1,107			1,107
Due from component units			315	315
Loans receivable		10,083		10,083
	<u>322,313</u>	<u>27,365</u>	<u>287,010</u>	<u>636,688</u>
Total assets	\$ <u>322,313</u>	\$ <u>27,365</u>	\$ <u>287,010</u>	\$ <u>636,688</u>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable and accruals	\$ 13,465	\$ 15	\$ 1,185	\$ 14,665
Due to other funds	315			315
Due to component units			1,953	1,953
Deferred revenue	2,053	10,806		12,859
Advance from federal government	32,445			32,445
Deposits payable	1			1
Other		199		199
	<u>48,279</u>	<u>11,020</u>	<u>3,138</u>	<u>62,437</u>
Total liabilities	<u>48,279</u>	<u>11,020</u>	<u>3,138</u>	<u>62,437</u>
Fund balances:				
Nonspendable:				
Permanent fund corpus			138,026	138,026
Restricted	192,478		145,846	338,324
Committed	81,556	10,800		92,356
Assigned		5,545		5,545
	<u>274,034</u>	<u>16,345</u>	<u>283,872</u>	<u>574,251</u>
Total fund balances	<u>274,034</u>	<u>16,345</u>	<u>283,872</u>	<u>574,251</u>
Total liabilities and fund balances	\$ <u>322,313</u>	\$ <u>27,365</u>	\$ <u>287,010</u>	\$ <u>636,688</u>

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, 2012

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>				
Taxes:				
Sales		\$ 48,961		\$ 48,961
Fuel	\$ 15,305	107,000		122,305
Business	330	232,139		232,469
Other	18,021			18,021
Licenses, fines, fees, and permits	179,675	2,700	\$ 2,584	184,959
Investment income	320		9,982	10,302
Federal	40,931			40,931
Departmental services	11,486	659		12,145
Other	28		6	34
	<u>266,096</u>	<u>391,459</u>	<u>12,572</u>	<u>670,127</u>
<b>Expenditures</b>				
Current:				
General government	24,682			24,682
Education			7,306	7,306
Law, justice and public safety	5,962			5,962
Recreation and resources development	164,024		19	164,043
Regulation of business and professions	49,021			49,021
Debt service:				
Bond principal retirement		115,935		115,935
Bond interest		65,093		65,093
Commercial paper interest		378		378
Debt issuance costs		4,793		4,793
	<u>243,689</u>	<u>186,199</u>	<u>7,325</u>	<u>437,213</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,407</u>	<u>205,260</u>	<u>5,247</u>	<u>232,914</u>
<b>Other financing sources (uses)</b>				
Refunding bond proceeds		464,809		464,809
Refunding bond premium		88,775		88,775
Refunding payment to escrow		(552,898)		(552,898)
Bond premium		37,069		37,069
Insurance claims recoveries	22			22
Transfers in	10,908	3,641		14,549
Transfers out	(1,407)	(240,048)		(241,455)
	<u>9,523</u>	<u>(198,652)</u>		<u>(189,129)</u>
Net changes in fund balances	31,930	6,608	5,247	43,785
Fund balances, July 1	<u>242,104</u>	<u>9,737</u>	<u>278,625</u>	<u>530,466</u>
Fund balances, June 30	<u>\$ 274,034</u>	<u>\$ 16,345</u>	<u>\$ 283,872</u>	<u>\$ 574,251</u>

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# NONMAJOR SPECIAL REVENUE FUNDS

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**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 any alleged ground 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, 2012

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection	Hazardous Waste
<b>Assets</b>						
Cash and cash equivalents	\$ 58,947	\$ 14,198	\$ 9,788	\$ 34,061	\$ 15,408	\$ 8,316
Receivables:						
Taxes	843	535	1,695			
Due from other governments	3,506			6		279
Other	653		1			
	<u>63,949</u>	<u>14,733</u>	<u>11,484</u>	<u>34,067</u>	<u>15,408</u>	<u>8,595</u>
Total assets	<u>\$ 63,949</u>	<u>\$ 14,733</u>	<u>\$ 11,484</u>	<u>\$ 34,067</u>	<u>\$ 15,408</u>	<u>\$ 8,595</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 3,241	\$ 5,866	\$ 1,106	\$ 26	\$ 83	\$ 160
Due to other funds	193	45	7			14
Deferred revenue	1					1,542
Advance from other governments				32,445		
Deposits payable						
	<u>3,435</u>	<u>5,911</u>	<u>1,113</u>	<u>32,471</u>	<u>83</u>	<u>1,716</u>
Total liabilities	<u>3,435</u>	<u>5,911</u>	<u>1,113</u>	<u>32,471</u>	<u>83</u>	<u>1,716</u>
Fund balances:						
Restricted	52,311			1,596		
Committed	8,203	8,822	10,371		15,325	6,879
	<u>60,514</u>	<u>8,822</u>	<u>10,371</u>	<u>1,596</u>	<u>15,325</u>	<u>6,879</u>
Total fund balances	<u>60,514</u>	<u>8,822</u>	<u>10,371</u>	<u>1,596</u>	<u>15,325</u>	<u>6,879</u>
Total liabilities and fund balances	<u>\$ 63,949</u>	<u>\$ 14,733</u>	<u>\$ 11,484</u>	<u>\$ 34,067</u>	<u>\$ 15,408</u>	<u>\$ 8,595</u>

(continued on next page)

<u>Parks Acquisition</u>	<u>Supreme Court Boards</u>	<u>Underground Storage Tanks</u>	<u>Enhanced Emergency 911 Service</u>	<u>Driver Education</u>	<u>Abandoned Land Program</u>
\$ 15,322	\$ 1,100	\$ 46,515	\$ 89,562	\$ 737	\$ 2,634
782		1,296	599	59	
	432	1,049	1,042		
<u>16,104</u>	<u>1,532</u>	<u>48,860</u>	<u>91,203</u>	<u>796</u>	<u>2,634</u>
\$ 155	\$ 63	\$ 798	\$ 529	\$ 15	
	13	23	3	1	
		497			
<u>155</u>	<u>76</u>	<u>1,318</u>	<u>532</u>	<u>16</u>	
<u>15,949</u>	<u>1,456</u>	<u>47,542</u>	<u>87,604</u>	<u>780</u>	\$ <u>1,969</u>
<u>15,949</u>	<u>1,456</u>	<u>47,542</u>	<u>90,671</u>	<u>780</u>	<u>2,634</u>
<u>\$ 16,104</u>	<u>\$ 1,532</u>	<u>\$ 48,860</u>	<u>\$ 91,203</u>	<u>\$ 796</u>	<u>\$ 2,634</u>

State of Tennessee  
Combining Balance Sheet  
Nonmajor Special Revenue Funds (continued)  
June 30, 2012

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority
<b>Assets</b>						
Cash and cash equivalents	\$ 985	\$ 1,662	\$ 1	\$ 1,707	\$ 1,889	\$ 3,352
Receivables:						
Taxes	361					
Due from other governments						291
Other			18			3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,346</u>	<u>\$ 1,662</u>	<u>\$ 19</u>	<u>\$ 1,707</u>	<u>\$ 1,889</u>	<u>\$ 3,646</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 804	\$ 33	\$ 14	\$ 375		\$ 197
Due to other funds		5		1		23
Deferred revenue						
Advance from other governments						
Deposits payable						1
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>		<u>          </u>
Total liabilities	<u>804</u>	<u>38</u>	<u>14</u>	<u>376</u>		<u>221</u>
Fund balances:						
Restricted						
Committed	<u>542</u>	<u>1,624</u>	<u>5</u>	<u>1,331</u>	<u>\$ 1,889</u>	<u>3,425</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>542</u>	<u>1,624</u>	<u>5</u>	<u>1,331</u>	<u>1,889</u>	<u>3,425</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 1,346</u>	<u>\$ 1,662</u>	<u>\$ 19</u>	<u>\$ 1,707</u>	<u>\$ 1,889</u>	<u>\$ 3,646</u>

Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
\$ 2,679	\$ 308,863
	6,170
	6,173
	<u>1,107</u>
<u>\$ 2,679</u>	<u>\$ 322,313</u>
	\$ 13,465
	315
	2,053
	32,445
	<u>1</u>
	<u>48,279</u>
	192,478
\$ <u>2,679</u>	<u>81,556</u>
<u>2,679</u>	<u>274,034</u>
<u>\$ 2,679</u>	<u>\$ 322,313</u>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	<u>Wildlife Resources Agency</u>	<u>Criminal Injuries Compensation</u>	<u>Solid Waste</u>	<u>Help America Vote</u>	<u>Environmental Protection</u>	<u>Hazardous Waste</u>
<b>Revenues</b>						
Taxes:						
Fuel	\$ 531					
Business	330					
Other	6,781		\$ 6,950			
Licenses, fines, fees, and permits	38,547	\$ 9,244	2,610		\$ 45,893	
Interest on investments	70	13	12	\$ 2	16	\$ 9
Federal	25,673	4,991		1,738		1,766
Departmental services	6,978		32			4,065
Other		8				
<b>Total revenues</b>	<u>78,910</u>	<u>14,256</u>	<u>9,604</u>	<u>1,740</u>	<u>45,909</u>	<u>5,840</u>
<b>Expenditures</b>						
General government		14,580		1,794		
Law, justice and public safety						
Recreation and resources development	73,611		8,053		40,627	5,860
Regulation of business and professions						
<b>Total expenditures</b>	<u>73,611</u>	<u>14,580</u>	<u>8,053</u>	<u>1,794</u>	<u>40,627</u>	<u>5,860</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,299</u>	<u>(324)</u>	<u>1,551</u>	<u>(54)</u>	<u>5,282</u>	<u>(20)</u>
<b>Other financing sources (uses)</b>						
Insurance claims recoveries	22					
Transfers in	2,164					1,000
Transfers out	(259)				(1,148)	
<b>Total other financing   sources (uses)</b>	<u>1,927</u>				<u>(1,148)</u>	<u>1,000</u>
<b>Net change in fund balances</b>	7,226	(324)	1,551	(54)	4,134	980
Fund balances, July 1	<u>53,288</u>	<u>9,146</u>	<u>8,820</u>	<u>1,650</u>	<u>11,191</u>	<u>5,899</u>
Fund balances, June 30	<u>\$ 60,514</u>	<u>\$ 8,822</u>	<u>\$ 10,371</u>	<u>\$ 1,596</u>	<u>\$ 15,325</u>	<u>\$ 6,879</u>

(continued on next page)

<u>Parks Acquisition</u>	<u>Supreme Court Boards</u>	<u>Underground Storage Tanks</u>	<u>Enhanced Emergency 911 Service</u>	<u>Driver Education</u>	<u>Abandoned Land Program</u>
		\$ 14,774			
\$ 881	\$ 3,336	4,212	\$ 60,720	\$ 718	\$ 53
18	2	59	109		2
48	261	4,463	1,042		628
	20	70			25
<u>947</u>	<u>3,619</u>	<u>23,578</u>	<u>61,871</u>	<u>718</u>	<u>708</u>
	4,472			646	
4,939		21,776			
			<u>49,021</u>		
<u>4,939</u>	<u>4,472</u>	<u>21,776</u>	<u>49,021</u>	<u>646</u>	
<u>(3,992)</u>	<u>(853)</u>	<u>1,802</u>	<u>12,850</u>	<u>72</u>	<u>708</u>
6,806					
<u>6,806</u>					
2,814	(853)	1,802	12,850	72	708
<u>13,135</u>	<u>2,309</u>	<u>45,740</u>	<u>77,821</u>	<u>708</u>	<u>1,926</u>
\$ <u>15,949</u>	\$ <u>1,456</u>	\$ <u>47,542</u>	\$ <u>90,671</u>	\$ <u>780</u>	\$ <u>2,634</u>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority
<b>Revenues</b>						
Taxes:						
Fuel						
Business						
Other	\$ 2,610		\$ 799			
Licenses, fines, fees, and permits		\$ 1,883		\$ 977	\$ 3,302	\$ 7,126
Interest on investments	2			2	3	
Federal	63					567
Departmental services			4			3
Other						
<b>Total revenues</b>	<u>2,675</u>	<u>1,883</u>	<u>803</u>	<u>979</u>	<u>3,305</u>	<u>7,696</u>
<b>Expenditures</b>						
General government		1,380				6,928
Law, justice and public safety						
Recreation and resources development	4,382		803	904	3,069	
Regulation of business and professions						
<b>Total expenditures</b>	<u>4,382</u>	<u>1,380</u>	<u>803</u>	<u>904</u>	<u>3,069</u>	<u>6,928</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,707)</u>	<u>503</u>	<u>-</u>	<u>75</u>	<u>236</u>	<u>768</u>
<b>Other financing sources (uses)</b>						
Insurance claims recoveries						
Transfers in	938					
Transfers out						
<b>Total other financing sources (uses)</b>	<u>938</u>					
<b>Net change in fund balances</b>	(769)	503		75	236	768
Fund balances, July 1	<u>1,311</u>	<u>1,121</u>	<u>5</u>	<u>1,256</u>	<u>1,653</u>	<u>2,657</u>
Fund balances, June 30	<u>\$ 542</u>	<u>\$ 1,624</u>	<u>\$ 5</u>	<u>\$ 1,331</u>	<u>\$ 1,889</u>	<u>\$ 3,425</u>

<u>Fraud and Economic Crime</u>	<u>Total Nonmajor Special Revenue Funds</u>
	\$ 15,305
	330
	18,021
\$ 1,054	179,675
1	320
	40,931
	11,486
	<u>28</u>
<u>1,055</u>	<u>266,096</u>
	24,682
844	5,962
	164,024
	<u>49,021</u>
<u>844</u>	<u>243,689</u>
	22,407
<u>211</u>	<u>22,407</u>
	22
	10,908
	<u>(1,407)</u>
	<u>9,523</u>
211	31,930
<u>2,468</u>	<u>242,104</u>
<u>\$ 2,679</u>	<u>\$ 274,034</u>

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, 2012

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 53,288	\$ 53,288	
Revenues:			
Taxes	6,791	7,642	\$ 851
Licenses, fines, fees, and permits	41,709	38,547	(3,162)
Interest on investments		70	70
Federal	30,287	25,673	(4,614)
Departmental services	1,877	6,978	5,101
Other	6,578		(6,578)
Other financing sources - transfers in	2,164	2,164	
Other financing sources - insurance recoveries	22	22	
<b>Total sources of financial resources</b>	<b>142,716</b>	<b>134,384</b>	<b>(8,332)</b>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	91,646	73,611	18,035
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	259	259	
<b>Total uses of financial resources</b>	<b>91,905</b>	<b>73,870</b>	<b>18,035</b>
Fund balances (budgetary basis), June 30	<u>\$ 50,811</u>	<u>\$ 60,514</u>	<u>\$ 9,703</u>

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 9,146	\$ 9,146		\$ 8,820	\$ 8,820	
10,493	9,244	\$ (1,249)	5,403	6,950	\$ 1,547
5,020	4,991	(29)	4,303	2,610	(1,693)
7	8	1		12	12
			234	32	(202)
<u>24,666</u>	<u>23,402</u>	<u>(1,264)</u>	<u>18,760</u>	<u>18,424</u>	<u>(336)</u>
15,960	14,580	1,380			
			11,167	8,053	3,114
<u>15,960</u>	<u>14,580</u>	<u>1,380</u>	<u>11,167</u>	<u>8,053</u>	<u>3,114</u>
\$ <u>8,706</u>	\$ <u>8,822</u>	\$ <u>116</u>	\$ <u>7,593</u>	\$ <u>10,371</u>	\$ <u>2,778</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,650	\$ 1,650	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		2	2
Federal	26,500	1,738	(24,762)
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>28,150</u>	<u>3,390</u>	<u>(24,760)</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State	27,500	1,794	25,706
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>27,500</u>	<u>1,794</u>	<u>25,706</u>
Fund balances (budgetary basis), June 30	<u>\$ 650</u>	<u>\$ 1,596</u>	<u>\$ 946</u>

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 11,191	\$ 11,191		\$ 5,899	\$ 5,899	
55,003	45,893 16	\$ (9,110) 16		9	\$ 9
			1,990	1,766	(224)
			3,704	4,065	361
			1,000	1,000	
<u>66,194</u>	<u>57,100</u>	<u>(9,094)</u>	<u>12,593</u>	<u>12,739</u>	<u>146</u>
53,258	40,627	12,631	11,938	5,860	6,078
<u>1,148</u>	<u>1,148</u>				
<u>54,406</u>	<u>41,775</u>	<u>12,631</u>	<u>11,938</u>	<u>5,860</u>	<u>6,078</u>
\$ <u>11,788</u>	\$ <u>15,325</u>	\$ <u>3,537</u>	\$ <u>655</u>	\$ <u>6,879</u>	\$ <u>6,224</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 13,135	\$ 13,135	
Revenues:			
Taxes	100	881	\$ 781
Licenses, fines, fees, and permits		18	18
Interest on investments		48	48
Federal			
Departmental services			
Other			
Other financing sources - transfers in	6,806	6,806	
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>20,041</u>	<u>20,888</u>	<u>847</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation	6,906	4,939	1,967
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>6,906</u>	<u>4,939</u>	<u>1,967</u>
Fund balances (budgetary basis), June 30	<u>\$ 13,135</u>	<u>\$ 15,949</u>	<u>\$ 2,814</u>

(continued on next page)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 2,309	\$ 2,309		\$ 45,740	\$ 45,740	
4,284	3,336	\$ (948)	15,000	14,774	\$ (226)
	2	2	4,939	4,212	(727)
	261	261	3,838	59	59
	20	20		4,463	625
				70	70
<u>6,593</u>	<u>5,928</u>	<u>(665)</u>	<u>69,517</u>	<u>69,318</u>	<u>(199)</u>
4,634	4,472	162			
			25,320	21,776	3,544
<u>4,634</u>	<u>4,472</u>	<u>162</u>	<u>25,320</u>	<u>21,776</u>	<u>3,544</u>
\$ <u>1,959</u>	\$ <u>1,456</u>	\$ <u>(503)</u>	\$ <u>44,197</u>	\$ <u>47,542</u>	\$ <u>3,345</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 77,821	\$ 77,821	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	61,100	60,720	\$ (380)
Interest on investments		109	109
Federal	1,500	1,042	(458)
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
	140,421	139,692	(729)
Total sources of financial resources			
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance	75,586	49,021	26,565
Revenue			
Other financing uses - transfers out			
	75,586	49,021	26,565
Total uses of financial resources			
Fund balances (budgetary basis), June 30	\$ 64,835	\$ 90,671	\$ 25,836

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 708	\$ 708		\$ 1,926	\$ 1,926	
738	718	\$ (20)	500	53	\$ (447)
				2	2
				628	628
				25	25
<u>1,446</u>	<u>1,426</u>	<u>(20)</u>	<u>2,426</u>	<u>2,634</u>	<u>208</u>
898	646	252	500		500
<u>898</u>	<u>646</u>	<u>252</u>	<u>500</u>		<u>500</u>
\$ <u>548</u>	\$ <u>780</u>	\$ <u>232</u>	\$ <u>1,926</u>	\$ <u>2,634</u>	\$ <u>708</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,311	\$ 1,311	
Revenues:			
Taxes	2,250	2,610	\$ 360
Licenses, fines, fees, and permits			
Interest on investments		2	2
Federal	63	63	
Departmental services			
Other			
Other financing sources - transfers in	938	938	
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>4,562</u>	<u>4,924</u>	<u>362</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	4,561	4,382	179
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>4,561</u>	<u>4,382</u>	<u>179</u>
Fund balances (budgetary basis), June 30	<u>\$ 1</u>	<u>\$ 542</u>	<u>\$ 541</u>

(continued on next page)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,121	\$ 1,121		\$ 1,256	\$ 1,256	
1,489	1,883	\$ 394	2,527	977	\$ (1,550)
				2	2
<u>2,610</u>	<u>3,004</u>	<u>394</u>	<u>3,783</u>	<u>2,235</u>	<u>(1,548)</u>
			2,523	904	1,619
1,489	1,380	109			
<u>1,489</u>	<u>1,380</u>	<u>109</u>	<u>2,523</u>	<u>904</u>	<u>1,619</u>
<u>\$ 1,121</u>	<u>\$ 1,624</u>	<u>\$ 503</u>	<u>\$ 1,260</u>	<u>\$ 1,331</u>	<u>\$ 71</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,653	\$ 1,653	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,355	3,302	\$ 947
Interest on investments		3	3
Federal			
Departmental services	120		(120)
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>4,128</u>	<u>4,958</u>	<u>830</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,187	3,069	118
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>3,187</u>	<u>3,069</u>	<u>118</u>
Fund balances (budgetary basis), June 30	<u>\$ 941</u>	<u>\$ 1,889</u>	<u>\$ 948</u>

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 2,657	\$ 2,657		\$ 239,631	\$ 239,631	
			29,544	32,857	\$ 3,313
7,800	7,126	\$ (674)	197,240	178,621	(18,619)
				319	319
813	567	(246)	70,011	40,931	(29,080)
3	3		5,938	11,482	5,544
			6,585	28	(6,557)
			10,908	10,908	
			22	22	
<u>11,273</u>	<u>10,353</u>	<u>(920)</u>	<u>559,879</u>	<u>514,799</u>	<u>(45,080)</u>
			4,634	4,472	162
			27,500	1,794	25,706
			15,960	14,580	1,380
8,605	6,928	1,677	8,605	6,928	1,677
			898	646	252
			7,748	7,451	297
			111,612	82,159	29,453
			91,646	73,611	18,035
			75,586	49,021	26,565
			1,489	1,380	109
			1,407	1,407	
<u>8,605</u>	<u>6,928</u>	<u>1,677</u>	<u>347,085</u>	<u>243,449</u>	<u>103,636</u>
\$ <u>2,668</u>	\$ <u>3,425</u>	\$ <u>757</u>	\$ <u>212,794</u>	\$ <u>271,350</u>	\$ <u>58,556</u>

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# DEBT SERVICE FUND

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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.

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, 2012

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 9,737	\$ 9,737	
Revenues:			
Taxes	388,100	388,100	
Licenses, fines, fees, and permits	2,700	2,700	
Other		659	\$ 659
Other financing sources			
Transfers in	3,641	3,641	
Refunding bonds proceeds	686	686	
Bond premium	37,069	37,069	
Total sources of financial resources	<u>441,933</u>	<u>442,592</u>	<u>659</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	425,624	186,199	239,425
Other financing uses - transfers out	<u>240,048</u>	<u>240,048</u>	
Total uses of financial resources	<u>665,672</u>	<u>426,247</u>	<u>239,425</u>
Fund balances (budgetary basis), June 30	<u>\$ (223,739)</u>	<u>\$ 16,345</u>	<u>\$ 240,084</u>

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# PERMANENT FUNDS

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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, 2012

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 11,748	\$ 38,114	\$ 49,862
Investments	235,961		235,961
Receivables:			
Taxes		13	13
Interest	859		859
Due from component units	315		315
 Total assets	\$ 248,883	\$ 38,127	\$ 287,010
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable and accruals	\$ 1,185		\$ 1,185
Due to component units	1,953		1,953
 Total liabilities	3,138		3,138
Fund balances:			
Nonspendable			
Permanent fund corpus	99,935	\$ 38,091	138,026
Restricted	145,810	36	145,846
 Total fund balances	245,745	38,127	283,872
 Total liabilities and fund balances	\$ 248,883	\$ 38,127	\$ 287,010

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Permanent Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
<b>Revenues</b>			
Licenses, fines, fees and permits		\$ 2,584	\$ 2,584
Investment income	\$ 9,940	42	9,982
Other	5	1	6
	<u>9,945</u>	<u>2,627</u>	<u>12,572</u>
<b>Expenditures</b>			
Education	7,306		7,306
Recreation and resources development		19	19
	<u>7,306</u>	<u>19</u>	<u>7,325</u>
Excess of revenues over expenditures	<u>2,639</u>	<u>2,608</u>	<u>5,247</u>
Net change in fund balances	2,639	2,608	5,247
Fund balances, July 1	<u>243,106</u>	<u>35,519</u>	<u>278,625</u>
Fund balances, June 30	<u>\$ 245,745</u>	<u>\$ 38,127</u>	<u>\$ 283,872</u>

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# NONMAJOR ENTERPRISE FUNDS

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**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 Assets  
Nonmajor Enterprise Funds  
June 30, 2012

(Expressed in Thousands)

<b>Assets</b>	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Current assets:				
Cash and cash equivalents	\$ 18,058	\$ 125,895	\$ 18,105	\$ 50,210
Receivables:				
Accounts receivable		2,745	615	
Loans receivable	2,194			5,967
Total current assets	<u>20,252</u>	<u>128,640</u>	<u>18,720</u>	<u>56,177</u>
Noncurrent assets:				
Loans receivable	<u>3,632</u>			<u>95,603</u>
Total noncurrent assets	<u>3,632</u>			<u>95,603</u>
Total assets	<u>23,884</u>	<u>128,640</u>	<u>18,720</u>	<u>151,780</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals		30,356	6,950	3
Unearned revenue		<u>64</u>	<u>64</u>	
Total current liabilities		<u>30,420</u>	<u>7,014</u>	<u>3</u>
Noncurrent liabilities:				
Other noncurrent liabilities				<u>2,479</u>
Total noncurrent liabilities				<u>2,479</u>
Total liabilities		<u>30,420</u>	<u>7,014</u>	<u>2,482</u>
<b>Net assets</b>				
Unrestricted	<u>23,884</u>	<u>98,220</u>	<u>11,706</u>	<u>149,298</u>
Total net assets	<u>\$ 23,884</u>	<u>\$ 98,220</u>	<u>\$ 11,706</u>	<u>\$ 149,298</u>

<u>Grain Indemnity</u>	<u>Energy Efficient Schools Initiative</u>	<u>Client Protection</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 3,000	\$ 2,289	\$ 2,146	\$ 219,703
	4,371		3,360
<u>3,000</u>	<u>6,660</u>	<u>2,146</u>	<u>12,532</u>
	51,976		235,595
	51,976		151,211
<u>3,000</u>	<u>58,636</u>	<u>2,146</u>	<u>151,211</u>
	14	14	37,323
	14	14	142
	14	14	37,465
			2,479
			2,479
	14	14	39,944
<u>3,000</u>	<u>58,622</u>	<u>2,132</u>	<u>346,862</u>
<u>\$ 3,000</u>	<u>\$ 58,622</u>	<u>\$ 2,132</u>	<u>\$ 346,862</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
<b>Operating revenues</b>				
Charges for services	\$ 29			\$ 1,849
Investment income	23			51
Premiums		\$ 439,497	\$ 103,259	
Total operating revenues	52	439,497	103,259	1,900
<b>Operating expenses</b>				
Contractual services		20,398	4,871	430
Benefits		416,822	91,345	
Other		6,075	1,139	
Total operating expenses		443,295	97,355	430
Operating income (loss)	52	(3,798)	5,904	1,470
<b>Nonoperating revenues (expenses)</b>				
Operating grants				10,921
Interest income		143	19	
Other				(2,421)
Total nonoperating revenues (expenses)		143	19	8,500
Income (loss) before transfers	52	(3,655)	5,923	9,970
Transfers in				2,011
Transfers out	(1,773)			
Change in net assets	(1,721)	(3,655)	5,923	11,981
Net assets, July 1	25,605	101,875	5,783	137,317
Net assets, June 30	\$ 23,884	\$ 98,220	\$ 11,706	\$ 149,298

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
	\$ 320	\$ 133	\$ 2,331
			74
			542,756
	320	133	545,161
	35	618	26,352
			508,167
\$ 96		2	7,312
96	35	620	541,831
(96)	285	(487)	3,330
	43,558		54,479
4	3	3	172
			(2,421)
4	43,561	3	52,230
(92)	43,846	(484)	55,560
			2,011
			(1,773)
(92)	43,846	(484)	55,798
3,092	14,776	2,616	291,064
\$ 3,000	\$ 58,622	\$ 2,132	\$ 346,862

State of Tennessee  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
<b>Cash flows from operating activities</b>				
Receipts from customers and users		\$ 444,726	\$ 104,481	
Payments to suppliers		(443,288)	(97,791)	
Payments to employees				
Payments for interfund services used		(6,078)	(1,140)	\$ (430)
Net cash from (used for) operating activities		(4,640)	5,550	(430)
<b>Cash flows from noncapital financing activities</b>				
Negative cash balance implicitly financed				
Negative cash balance implicitly repaid				
Operating grants received				10,921
Transfers in				2,011
Transfers out	\$ (1,773)			
Net cash from (used for) noncapital financing activities	(1,773)			12,932
<b>Cash flows from investing activities</b>				
Loans issued and other disbursements to borrowers				(13,056)
Collection of loan principal	2,373			8,358
Interest received	52	143	19	1,911
Net cash from (used for) investing activities	2,425	143	19	(2,787)
Net increase (decrease) in cash and cash equivalents	652	(4,497)	5,569	9,715
Cash and cash equivalents, July 1	17,406	130,392	12,536	40,495
Cash and cash equivalents, June 30	\$ 18,058	\$ 125,895	\$ 18,105	\$ 50,210
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 52	\$ (3,798)	\$ 5,904	\$ 1,470
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(23)			(1,900)
Charges for services	(29)			
(Increase) decrease in accounts receivable		(761)	(210)	
Increase (decrease) in accounts payable		(145)	(208)	
Increase (decrease) in unearned revenue		64	64	
Total adjustments	(52)	(842)	(354)	(1,900)
Net cash provided by (used for) operating activities	\$ -	\$ (4,640)	\$ 5,550	\$ (430)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
\$ (96)	\$ 35	\$ 133	\$ 549,375
		(606)	(541,781)
		(2)	(2)
	(35)		(7,683)
(96)		(475)	(91)
	43,558		54,479
			2,011
			(1,773)
	43,558		54,717
	(43,766)		(56,822)
	1,630		12,361
4	303	3	2,435
4	(41,833)	3	(42,026)
(92)	1,725	(472)	12,600
3,092	564	2,618	207,103
\$ 3,000	\$ 2,289	\$ 2,146	\$ 219,703
\$ (96)	\$ 285	\$ (487)	\$ 3,330
	(285)		(2,208)
			(29)
		12	(971)
			(341)
			128
	(285)	12	(3,421)
\$ (96)	\$ -	\$ (475)	\$ (91)

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# INTERNAL SERVICE FUNDS

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**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:**

Office for Information Resources—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 and distribution of office supplies, the retention and disposal of official records, and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

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 Assets  
Internal Service Funds  
June 30, 2012

(Expressed in Thousands)

<b>Assets</b>	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
<b>Current assets:</b>							
Cash and cash equivalents	\$ 114,067	\$ 97,220	\$ 46,116	\$ 229	\$ 100,665	\$ 182,411	\$ 1,183
Accounts receivable	239	9,795	27	4	232	4,366	
Due from other funds	348						
Inventories, at cost	1,311			79			213
Prepaid expenses							97
<b>Total current assets</b>	<b>115,965</b>	<b>107,015</b>	<b>46,143</b>	<b>312</b>	<b>100,897</b>	<b>186,777</b>	<b>1,493</b>
<b>Noncurrent assets:</b>							
Accounts receivable		901					
Due from other funds	174						
Deferred charges					184		
Lease receivable					1,611		
<b>Capital assets:</b>							
Land, at cost					62,751		
Structures and improvements, at cost					555,509		
Machinery and equipment, at cost	111,906		144,048	2,053	183		3,319
Less-accumulated depreciation	(79,608)		(93,933)	(1,324)	(260,036)		(2,370)
Construction in progress					10,805		
<b>Total capital assets, net of accumulated depreciation</b>	<b>32,298</b>		<b>50,115</b>	<b>729</b>	<b>369,212</b>		<b>949</b>
<b>Total noncurrent assets</b>	<b>32,472</b>	<b>901</b>	<b>50,115</b>	<b>729</b>	<b>371,007</b>		<b>949</b>
<b>Total assets</b>	<b>148,437</b>	<b>107,916</b>	<b>96,258</b>	<b>1,041</b>	<b>471,904</b>	<b>186,777</b>	<b>2,442</b>
<b>Liabilities</b>							
<b>Current liabilities:</b>							
Accounts payable	14,435	857	4,810	83	6,055	44,196	7
Accrued payroll and related deductions	2,231		89	135			102
Due to other funds	141	5	6	9	22		6
Lease obligations payable					153		
Bonds payable					19,364		
Unearned revenue		8	3,186			39,429	
Other		34,095					
<b>Total current liabilities</b>	<b>16,807</b>	<b>34,965</b>	<b>8,091</b>	<b>227</b>	<b>25,594</b>	<b>83,625</b>	<b>115</b>
<b>Noncurrent liabilities:</b>							
Lease obligations payable					371		
Commercial paper payable					20,658		
Bonds payable, net					179,147		
Other noncurrent liabilities	4,182	63,886	334	496			543
<b>Total noncurrent liabilities</b>	<b>4,182</b>	<b>63,886</b>	<b>334</b>	<b>496</b>	<b>200,176</b>		<b>543</b>
<b>Total liabilities</b>	<b>20,989</b>	<b>98,851</b>	<b>8,425</b>	<b>723</b>	<b>225,770</b>	<b>83,625</b>	<b>658</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	32,298		50,115	729	149,518		949
Unrestricted	95,150	9,065	37,718	(411)	96,616	103,152	835
<b>Total net assets</b>	<b>\$ 127,448</b>	<b>\$ 9,065</b>	<b>\$ 87,833</b>	<b>\$ 318</b>	<b>\$ 246,134</b>	<b>\$ 103,152</b>	<b>\$ 1,784</b>

	Purchasing	Warehousing and Distribution	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
\$	524	\$ 362 43	\$ 16,342	\$ 4,826 2	\$ 11,194 219	\$ 2,881	\$ 578,020 14,927 348 7,527 97
	<u>524</u>	<u>759</u>	<u>16,342</u>	<u>4,828</u>	<u>16,983</u>	<u>2,881</u>	<u>600,919</u>
							901 174 184 <u>1,611</u>
					215 15,752 12,499 (17,076)		62,966 571,261 377,714 (490,965) <u>10,805</u>
			<u>9</u>	<u>12</u>	<u>11,390</u>	<u>67,067</u>	<u>531,781</u>
			<u>9</u>	<u>12</u>	<u>11,390</u>	<u>67,067</u>	<u>534,651</u>
	<u>524</u>	<u>759</u>	<u>16,351</u>	<u>4,840</u>	<u>28,373</u>	<u>69,948</u>	<u>1,135,570</u>
	8 244 19	107 100 6	85 574 47	1 399 27	1,692 463 31	785 554 38	73,121 4,891 357 153 19,364 42,624 <u>34,095</u>
	<u>271</u>	<u>213</u>	<u>706</u>	<u>427</u>	<u>2,187</u>	<u>1,377</u>	<u>174,605</u>
						30,660	371 51,318 179,147 <u>74,196</u>
	<u>462</u>	<u>530</u>	<u>409</u>	<u>759</u>	<u>1,366</u>	<u>1,229</u>	<u>305,032</u>
	<u>462</u>	<u>530</u>	<u>409</u>	<u>759</u>	<u>1,366</u>	<u>31,889</u>	<u>479,637</u>
	<u>733</u>	<u>743</u>	<u>1,115</u>	<u>1,186</u>	<u>3,553</u>	<u>33,266</u>	<u>281,427</u> <u>374,506</u>
	<u>(209)</u>	<u>16</u>	<u>15,227</u>	<u>3,642</u>	<u>13,430</u>	<u>275</u>	<u>655,933</u>
\$	<u>(209)</u>	<u>16</u>	<u>15,236</u>	<u>3,654</u>	<u>24,820</u>	<u>36,682</u>	<u>655,933</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
<b>Operating revenues</b>							
Charges for services	\$ 140,453	\$ 50,973	\$ 42,238	\$ 3,841	\$ 132,876		\$ 18,761
Premiums						\$ 679,584	
Other						343	
<b>Total operating revenues</b>	<u>140,453</u>	<u>50,973</u>	<u>42,238</u>	<u>3,841</u>	<u>132,876</u>	<u>679,927</u>	<u>18,761</u>
<b>Operating expenses</b>							
Personal services	29,813		1,539	2,311			1,807
Contractual services	48,017	9,542	7,449	1,160	73,673	25,776	1,780
Materials and supplies	52,663		21,402	910	2,340		14,349
Rentals and insurance	59		1,880	11	40,867		15
Depreciation and amortization	11,565		10,677	78	13,144		399
Benefits		41,464				596,376	
Other	1,905	4,814	2	23	180	8,457	
<b>Total operating expenses</b>	<u>144,022</u>	<u>55,820</u>	<u>42,949</u>	<u>4,493</u>	<u>130,204</u>	<u>630,609</u>	<u>18,350</u>
Operating income (loss)	<u>(3,569)</u>	<u>(4,847)</u>	<u>(711)</u>	<u>(652)</u>	<u>2,672</u>	<u>49,318</u>	<u>411</u>
<b>Nonoperating revenues (expenses)</b>							
Taxes		2					
Operating grants		323					
Insurance claims recoveries			75		125		
Interest income		114			124	167	
Interest expense	(62)				(7,427)		
<b>Total nonoperating revenues (expenses)</b>	<u>(62)</u>	<u>439</u>	<u>75</u>		<u>(7,178)</u>	<u>167</u>	
Income (loss) before contributions and transfers	(3,631)	(4,408)	(636)	(652)	(4,506)	49,485	411
Transfers in			4,540	304	13,065		
Transfers out			(318)				
Change in net assets	(3,631)	(4,408)	3,586	(348)	8,559	49,485	411
Net assets, July 1	131,079	13,473	84,247	666	237,575	53,667	1,373
Net assets, June 30	<u>\$ 127,448</u>	<u>\$ 9,065</u>	<u>\$ 87,833</u>	<u>\$ 318</u>	<u>\$ 246,134</u>	<u>\$ 103,152</u>	<u>\$ 1,784</u>

<u>Purchasing</u>	<u>Warehousing and Distribution</u>	<u>Human Resources</u>	<u>Division of Accounts</u>	<u>TRICOR</u>	<u>Edison</u>	<u>Total Internal Service Funds</u>
\$ 5,608	\$ 4,497	\$ 15,976	\$ 4,957	\$ 36,544	\$ 26,465	\$ 483,189
						679,584
						343
<u>5,608</u>	<u>4,497</u>	<u>15,976</u>	<u>4,957</u>	<u>36,544</u>	<u>26,465</u>	<u>1,163,116</u>
4,403	1,766	9,969	5,730	7,728	7,995	73,061
1,895	4,364	1,688	2,394	9,875	11,649	199,262
71	1,177	166	108	15,168	233	108,587
13	5	15	7	877	338	44,087
		4	23	995	10,497	47,382
						637,840
<u>11</u>	<u>5</u>	<u>134</u>	<u>10</u>	<u>228</u>	<u>10</u>	<u>15,779</u>
<u>6,393</u>	<u>7,317</u>	<u>11,976</u>	<u>8,272</u>	<u>34,871</u>	<u>30,722</u>	<u>1,125,998</u>
<u>(785)</u>	<u>(2,820)</u>	<u>4,000</u>	<u>(3,315)</u>	<u>1,673</u>	<u>(4,257)</u>	<u>37,118</u>
						2
						323
	2,641					2,841
						405
						<u>(7,489)</u>
	<u>2,641</u>					<u>(3,918)</u>
(785)	(179)	4,000	(3,315)	1,673	(4,257)	33,200
						17,909
						<u>(318)</u>
(785)	(179)	4,000	(3,315)	1,673	(4,257)	50,791
<u>576</u>	<u>195</u>	<u>11,236</u>	<u>6,969</u>	<u>23,147</u>	<u>40,939</u>	<u>605,142</u>
<u>\$ (209)</u>	<u>\$ 16</u>	<u>\$ 15,236</u>	<u>\$ 3,654</u>	<u>\$ 24,820</u>	<u>\$ 36,682</u>	<u>\$ 655,933</u>

State of Tennessee  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
<b>Cash flows from operating activities</b>							
Receipts from customers and users	\$ 2,003	\$ 14,181	\$ 718	\$ 18	\$ 2,972	\$ 320,084	\$ 144
Receipts from interfund services provided	139,821	36,879	42,941	3,820	130,024	393,927	18,618
Payments to suppliers	(84,860)	(54,540)	(23,250)	(1,319)	(109,027)	(661,900)	(14,972)
Payments to employees	(29,304)		(1,496)	(2,268)			(1,751)
Payments for interfund services used	(11,004)	(7,054)	(7,201)	(713)	(8,206)	(9,238)	(1,781)
Net cash from (used for) operating activities	<u>16,656</u>	<u>(10,534)</u>	<u>11,712</u>	<u>(462)</u>	<u>15,763</u>	<u>42,873</u>	<u>258</u>
<b>Cash flows from noncapital financing activities</b>							
Transfers in			4,540	304	13,065		
Transfers out			(318)				
Tax revenues received		<u>2</u>					
Net cash from (used for) noncapital financing activities		<u>2</u>	<u>4,222</u>	<u>304</u>	<u>13,065</u>		
<b>Cash flows from capital and related financing activities</b>							
<b>financing activities</b>							
Purchase of capital assets	(16,346)		(10,276)	(505)	(12,269)		
Bond and commercial paper proceeds					23,724		
Proceeds from sale of capital assets			1,819		201		
Insurance claims recoveries			75		125		
Bond issuance cost					(102)		
Principal payments					(26,877)		
Interest paid	(62)				(8,337)		
Net cash from (used for) capital and related financing activities	<u>(16,408)</u>		<u>(8,382)</u>	<u>(505)</u>	<u>(23,535)</u>		
<b>Cash flows from investing activities</b>							
Interest received		<u>114</u>			<u>124</u>	<u>167</u>	
Net cash from (used for) investing activities		<u>114</u>			<u>124</u>	<u>167</u>	
Net increase (decrease) in cash and cash equivalents	248	(10,418)	7,552	(663)	5,417	43,040	258
Cash and cash equivalents, July 1	<u>113,819</u>	<u>107,638</u>	<u>38,564</u>	<u>892</u>	<u>95,248</u>	<u>139,371</u>	<u>925</u>
Cash and cash equivalents, June 30	<u>\$ 114,067</u>	<u>\$ 97,220</u>	<u>\$ 46,116</u>	<u>\$ 229</u>	<u>\$ 100,665</u>	<u>\$ 182,411</u>	<u>\$ 1,183</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>							
Operating income (loss)	\$ (3,569)	\$ (4,847)	\$ (711)	\$ (652)	\$ 2,672	\$ 49,318	\$ 411
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	11,565		10,677	78	13,145		399
Loss/(gain) on disposal of capital assets	1,816		(34)	16	62		
Bond issuance cost					117		
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(71)		52	(4)	120	(1,128)	
(Increase) decrease in due from other funds	1,437						
(Increase) decrease in due from component units	5	87	3				
(Increase) decrease in inventories	44		18	6			53
(Increase) decrease in prepaid expenses							68
Increase (decrease) in accounts payable	5,604	(5,728)	307	94	(356)	(5,511)	(672)
Increase (decrease) in due to other funds	(175)	(46)	(1)		3		(1)
Increase (decrease) in unearned revenue			1,401			194	
Total adjustments	<u>20,225</u>	<u>(5,687)</u>	<u>12,423</u>	<u>190</u>	<u>13,091</u>	<u>(6,445)</u>	<u>(153)</u>
Net cash provided by (used for) operating activities	<u>\$ 16,656</u>	<u>\$ (10,534)</u>	<u>\$ 11,712</u>	<u>\$ (462)</u>	<u>\$ 15,763</u>	<u>\$ 42,873</u>	<u>\$ 258</u>
<b>Noncash investing, capital and financing activities</b>							
Bond refunding proceeds					\$ 78,221		
Bond refunding premium					1,505		
Bond refunding proceeds to escrow					<u>(79,726)</u>		
Total noncash investing, capital and financing activities					<u>\$ -</u>		

	Purchasing	Warehousing and Distribution	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
\$	638	\$ 1,648	\$ 72	\$ 96	\$ 8,441	\$ 105	\$ 351,120
	4,971	2,896	15,918	4,860	28,255	26,360	849,290
	(592)	(4,372)	(718)	(950)	(24,681)	(5,083)	(986,264)
	(4,248)	(1,710)	(11,172)	(5,576)	(7,881)	(7,854)	(73,260)
	<u>(1,373)</u>	<u>(1,148)</u>	<u>(1,131)</u>	<u>(1,736)</u>	<u>(1,723)</u>	<u>(8,082)</u>	<u>(60,390)</u>
	(604)	(2,686)	2,969	(3,306)	2,411	5,446	80,496
							17,909
							(318)
							<u>2</u>
							<u>17,593</u>
					(293)	(3,603)	(43,292)
							23,724
		2,641					2,020
							2,841
							(102)
						(4,380)	(31,257)
							<u>(8,399)</u>
		<u>2,641</u>			<u>(293)</u>	<u>(7,983)</u>	<u>(54,465)</u>
							<u>405</u>
							<u>405</u>
	(604)	(45)	2,969	(3,306)	2,118	(2,537)	44,029
	<u>1,128</u>	<u>407</u>	<u>13,373</u>	<u>8,132</u>	<u>9,076</u>	<u>5,418</u>	<u>533,991</u>
\$	<u>524</u>	<u>362</u>	<u>16,342</u>	<u>4,826</u>	<u>11,194</u>	<u>2,881</u>	<u>578,020</u>
\$	<u>(785)</u>	<u>(2,820)</u>	<u>4,000</u>	<u>(3,315)</u>	<u>1,673</u>	<u>(4,257)</u>	<u>37,118</u>
			4	23	995	10,497	47,383
					1		1,861
							117
	1	44			111		(875)
			13		41		1,491
		3					98
		(36)			(566)		(481)
							68
	171	124	(1,050)	(16)	153	(790)	(7,670)
	9	(1)	2	2	3	(4)	(209)
							<u>1,595</u>
	<u>181</u>	<u>134</u>	<u>(1,031)</u>	<u>9</u>	<u>738</u>	<u>9,703</u>	<u>43,378</u>
\$	<u>(604)</u>	<u>(2,686)</u>	<u>2,969</u>	<u>(3,306)</u>	<u>2,411</u>	<u>5,446</u>	<u>80,496</u>
							\$ 78,221
							1,505
							<u>(79,726)</u>
							<u>\$ -</u>

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# FIDUCIARY FUNDS

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**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. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2011. As of that date there were 215,076 active members and 116,585 retired members representing a .06% and 5.15% increase, respectively, since the previous actuarial valuation in 2009.

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.

Private-Purpose Trust Funds:

Baccalaureate Education—This trust 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. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution. Funds in this trust may only be provided to named individuals who are participants in the program. No other state programs are supported from this trust.

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 2014 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.

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.

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
June 30, 2012

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 348,330	\$ 78,297	\$ 426,627	\$ 947	\$ 427,574
Receivables:					
Member contributions	21,313	6,001	27,314		27,314
Employer contributions	37,886	23,364	61,250		61,250
Accrued interest	79,795	17,936	97,731		97,731
Accrued dividends	42,658	9,588	52,246		52,246
Derivative instruments	319,335	71,779	391,114		391,114
Real estate income	680	153	833		833
Investments sold	410,516	92,275	502,791		502,791
Total receivables	912,183	221,096	1,133,279		1,133,279
Due from other funds	9,524		9,524	264	9,788
Due from component units	9,020		9,020	5	9,025
Investments, at fair value:					
Short term securities	16,152	3,630	19,782		19,782
Government bonds	6,736,847	1,514,288	8,251,135		8,251,135
Corporate bonds	4,627,801	1,040,222	5,668,023		5,668,023
Corporate stocks	15,374,082	3,455,739	18,829,821		18,829,821
Derivative instruments	531	119	650		650
Private equities	142,025	31,924	173,949		173,949
Real estate	1,101,467	247,585	1,349,052		1,349,052
Total investments	27,998,905	6,293,507	34,292,412		34,292,412
Capital assets, at cost					
Software in development	7,960	1,789	9,749		9,749
Machinery and equipment	1,405	316	1,721		1,721
Accumulated depreciation	(35)	(8)	(43)		(43)
Total assets	29,287,292	6,594,997	35,882,289	1,216	35,883,505
<b>Liabilities</b>					
Accounts payable and accruals	482,327	109,570	591,897	3	591,900
Derivative instruments	308,316	69,303	377,619		377,619
Total liabilities	790,643	178,873	969,516	3	969,519
<b>Net assets</b>					
Held in trust for:					
Pension benefits	28,496,649	6,416,124	34,912,773		34,912,773
Employees' flexible benefits				1,213	1,213
Total net assets	\$ 28,496,649	\$ 6,416,124	\$ 34,912,773	\$ 1,213	\$ 34,913,986

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
<b>Additions</b>					
Contributions:					
Members	\$ 194,180	\$ 69,576	\$ 263,756	\$ 8,060	\$ 271,816
Employers	<u>731,352</u>	<u>271,361</u>	<u>1,002,713</u>		<u>1,002,713</u>
Total contributions	<u>925,532</u>	<u>340,937</u>	<u>1,266,469</u>	<u>8,060</u>	<u>1,274,529</u>
Investment income:					
Net increase in fair value of investments	675,639	149,728	825,367		825,367
Interest	414,344	91,816	506,160		506,160
Dividends	353,064	78,237	431,301		431,301
Real estate income	<u>56,987</u>	<u>12,628</u>	<u>69,615</u>		<u>69,615</u>
Total investment income	1,500,034	332,409	1,832,443		1,832,443
Less: Investment expenses	<u>26,384</u>	<u>5,995</u>	<u>32,379</u>		<u>32,379</u>
Net investment income	<u>1,473,650</u>	<u>326,414</u>	<u>1,800,064</u>		<u>1,800,064</u>
Total additions	<u>2,399,182</u>	<u>667,351</u>	<u>3,066,533</u>	<u>8,060</u>	<u>3,074,593</u>
<b>Deductions</b>					
Annuity benefits:					
Retirement benefits	1,242,838	218,303	1,461,141		1,461,141
Cost of living	266,674	35,790	302,464		302,464
Death benefits	4,515	1,689	6,204		6,204
Other benefits				8,322	8,322
Refunds	22,575	17,517	40,092		40,092
Administrative expenses	4,716	2,408	7,124		7,124
Depreciation expense	<u>35</u>	<u>8</u>	<u>43</u>		<u>43</u>
Total deductions	<u>1,541,353</u>	<u>275,715</u>	<u>1,817,068</u>	<u>8,322</u>	<u>1,825,390</u>
Change in net assets held in trust for:					
Pension benefits	857,829	391,636	1,249,465		1,249,465
Employees' flexible benefits				(262)	(262)
Net assets, July 1	<u>27,638,820</u>	<u>6,024,488</u>	<u>33,663,308</u>	<u>1,475</u>	<u>33,664,783</u>
Net assets, June 30	<u>\$ 28,496,649</u>	<u>\$ 6,416,124</u>	<u>\$ 34,912,773</u>	<u>\$ 1,213</u>	<u>\$ 34,913,986</u>

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Private-Purpose Trust Funds  
June 30, 2012

(Expressed in Thousands)

	<u>Baccalaureate Education</u>	<u>Children in State Custody</u>	<u>Oak Ridge Monitoring</u>	<u>TNInvestco</u>	<u>Other</u>	<u>Total Private-Purpose Trust Funds</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 1,058	\$ 1,880	\$ 15,534	\$ 43,776	\$ 2,691	\$ 64,939
Receivables:						
Taxes					34	34
Total receivables					<u>34</u>	<u>34</u>
Investments, at fair value:						
Mutual funds	<u>91,673</u>					<u>91,673</u>
Total investments	<u>91,673</u>					<u>91,673</u>
Total assets	<u>92,731</u>	<u>1,880</u>	<u>15,534</u>	<u>43,776</u>	<u>2,725</u>	<u>156,646</u>
<b>Liabilities</b>						
Accounts payable and accruals	<u>57</u>	<u>84</u>				<u>141</u>
Total liabilities	<u>57</u>	<u>84</u>				<u>141</u>
<b>Net assets</b>						
Held in trust for:						
Individuals, organizations and other governments	<u>\$ 92,674</u>	<u>\$ 1,796</u>	<u>\$ 15,534</u>	<u>\$ 43,776</u>	<u>\$ 2,725</u>	<u>\$ 156,505</u>

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Private-Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
<b>Additions</b>						
Contributions:						
Federal		\$ 6,305				\$ 6,305
Private				\$ 58,453	\$ 402	58,855
Other		<u>2,104</u>		<u>1,832</u>	<u>345</u>	<u>4,281</u>
Total contributions		<u>8,409</u>		<u>60,285</u>	<u>747</u>	<u>69,441</u>
Investment income:						
Net increase in fair value of investments	\$ 834					834
Interest	<u>1,317</u>	<u>4</u>	\$ <u>19</u>	<u>52</u>	<u>2</u>	<u>1,394</u>
Total investment income	<u>2,151</u>	<u>4</u>	<u>19</u>	<u>52</u>	<u>2</u>	<u>2,228</u>
Total additions	<u>2,151</u>	<u>8,413</u>	<u>19</u>	<u>60,337</u>	<u>749</u>	<u>71,669</u>
<b>Deductions</b>						
Payments made under trust agreements	8,477	3,499		40,176	408	52,560
Refunds	1,069	2,568				3,637
Administrative expenses	<u>454</u>	<u>2,578</u>		<u>3,787</u>		<u>6,819</u>
Total deductions	<u>10,000</u>	<u>8,645</u>		<u>43,963</u>	<u>408</u>	<u>63,016</u>
Change in net assets held in trust for:						
Individuals, organizations and other governments	(7,849)	(232)	19	16,374	341	8,653
Net assets, July 1	<u>100,523</u>	<u>2,028</u>	<u>15,515</u>	<u>27,402</u>	<u>2,384</u>	<u>147,852</u>
Net assets, June 30	<u>\$ 92,674</u>	<u>\$ 1,796</u>	<u>\$ 15,534</u>	<u>\$ 43,776</u>	<u>\$ 2,725</u>	<u>\$ 156,505</u>

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2012

(Expressed in Thousands)

	<u>Local Government</u>	<u>Contingent Revenue</u>	<u>Retiree Health Plans</u>	<u>Total Agency Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 296,775	\$ 122,274	\$ 17,796	\$ 436,845
Receivables:				
Accounts		251	2,258	2,509
Taxes	<u>385,259</u>			<u>385,259</u>
 Total assets	 <u>682,034</u>	 <u>122,525</u>	 <u>20,054</u>	 <u>824,613</u>
<b>Liabilities</b>				
Accounts payable and accruals	682,034	10,376	18,027	710,437
Amounts held in custody for others		<u>112,149</u>	<u>2,027</u>	<u>114,176</u>
 Total liabilities	 <u><u>\$ 682,034</u></u>	 <u><u>\$ 122,525</u></u>	 <u><u>\$ 20,054</u></u>	 <u><u>\$ 824,613</u></u>

State of Tennessee  
Combining Statement of Changes in Assets and Liabilities  
All Agency Funds  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

<u>Local Government Fund</u>	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
<u>Assets</u>				
Cash and cash equivalents	\$ 288,052	\$ 3,153,622	\$ 3,144,899	\$ 296,775
Accounts receivable	371,806	438,789	425,336	385,259
Total assets	659,858	3,592,411	3,570,235	682,034
<u>Liabilities</u>				
Accounts payable and accruals	659,858	4,071,824	4,049,648	682,034
Total liabilities	\$ 659,858	\$ 4,071,824	\$ 4,049,648	\$ 682,034
<u>Contingent Revenue Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 114,782	\$ 3,817,143	\$ 3,809,651	\$ 122,274
Accounts receivable	791	540	251	251
Total assets	114,782	3,817,934	3,810,191	122,525
<u>Liabilities</u>				
Accounts payable and accruals	10,482	274,799	274,905	10,376
Amount held in custody for others	104,300	661,200	653,351	112,149
Total liabilities	\$ 114,782	\$ 935,999	\$ 928,256	\$ 122,525
<u>Retiree Health Plans</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 17,264	\$ 218,938	\$ 218,406	\$ 17,796
Accounts receivable	1,461	10,491	9,694	2,258
Total assets	18,725	229,429	228,100	20,054
<u>Liabilities</u>				
Accounts payable	17,664	22,243	21,880	18,027
Amount held in custody for others	1,061	221,154	220,188	2,027
Total liabilities	\$ 18,725	\$ 243,397	\$ 242,068	\$ 20,054
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 420,098	\$ 7,189,703	\$ 7,172,956	\$ 436,845
Accounts receivable	373,267	450,071	435,570	387,768
Total assets	793,365	7,639,774	7,608,526	824,613
<u>Liabilities</u>				
Accounts payable and accruals	688,004	4,368,866	4,346,433	710,437
Amount held in custody for others	105,361	882,354	873,539	114,176
Total liabilities	\$ 793,365	\$ 5,251,220	\$ 5,219,972	\$ 824,613

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# COMPONENT UNITS

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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.

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 technology centers) 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 Technical 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  
Northeast State Technical Community College, Blountville

Nashville State Technical Community College, Nashville  
Pellissippi State Technical Community College, Knoxville  
Roane State Community College, Harriman  
Southwest Tennessee Community College, Memphis  
Volunteer State Community College, Gallatin  
Walters State Community College, Morristown

## TECHNOLOGY CENTERS

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 the technology centers 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, mental retardation, 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.

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 universities. 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 Assets  
Component Units  
June 30, 2012

(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee CSA	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
<b>Assets</b>						
Cash and cash equivalents	\$ 4,826	\$ 256	\$ 219,397	\$ 72,214	\$ 1,019,674	\$ 935,770
Investments			40,708		517,288	779,206
Receivables, net	10,055	1,152	42,591	60,046	183,558	297,964
Due from primary government		447			1,175	28,308
Inventories, at cost					3,263	6,541
Prepayments				7,767	5,489	847
Loans receivable			2,099,615			
Deferred charges and other			11,741		4,104	9,669
Fair value of derivatives						
Restricted assets:						
Cash and cash equivalents			34,218	13		
Investments			186,562	2,889		
Receivables, net			1,683			
Capital assets:						
Land, at cost					124,805	75,400
Infrastructure					330,538	98,226
Structures and improvements, at cost				402	2,367,405	2,061,522
Machinery and equipment, at cost		58	556	5,055	419,441	585,795
Less accumulated depreciation		(13)	(443)	(4,356)	(1,315,159)	(1,200,629)
Construction in progress					212,103	395,610
<b>Total assets</b>	<b>14,881</b>	<b>1,900</b>	<b>2,636,628</b>	<b>144,030</b>	<b>3,873,684</b>	<b>4,074,229</b>
<b>Liabilities</b>						
Accounts payable and accruals	4,516	373	45,585	50,090	128,416	159,303
Due to primary government	15	57	78	89,438	5,041	4,480
Deferred revenue	137		1,414	659	66,327	83,738
Deferred inflow- derivatives						
Other					34,049	46,607
Noncurrent liabilities:						
Due within one year	140	104	160,631	740	39,182	73,041
Due in more than one year	491	249	1,871,002	3,090	759,137	827,940
<b>Total liabilities</b>	<b>5,299</b>	<b>783</b>	<b>2,078,710</b>	<b>144,017</b>	<b>1,032,152</b>	<b>1,195,109</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt		45	114	1,101	1,527,605	1,371,908
Restricted for:						
Debt service					3,542	740
Capital projects					27,722	63,202
Single family bond programs			508,687			
Other	9,582		9,293	13	172,803	348,748
Permanent and endowment:						
Expendable					11,621	84,910
Nonexpendable					285,760	532,515
Unrestricted		1,072	39,824	(1,101)	812,479	477,097
<b>Total net assets</b>	<b>\$ 9,582</b>	<b>\$ 1,117</b>	<b>\$ 557,918</b>	<b>\$ 13</b>	<b>\$ 2,841,532</b>	<b>\$ 2,879,120</b>

Proprietary Fund Types

Local Development Authority	Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
\$ 15,023	\$ 8,060	\$ 85,879	\$ 23,771	\$ 1,520	\$ 46,598	\$ 2,432,988
	3,385	498	12,091	1,008		1,338,210
	1,777			24	1,205	612,569
	143					31,707
	46					9,947
7,287			1,477,909			14,149
98	4		33,562	2,487		3,584,811
			2,128			61,665
						2,128
1,373	3,110	13,815	96,238			148,767
		1,181	82,585			272,036
						2,864
	406					200,611
	1,707					430,471
	30,209					4,459,538
	5,664					1,016,569
	(11,597)					(2,532,197)
	9					607,722
<u>23,781</u>	<u>42,923</u>	<u>101,373</u>	<u>1,728,284</u>	<u>5,039</u>	<u>47,803</u>	<u>12,694,555</u>
163	1,400	5	25,673	54	2,392	417,970
	80					99,189
			15,768			168,043
			2,128			2,128
	112					80,768
1,035	801		50,035			325,709
<u>6,371</u>	<u>5,431</u>		<u>1,626,808</u>			<u>5,100,519</u>
<u>7,569</u>	<u>7,824</u>	<u>5</u>	<u>1,720,412</u>	<u>54</u>	<u>2,392</u>	<u>6,194,326</u>
	21,088					2,921,861
	329					4,611
						90,924
	4,243	14,996				508,687
						559,678
						96,531
						818,275
<u>16,212</u>	<u>9,439</u>	<u>86,372</u>	<u>7,872</u>	<u>4,985</u>	<u>45,411</u>	<u>1,499,662</u>
<u>\$ 16,212</u>	<u>\$ 35,099</u>	<u>\$ 101,368</u>	<u>\$ 7,872</u>	<u>\$ 4,985</u>	<u>\$ 45,411</u>	<u>\$ 6,500,229</u>

State of Tennessee  
Combining Statement of Activities  
Component Units  
For the Year Ended June 30, 2012

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Component units</b>					
<b>Higher education institutions:</b>					
Board of Regents	\$ 2,440,428	\$ 915,381	\$ 731,216	\$ 106,652	\$ (687,179)
University of Tennessee	<u>1,958,418</u>	<u>609,373</u>	<u>849,776</u>	<u>116,889</u>	<u>(382,380)</u>
Total higher education institutions	<u>4,398,846</u>	<u>1,524,754</u>	<u>1,580,992</u>	<u>223,541</u>	<u>(1,069,559)</u>
<b>Loan programs:</b>					
Tennessee Student Assistance Corporation	85,587	25,377	11,169		(49,041)
Housing Development Agency	402,609	133,708	306,857		37,956
Local Development Authority	572	360	20		(192)
Federal Family Education Loan Program	176,480	26,387	150,518		425
State School Bond Authority	<u>71,249</u>	<u>59,891</u>	<u>1,100</u>		<u>(10,258)</u>
Total loan programs	<u>736,497</u>	<u>245,723</u>	<u>469,664</u>		<u>(21,110)</u>
Lottery program	<u>1,220,613</u>	<u>1,220,509</u>	<u>48</u>		<u>(56)</u>
<b>Other programs:</b>					
Tennessee CSA	6,591	3,953	2,868		230
Access Tennessee Insurance Plan	41,106	21,098			(20,008)
Veterans' Homes Board	37,282	37,203	17		(62)
Certified Cotton Growers'	<u>868</u>	<u>485</u>	<u>1,072</u>		<u>689</u>
Total other programs	<u>85,847</u>	<u>62,739</u>	<u>3,957</u>		<u>(19,151)</u>
<b>Total</b>	<u>\$ 6,441,803</u>	<u>\$ 3,053,725</u>	<u>\$ 2,054,661</u>	<u>\$ 223,541</u>	<u>\$ (1,109,876)</u>

General Revenues				Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous				
\$ 618,205	\$ 141,704	\$ 5,101	\$ 4,434	\$ 8,622	\$ 90,887	\$ 2,750,645	\$ 2,841,532
432,546	2,252	6,744		21,248	80,410	2,798,710	2,879,120
<u>1,050,751</u>	<u>143,956</u>	<u>11,845</u>	<u>4,434</u>	<u>29,870</u>	<u>171,297</u>	<u>5,549,355</u>	<u>5,720,652</u>
48,544		6			(497)	10,079	9,582
					37,962	519,956	557,918
					(192)	16,404	16,212
431		133			989	100,379	101,368
	10,299				41	7,831	7,872
<u>48,975</u>	<u>10,299</u>	<u>139</u>			<u>38,303</u>	<u>654,649</u>	<u>692,952</u>
		68			12	1	13
					230	887	1,117
23,049		48			3,089	42,322	45,411
	105				43	35,056	35,099
		13			702	4,283	4,985
<u>23,049</u>	<u>105</u>	<u>61</u>			<u>4,064</u>	<u>82,548</u>	<u>86,612</u>
<u>\$ 1,122,775</u>	<u>\$ 154,360</u>	<u>\$ 12,113</u>	<u>\$ 4,434</u>	<u>\$ 29,870</u>	<u>\$ 213,676</u>	<u>\$ 6,286,553</u>	<u>\$ 6,500,229</u>

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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, 2012

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
<b>Revenues</b>			
Interest on investments	\$ 720		\$ 720
Federal	3,283		3,283
Departmental services	81,085	\$ 6,822	87,907
Other	1		1
	<u>85,089</u>	<u>6,822</u>	<u>91,911</u>
<b>Expenditures</b>			
Education	85,514		85,514
Health and social services		6,535	6,535
	<u>85,514</u>	<u>6,535</u>	<u>92,049</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(425)</u>	<u>287</u>	<u>(138)</u>
Fund balances, July 1	<u>10,638</u>	<u>1,139</u>	<u>11,777</u>
Fund balances, June 30	<u>\$ 10,213</u>	<u>\$ 1,426</u>	<u>\$ 11,639</u>
Reconciliation to net assets:			
Fund balances per above	\$ 10,213	\$ 1,426	\$ 11,639
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		45	45
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	<u>(631)</u>	<u>(354)</u>	<u>(985)</u>
Net assets on Statement of Net Assets	<u>\$ 9,582</u>	<u>\$ 1,117</u>	<u>\$ 10,699</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund Type Component Units  
For the Fiscal Year Ended June 30, 2012

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
<b>Operating revenues</b>					
Charges for services	\$ 133,708	\$ 1,219,052	\$ 1,126,595	\$ 1,086,829	\$ 360
Investment income	11,992		3,507	6,069	20
Grants and contributions					
Other		1,457	59,291	73,682	
Total operating revenues	<u>145,700</u>	<u>1,220,509</u>	<u>1,189,393</u>	<u>1,166,580</u>	<u>380</u>
<b>Operating expenses</b>					
Personal services	15,671	12,682	1,383,350	1,223,290	
Contractual services	3,208	115,440			140
Mortgage service fees	7,539				
Materials and supplies	184		543,927	555,162	
Rentals and insurance	100	1,712			
Interest	87,835				432
Depreciation and amortization	886	495	136,144	109,756	
Lottery prizes		757,479			
Nursing home services					
Scholarships and fellowships			352,158	38,948	
Benefits					
Other	12,209	9,331			
Total operating expenses	<u>127,632</u>	<u>897,139</u>	<u>2,415,579</u>	<u>1,927,156</u>	<u>572</u>
Operating income (loss)	<u>18,068</u>	<u>323,370</u>	<u>(1,226,186)</u>	<u>(760,576)</u>	<u>(192)</u>
<b>Nonoperating revenues (expenses)</b>					
Grant income	260,371		595,037	260,836	
Grant expense	(274,977)				
Interest expense			(22,333)	(26,697)	
Interest income		68	7,469	5,825	
Payments from primary government	34,500		618,205	432,546	
Grants and contributions				5,655	
Gifts			5,006	20,680	
Payments to primary government		(323,438)			
Other		12	708	(4,567)	
Total nonoperating revenues (expenses)	<u>19,894</u>	<u>(323,358)</u>	<u>1,204,092</u>	<u>694,278</u>	
Income (loss) before capital grants and contributions	37,962	12	(22,094)	(66,298)	(192)
Capital payments from primary government			59,165	84,047	
Capital grants and gifts			45,198	32,843	
Additions to permanent endowments			8,622	21,248	
Other			(4)	8,570	
Change in net assets	37,962	12	90,887	80,410	(192)
Net assets, July 1	<u>519,956</u>	<u>1</u>	<u>2,750,645</u>	<u>2,798,710</u>	<u>16,404</u>
Net assets, June 30	<u>\$ 557,918</u>	<u>\$ 13</u>	<u>\$ 2,841,532</u>	<u>\$ 2,879,120</u>	<u>\$ 16,212</u>

Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
\$ 31,256	\$ 26,387	\$ 59,891	\$ 485	\$ 21,098	\$ 3,705,661
	150,518	1,100			22,688
43					150,518
<u>31,299</u>	<u>176,905</u>	<u>60,991</u>	<u>485</u>	<u>21,098</u>	<u>134,473</u>
25,000					4,013,340
	175,953	1,143	868	933	2,659,993
					297,685
					7,539
					1,099,273
					1,812
		58,007			146,274
1,399		781			249,461
					757,479
10,601					10,601
	527				391,633
				39,829	39,829
		11,318		344	33,202
<u>37,000</u>	<u>176,480</u>	<u>71,249</u>	<u>868</u>	<u>41,106</u>	<u>5,694,781</u>
<u>(5,701)</u>	<u>425</u>	<u>(10,258)</u>	<u>(383)</u>	<u>(20,008)</u>	<u>(1,681,441)</u>
5,904		10,299			1,132,447
(198)					(274,977)
17					(49,228)
	133		13	48	13,573
	431			23,049	1,108,731
					5,655
105					25,791
(84)			1,072		(323,438)
<u>5,744</u>	<u>564</u>	<u>10,299</u>	<u>1,085</u>	<u>23,097</u>	<u>(2,859)</u>
					1,635,695
43	989	41	702	3,089	(45,746)
					143,212
					78,041
					29,870
					8,566
43	989	41	702	3,089	213,943
<u>35,056</u>	<u>100,379</u>	<u>7,831</u>	<u>4,283</u>	<u>42,322</u>	<u>6,275,587</u>
\$ <u>35,099</u>	\$ <u>101,368</u>	\$ <u>7,872</u>	\$ <u>4,985</u>	\$ <u>45,411</u>	\$ <u>6,489,530</u>

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# SUPPLEMENTARY SCHEDULES

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State of Tennessee  
Debt Service Requirements to Maturity  
General Obligation Bonds  
June 30, 2012

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1)			Facilities Revolving Fund Debt (Note 2)		
	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments
2013	\$ 153,262	\$ 61,393	\$ 214,655	\$ 20,988	\$ 6,592	\$ 27,580
2014	146,983	58,041	205,024	20,384	6,020	26,404
2015	142,148	52,131	194,279	16,632	5,138	21,770
2016	137,348	46,713	184,061	15,389	4,554	19,943
2017	132,478	41,419	173,897	14,311	3,935	18,246
2018	124,272	36,984	161,256	13,160	3,523	16,683
2019	116,335	32,355	148,690	11,836	3,028	14,864
2020	113,518	27,801	141,319	11,475	2,540	14,015
2021	106,474	23,880	130,354	10,687	2,125	12,812
2022	106,472	19,734	126,206	10,713	1,679	12,392
2023	98,840	16,205	115,045	9,916	1,284	11,200
2024	98,458	12,604	111,062	9,874	913	10,787
2025	90,192	9,298	99,490	9,515	593	10,108
2026	89,904	6,625	96,529	9,385	446	9,831
2027	83,534	3,512	87,046	7,558	160	7,718
2028	75,357	5,337	80,694	6,365	501	6,866
2029	69,030	2,789	71,819	5,080	315	5,395
2030	43,687	955	44,642	3,506	130	3,636
2031	33,031	(495)	32,536	1,879	76	1,955
2032	23,433	(90)	23,343	400	10	410
TOTALS	\$ <u>1,984,756</u>	\$ <u>457,191</u>	\$ <u>2,441,947</u>	\$ <u>209,053</u>	\$ <u>43,562</u>	\$ <u>252,615</u>

Note 1: General obligation bonds principal is more than that presented in the accompanying financial statements by \$70.666 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by \$10.541 million, which is a deduction from bonds payable for the deferred amount on refunding.

State of Tennessee  
 Schedule of Outstanding Debt  
 All Fund Types  
 For the Last Five Fiscal Years

Schedule 2

(Expressed in Thousands)

	June 30				
	2008	2009	2010	2011	2012
Enterprise Funds:					
State Loan Program General Obligation Bonds	\$ 1,655				
Internal Service Funds:					
General Obligation Commercial Paper	39,819	\$ 48,715	\$ 70,107	\$ 48,060	\$ 51,318
Facilities Revolving Fund General Obligation Bonds	164,545	182,081	196,220	209,858	198,512
	204,364	230,796	266,327	257,918	249,830
General Long-Term Debt:					
General Obligation Bonds	1,010,858	1,356,861	1,492,600	1,544,350	1,914,090
General Obligation Commercial Paper	200,807	127,593	171,283	166,157	146,452
	1,211,665	1,484,454	1,663,883	1,710,507	2,060,542
Totals for Primary Government	\$ 1,417,684	\$ 1,715,250	\$ 1,930,210	\$ 1,968,425	\$ 2,310,372

State of Tennessee  
 Schedule of General Obligation  
 Commercial Paper Outstanding- By Purpose  
 All Fund Types  
 June 30, 2012

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	\$ 174,471
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	23,299
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	\$ 197,770

State of Tennessee  
Schedule of Outstanding Debt  
Component Units  
For the Last Five Fiscal Years

Schedule 4

(Expressed in Thousands)

	June 30				
	2008	2009	2010	2011	2012
Component units:					
Certified Cotton Growers' notes	\$ 9,294		\$ 53,919		
Local Development Authority notes	56,998	\$ 53,288	\$ 48,242	\$ 8,586	\$ 7,406
Local Development Authority bonds	55,410	51,888	2,316,748	2,140,486	2,015,181
Tennessee Housing Development Agency bonds	1,952,295	1,972,561	3,672	3,250	
Tennessee Housing Development Agency notes	88,720	3,250	5,936	5,657	5,310
Veterans' Homes Board loan	6,231	5,953	1,075,004	1,487,945	1,423,166
Tennessee State School Bond Authority bonds	696,340	945,461			
Tennessee State School Bond Authority commercial paper	243,229	174,300	281,782	162,653	253,676
University of Tennessee notes	260	235	211	184	167
University of Tennessee bonds	86,518	85,118	83,644	82,089	80,449
Board of Regents notes	2,597	2,478	2,222	2,098	1,987
Board of Regents bonds	0	800	700	600	500
Board of Regents commercial paper	1,668	4,161	6,431	4,363	4,271
	<u>\$ 3,199,560</u>	<u>\$ 3,299,493</u>	<u>\$ 3,878,511</u>	<u>\$ 3,897,911</u>	<u>\$ 3,792,113</u>

State of Tennessee  
 Comparative Schedules of Revenues by Source  
 General Fund  
 For the Fiscal Years Ended June 30, 2012 and 2011

Schedule 5

(Expressed in Thousands)

<u>Revenues by Source</u>	For the Year Ended	
	June 30, 2012	June 30, 2011
Taxes:		
Sales and use	\$ 2,815,903	\$ 2,649,385
Gasoline	8,889	9,205
Motor fuel	3,052	2,998
Gasoline inspection	3,672	3,760
Total fuel taxes	15,613	15,963
Franchise	620,012	449,290
Excise	1,012,879	906,912
Gross receipts	377,375	348,181
Beer	15,109	15,716
Alcoholic beverage	41,900	47,569
Mixed drink	32,051	28,439
Tobacco	30,224	19,628
Business	127,513	121,900
Insurance companies premium	622,850	648,402
Retaliatory	23,265	34,158
Workers compensation premium	41,774	37,572
Enhanced coverage	449,772	349,301
Medicaid provider	11,453	12,258
Other	2,637	2,423
Total business taxes	3,408,814	3,021,749
Income	185,151	184,114
Privilege	246,925	220,484
Inheritance and estate	161,246	111,618
Other	193	(457)
Total other taxes	593,515	515,759
Total taxes	6,833,845	6,202,856
Licenses, fines, fees and permits:		
Motor vehicle registration	43,203	42,897
Motor vehicle title registration fees	9,337	8,352
Drivers licenses	25,613	24,304
Arrests, fines and fees	8,043	7,219
Regulatory board fees	123,520	126,773
Other	119,618	90,208
Total licenses, fines, fees and permits	329,334	299,753
Interest on investments	7,059	10,012
Federal - earned by state departments	9,967,880	10,437,678
Departmental services:		
Charges to the public	323,009	306,440
Interdepartmental charges	1,034,051	1,331,904
Charges to cities, counties, etc.	576,174	541,422
Total departmental services	1,933,234	2,179,766
Other	240,558	202,975
Total revenues by source	\$ 19,311,910	\$ 19,333,040

State of Tennessee  
 Comparative Schedules of Expenditures by Function and Department  
 General Fund  
 For the Fiscal Years Ended June 30, 2012 and 2011

Schedule 6

(Expressed in Thousands)

<u>Expenditures by function and department</u>	For the Year Ended	
	June 30, 2012	June 30, 2011
General government:		
Legislative	\$ 38,594	\$ 36,937
Secretary of State	37,941	38,521
Comptroller	84,903	79,039
Treasurer	46,065	47,835
Governor	4,596	4,011
Commissions	73,393	75,510
Finance and Administration	137,676	120,194
Personnel	-	12,067
General Services	25,078	19,412
Revenue	102,683	105,265
Miscellaneous Appropriations	308	206
Total general government	551,237	538,997
Health and social services:		
Veterans Affairs	5,298	4,848
Labor and Workforce Development	206,583	232,262
TennCare	9,588,260	8,967,960
Mental Health	291,459	275,944
Intellectual Disabilities	453,886	803,807
Health	514,325	526,580
Human Services	3,082,173	3,202,879
Cover Tennessee	-	202,281
Children's Services	666,015	656,778
Total health and social services	14,807,999	14,873,339
Law, justice and public safety:		
Judicial	289,884	281,756
Correction	707,399	654,609
Probation and Paroles	86,447	86,120
Military	208,749	139,516
Bureau of Criminal Investigation	65,224	63,832
Safety	165,101	169,026
Total law, justice and public safety	1,522,804	1,394,859
Recreation and resources development:		
Agriculture	83,819	73,262
Tourist Development	18,848	17,915
Environment and Conservation	227,742	251,650
Economic and Community Development	210,591	173,184
Total recreation and resources development	541,000	516,011
Regulation of business and professions:		
Commerce and Insurance	72,763	73,025
Financial Institutions	14,093	16,058
Total regulation of business and professions	86,856	89,083
Intergovernmental revenue sharing	561,585	533,237
Total expenditures by function and department	\$ 18,071,481	\$ 17,945,526

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# STATISTICAL SECTION

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## 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.

<u>Contents</u>	<u>Page</u>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the state’s financial performance and well-being have changed over time.	<b>200</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the state’s most significant local revenue sources, the sales tax.	<b>208</b>
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the state’s current levels of outstanding debt and the state’s ability to issue additional debt in the future.	<b>210</b>
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the state’s financial activities take place.	<b>212</b>
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the state’s financial report relates to the services the state provides and the activities it performs.	<b>213</b>
<b>Component Units</b> These schedules contain debt information related to the University of Tennessee and the Tennessee Board of Regent’s institutions – component units of the state. The schedules assist in understanding the resources available to pay debt service.	<b>215</b>
<b>Index</b> Page references for Securities and Exchange Commission disclosures contained in this report.	<b>220</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement 34 in fiscal year ended June 30, 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TENNESSEE  
 FINANCIAL TRENDS - CHANGES IN NET ASSETS  
 LAST TEN FISCAL YEARS  
 (accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
<b>Expenses</b>				
Governmental activities:				
General government	\$ 510,674	\$ 546,996	\$ 596,016	\$ 705,897
Education	4,520,624	4,692,605	5,158,369	5,449,613
Health and social services (5)	9,507,209	10,583,726	11,522,061	10,170,957
Law, justice, and public safety	968,859	1,032,302	1,090,779	1,214,957
Recreation and resources development (2)	376,734	479,251	423,342	466,689
Regulation of business and professions	64,109	81,940	113,902	86,945
Transportation	726,476	787,646	698,450	671,641
Intergovernmental revenue sharing	641,271	647,654	683,925	738,349
Interest on long-term debt	50,610	51,819	42,902	49,460
Payments to fiduciary fund				
Total governmental activities expenses	<u>17,366,566</u>	<u>18,903,939</u>	<u>20,329,746</u>	<u>19,554,508</u>
Business-type activities:				
Employment security (3)	767,202	639,993	476,646	452,043
Insurance programs	379,661	416,871	430,568	471,032
Loan programs	2,273	1,737	1,909	1,487
Other	1,802	2,037	2,498	2,496
Total business-type activities expenses	<u>1,150,938</u>	<u>1,060,638</u>	<u>911,621</u>	<u>927,058</u>
Total primary government expenses	<u>\$ 18,517,504</u>	<u>\$ 19,964,577</u>	<u>\$ 21,241,367</u>	<u>\$ 20,481,566</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$ 273,503	\$ 342,154	\$ 380,679	\$ 375,640
Education	15,922	16,966	13,568	26,785
Health and social services (1)	277,184	943,040	1,027,602	692,186
Law, justice, and public safety	336,115	313,386	316,337	374,715
Recreation and resources development	114,618	124,105	140,227	138,970
Regulation of business and professions	95,953	107,355	115,556	124,435
Transportation	13,339	13,636	15,494	15,118
Operating grants and contributions (4)	7,452,665	8,095,087	8,777,283	8,314,981
Capital grants and contributions	568,221	503,539	520,090	615,584
Total governmental activities program revenues	<u>9,147,520</u>	<u>10,459,268</u>	<u>11,306,836</u>	<u>10,678,414</u>
Business-type activities:				
Charges for services:				
Employment security	437,378	523,372	463,385	381,600
Insurance programs	385,384	422,584	462,441	479,515
Loan programs	12,590	12,733	12,878	12,970
Other	1,998	2,111	2,593	2,803
Operating grants and contributions (4)	256,444	208,296	100,536	131,043
Total business-type activities program revenues	<u>1,093,794</u>	<u>1,169,096</u>	<u>1,041,833</u>	<u>1,007,931</u>
Total primary government program revenues	<u>\$ 10,241,314</u>	<u>\$ 11,628,364</u>	<u>\$ 12,348,669</u>	<u>\$ 11,686,345</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities	\$ (8,219,046)	\$ (8,444,671)	\$ (9,022,910)	\$ (8,876,094)
Business-type activities	(57,144)	108,458	130,212	80,873
Total primary government net expense	<u>\$ (8,276,190)</u>	<u>\$ (8,336,213)</u>	<u>\$ (8,892,698)</u>	<u>\$ (8,795,221)</u>

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,

	2007	2008	2009	2010	2011	2012
\$	738,897	\$ 837,250	\$ 988,309	\$ 1,078,294	\$ 1,048,423	\$ 942,465
	5,884,841	6,464,564	6,520,569	6,893,801	7,127,705	7,018,189
	10,448,373	11,125,967	11,697,900	12,849,335	13,739,733	13,952,342
	1,221,175	1,325,500	1,338,869	1,365,134	1,436,045	1,567,730
	485,852	613,902	538,386	499,080	606,317	646,494
	129,107	123,391	126,003	132,784	127,887	126,395
	835,751	808,591	979,454	1,010,029	911,666	1,012,399
	815,832	842,096	810,063	874,094	825,777	851,535
	50,003	51,086	51,977	60,566	63,555	62,119
	25,950			19,747	63,114	58,453
	<u>20,635,781</u>	<u>22,192,347</u>	<u>23,051,530</u>	<u>24,782,864</u>	<u>25,950,222</u>	<u>26,238,121</u>
	467,327	541,573	1,427,713	2,135,537	1,613,716	1,232,324
	413,483	469,491	514,065	557,371	552,626	540,746
	1,473	1,655	1,345	1,406	1,561	1,757
	2,595	2,744	2,265	1,385	25	620
	<u>884,878</u>	<u>1,015,463</u>	<u>1,945,388</u>	<u>2,695,699</u>	<u>2,167,928</u>	<u>1,775,447</u>
\$	<u>21,520,659</u>	<u>23,207,810</u>	<u>24,996,918</u>	<u>27,478,563</u>	<u>28,118,150</u>	<u>28,013,568</u>
\$	524,306	\$ 672,892	\$ 753,066	\$ 778,352	\$ 856,264	\$ 673,945
	34,819	35,405	35,124	44,813	50,052	56,898
	521,508	548,570	615,871	499,694	724,971	772,850
	130,885	117,536	122,064	121,201	120,137	125,879
	153,048	142,128	142,657	141,278	139,302	151,545
	142,805	143,646	151,095	148,788	149,090	168,590
	22,542	18,778	15,936	28,322	29,769	29,601
	8,481,473	8,612,838	9,758,691	12,076,579	12,677,291	11,897,517
	708,384	600,404	592,719	782,188	901,798	903,281
	<u>10,719,770</u>	<u>10,892,197</u>	<u>12,187,223</u>	<u>14,621,215</u>	<u>15,648,674</u>	<u>14,780,106</u>
	356,064	413,741	585,668	710,113	754,108	769,446
	438,275	480,803	504,130	525,662	547,207	542,756
	13,803	15,137	15,684	16,584	17,350	15,600
	2,644	2,324	1,543	1,043	206	133
	116,569	124,576	508,249	1,482,113	1,035,693	749,005
	<u>927,355</u>	<u>1,036,581</u>	<u>1,615,274</u>	<u>2,735,515</u>	<u>2,354,564</u>	<u>2,076,940</u>
\$	<u>11,647,125</u>	<u>11,928,778</u>	<u>13,802,497</u>	<u>17,356,730</u>	<u>18,003,238</u>	<u>16,857,046</u>
\$	(9,916,011)	\$ (11,300,150)	\$ (10,864,307)	\$ (10,161,649)	\$ (10,301,548)	\$ (11,458,015)
	42,477	21,118	(330,114)	39,816	186,636	301,493
\$	<u>(9,873,534)</u>	<u>(11,279,032)</u>	<u>(11,194,421)</u>	<u>(10,121,833)</u>	<u>(10,114,912)</u>	<u>(11,156,522)</u>

STATE OF TENNESSEE  
 FINANCIAL TRENDS - CHANGES IN NET ASSETS (continued)  
 LAST TEN FISCAL YEARS  
 (accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Taxes				
Sales and use	\$ 5,478,642	\$ 5,806,268	\$ 6,099,159	\$ 6,540,224
Fuel	813,554	829,372	846,826	851,362
Business (6)	1,981,099	2,099,081	2,311,448	2,507,653
Other	425,099	526,573	514,938	598,827
Grants and contributions not restricted to specific programs	149,746	152,676	46,807	
Unrestricted investment earnings	11,582	12,079	30,361	81,287
Miscellaneous	230,770	207,653	209,226	185,466
Contributions to permanent funds	381	351	468	369
Transfers	(18,881)	(18,829)	(21,062)	(22,783)
Total governmental activities	9,071,992	9,615,224	10,038,171	10,742,405
Business-type activities:				
Transfers	18,881	18,829	21,062	22,783
Total business-type activities	18,881	18,829	21,062	22,783
Total primary government general revenues and other changes in net assets	\$ 9,090,873	\$ 9,634,053	\$ 10,059,233	\$ 10,765,188
<b>Changes in Net Assets</b>				
Governmental activities	\$ 852,946	\$ 1,170,553	\$ 1,015,261	\$ 1,866,311
Business-type activities	(38,263)	127,287	151,274	103,656
Total primary government	\$ 814,683	\$ 1,297,840	\$ 1,166,535	\$ 1,969,967

- (1) The increase in program revenues of the health and social services function between fiscal years 2003 and 2004 resulted from the reclassification of certain revenues from operating grants and contributions to charges for services. The effect of the decrease in operating grants and contributions was neutralized by an increase in federal funding to the TennCare program to compensate for rising healthcare costs.
- (2) 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.
- (3) 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.
- (4) 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.
- (5) From fiscal years 2010 to 2011, expenses for health and social services have increased due to rising medical and pharmacy program costs.
- (6) A new dedicated hospital coverage assessment to fund the TennCare program resulted in an increase in the Business taxes from 2010 to 2011.

## FOR THE FISCAL YEAR ENDED JUNE 30,

	2007	2008	2009	2010	2011	2012
\$	6,819,570	\$ 6,851,481	\$ 6,326,857	\$ 6,170,977	\$ 6,461,461	\$ 6,884,762
	867,520	865,181	817,873	874,511	846,384	842,133
	2,799,751	2,913,227	2,671,226	2,944,465	3,536,200	3,926,566
	734,026	734,029	563,501	504,750	525,192	608,762
	113,940	120,523	42,883	7,245	4,602	772
	250,344	275,499	226,907	195,414	217,630	253,489
	270	239	217	196	180	174
	<u>(5,028)</u>	<u>(4,110)</u>	<u>(3,541)</u>	<u>(3,608)</u>	<u>(2,134)</u>	<u>(4,655)</u>
	<u>11,580,393</u>	<u>11,756,069</u>	<u>10,645,923</u>	<u>10,693,950</u>	<u>11,589,515</u>	<u>12,512,003</u>
	<u>5,028</u>	<u>4,110</u>	<u>3,541</u>	<u>3,608</u>	<u>2,134</u>	<u>4,655</u>
	<u>5,028</u>	<u>4,110</u>	<u>3,541</u>	<u>3,608</u>	<u>2,134</u>	<u>4,655</u>
\$	<u>11,585,421</u>	<u>11,760,179</u>	<u>10,649,464</u>	<u>10,697,558</u>	<u>11,591,649</u>	<u>12,516,658</u>
\$	1,664,382	\$ 455,919	\$ (218,384)	\$ 532,301	\$ 1,287,967	\$ 1,053,988
	<u>47,505</u>	<u>25,228</u>	<u>(326,573)</u>	<u>43,424</u>	<u>188,770</u>	<u>306,148</u>
\$	<u>1,711,887</u>	<u>481,147</u>	<u>(544,957)</u>	<u>575,725</u>	<u>1,476,737</u>	<u>1,360,136</u>

STATE OF TENNESSEE  
 FINANCIAL TRENDS - NET ASSETS BY COMPONENT  
 LAST TEN FISCAL YEARS  
 (accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2003	2004	2005	2006
<b>Governmental activities</b>				
Invested in capital assets, net of related debt	\$ 18,119,735	\$ 18,691,308	\$ 19,406,978	\$ 20,204,007
Restricted	703,010	843,889	580,840	725,209
Unrestricted (1)(2)(3)	<u>288,523</u>	<u>743,586</u>	<u>1,306,226</u>	<u>2,204,315</u>
Total governmental activities net assets	<u>19,111,268</u>	<u>20,278,783</u>	<u>21,294,044</u>	<u>23,133,531</u>
<b>Business-type activities</b>				
Invested in capital assets, net of related debt				
Unrestricted	<u>1,232,628</u>	<u>1,359,915</u>	<u>1,511,189</u>	<u>1,614,845</u>
Total business-type activities net assets	<u>1,232,628</u>	<u>1,359,915</u>	<u>1,511,189</u>	<u>1,614,845</u>
<b>Primary Government</b>				
Invested in capital assets, net of related debt	18,119,735	18,691,308	19,406,978	20,204,007
Restricted	703,010	843,889	580,840	725,209
Unrestricted	<u>1,521,151</u>	<u>2,103,501</u>	<u>2,817,415</u>	<u>3,819,160</u>
Total primary government net assets	<u>\$ 20,343,896</u>	<u>\$ 21,638,698</u>	<u>\$ 22,805,233</u>	<u>\$ 24,748,376</u>

- (1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004, fewer funds were restricted for lottery scholarships when compared fiscal year 2005.
- (2) The increase in unrestricted net assets between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net assets resulting from governmental activities, specifically those activities associated with the General fund, which had a \$698 million and \$662 million increase in fund balance for 2006 and 2007, respectively.
- (3) The decrease in unrestricted net assets 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.

FOR THE FISCAL YEAR ENDED JUNE 30,					
2007	2008	2009	2010	2011	2012
\$ 21,078,481	\$ 21,796,151	\$ 22,575,852	\$ 23,360,007	\$ 24,346,493	\$ 25,628,600
792,542	864,270	965,292	924,902	1,179,519	1,172,812
<u>2,964,957</u>	<u>2,631,478</u>	<u>1,495,656</u>	<u>1,284,192</u>	<u>1,330,947</u>	<u>1,183,704</u>
24,835,980	25,291,899	25,036,800	25,569,101	26,856,959	27,985,116
	51				
<u>1,643,706</u>	<u>1,668,883</u>	<u>1,342,361</u>	<u>1,385,785</u>	<u>1,574,664</u>	<u>1,880,812</u>
1,643,706	1,668,934	1,342,361	1,385,785	1,574,664	1,880,812
21,078,481	21,796,202	22,575,852	23,360,007	24,346,493	25,628,600
792,542	864,270	965,292	924,902	1,179,519	1,172,812
<u>4,608,663</u>	<u>4,300,361</u>	<u>2,838,017</u>	<u>2,669,977</u>	<u>2,905,611</u>	<u>3,064,516</u>
<u>\$ 26,479,686</u>	<u>\$ 26,960,833</u>	<u>\$ 26,379,161</u>	<u>\$ 26,954,886</u>	<u>\$ 28,431,623</u>	<u>\$ 29,865,928</u>

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,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 19,343	\$ 18,609
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100,942	63,192
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	235,301	286,918
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,179,652	1,250,677
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	507,501	698,663
Total general fund									<u>\$ 2,042,739</u>	<u>\$ 2,318,059</u>
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 144,426	\$ 147,468
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	951,222	980,972
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	191,557	344,696
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	710,582	672,610
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	<u>\$ 1,997,787</u>	<u>\$ 2,145,746</u>
Total all other governmental funds										

(1) The schedule was changed due to the implementation of GASB 54, which reclassifies 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.

STATE OF TENNESSEE  
FINANCIAL TRENDS - CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(modified accrual basis of accounting, expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>										
Taxes	8,608,984	9,272,267	9,819,155	10,488,650	11,249,773	11,333,507	10,376,455	10,445,563	11,422,284	12,280,198
Licenses, fines, fees, and permits	567,243	590,627	624,694	637,522	660,888	672,486	677,766	675,009	693,702	731,752
Interest on investments	28,429	34,102	46,222	102,075	178,080	127,152	23,964	36,443	45,089	17,411
Federal <sup>(2)</sup>	7,646,384	8,417,534	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256
Departmental services	1,716,159	2,071,252	2,360,891	2,238,968	2,339,870	2,339,870	2,352,198	2,195,707	2,355,508	2,077,429
Other	384,536	488,769	502,074	491,064	537,816	570,634	535,534	519,936	513,919	595,305
<b>Total revenues</b>	<b>18,951,735</b>	<b>20,874,551</b>	<b>22,341,723</b>	<b>22,527,011</b>	<b>23,623,309</b>	<b>23,850,685</b>	<b>23,978,950</b>	<b>26,344,100</b>	<b>28,072,953</b>	<b>28,036,351</b>
<b>Expenditures</b>										
<b>Current:</b>										
General government	392,747	400,069	425,243	530,637	555,545	617,056	581,364	558,013	563,195	575,919
Education	4,432,071	4,630,294	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619
Health and social services	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128	12,801,353	14,017,403	14,873,339	14,807,999
Law, justice, and public safety	970,042	1,042,510	1,109,819	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766
Recreation and resources development	442,915	479,243	491,681	544,744	525,885	707,866	599,885	555,717	682,511	705,043
Regulation of business and professions	71,109	88,580	119,620	92,888	134,955	129,688	131,614	139,200	136,644	135,877
Transportation	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231	1,595,643	1,815,822	1,882,068	1,952,582
Intergovernmental revenue sharing	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094	825,777	851,535
Debt service:										
Principal	78,108	80,243	89,474	86,532	81,790	79,107	83,960	101,804	112,234	115,935
Interest	47,964	49,956	43,455	49,319	50,363	51,872	52,110	64,344	68,496	65,471
Debt issuance costs	650	1,945	2,159	1,082	1,173	980	4,362	4,837	4,363	4,793
Capital outlay	132,949	128,167	119,730	253,229	343,712	359,118	472,451	485,937	391,519	483,279
<b>Total expenditures</b>	<b>18,910,449</b>	<b>20,176,445</b>	<b>22,115,456</b>	<b>21,617,892</b>	<b>22,764,346</b>	<b>24,141,752</b>	<b>24,850,865</b>	<b>26,601,596</b>	<b>27,919,427</b>	<b>28,056,123</b>
Revenues over (under) expenditures	41,286	698,106	2,226,267	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)
<b>Other Financing Sources (Uses)</b>										
Capital lease										
Bonds and commercial paper issued	95,195	206,933	52,979	228,409	196,290	340,021	601,664	415,033	307,318	637,868
Notes/Commercial paper redeemed	(3,900)	(155,796)		(109,908)	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)
Insurance claim recoveries				1,670	4,013	2,361	251			2,734
Premium on bond sale		6,485		2,485	2,049	2,760	30,147	26,358	11,132	37,069
Refunding bonds issued <sup>(3)</sup>			355,053				91,536	43,985	43,014	464,809
Refunding bond premium <sup>(3)</sup>			31,929				10,670		2,122	88,775
Refunding payment to escrow <sup>(3)</sup>			(386,261)				(101,707)	(43,985)	(44,816)	(552,898)
Other								21,146	52,741	58,453
Proceeds from pledged revenue										
Transfers in <sup>(1)</sup>	679,743	661,064	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701
Transfers out <sup>(1)</sup>	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)
<b>Total other financing sources (uses)</b>	<b>62,786</b>	<b>26,957</b>	<b>450</b>	<b>48,391</b>	<b>13,680</b>	<b>169,015</b>	<b>299,864</b>	<b>259,814</b>	<b>108,907</b>	<b>454,876</b>
<b>Net Change in Fund Balances</b>	<b>\$ 104,072</b>	<b>\$ 725,063</b>	<b>\$ 226,717</b>	<b>\$ 957,510</b>	<b>\$ 872,643</b>	<b>\$ (122,052)</b>	<b>\$ (572,051)</b>	<b>\$ 2,318</b>	<b>\$ 262,433</b>	<b>\$ 435,104</b>
<b>Debt Service as a Percentage of Noncapital Expenditures</b>	0.6937%	0.6691%	0.6241%	0.6556%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	0.6738%

(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 or escrow.

STATE OF TENNESSEE  
REVENUE CAPACITY - TAXABLE SALES BY CLASSIFICATION  
LAST TEN CALENDAR YEARS  
(expressed in millions)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Auto dealers	\$ 8,835	\$ 9,431	\$ 9,444	\$ 9,430	\$ 9,390	\$ 9,505	\$ 7,941	\$ 6,728	\$ 7,682	\$ 8,371
Purchases from manufacturers	3,652	3,933	4,150	4,803	4,679	4,745	4,497	3,492	3,657	4,066
Miscellaneous durable goods	12,271	12,892	14,183	15,845	17,209	17,441	16,346	13,745	14,495	15,590
Eating and drinking places	6,564	6,915	7,454	7,960	8,464	8,884	8,984	8,851	9,068	9,513
Food stores	7,983	7,851	7,937	8,195	8,419	8,983	9,165	9,401	9,468	9,745
Liquor stores	408	433	458	495	548	594	636	657	685	726
Hotels and motels	1,777	1,821	1,881	2,044	2,218	2,354	2,312	2,037	2,065	2,359
Other retail and service	21,994	23,174	24,243	25,760	27,089	28,484	28,715	27,268	27,785	29,450
Miscellaneous nondurable goods	6,262	6,282	6,564	7,068	7,335	7,805	7,831	7,410	7,685	8,084
Transportation, communication	5,722	6,016	6,411	6,683	7,356	7,694	7,916	7,736	6,934	7,051
Total taxable sales	\$ 75,466	\$ 78,748	\$ 82,726	\$ 88,283	\$ 92,707	\$ 96,489	\$ 94,343	\$ 87,325	\$ 89,524	\$ 94,955

Source: University of Tennessee Economic Report to the Governor

STATE OF TENNESSEE  
REVENUE CAPACITY - SALES AND USE TAX RATES  
LAST TEN FISCAL YEARS  
(expressed in thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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%	6.00%	6.00%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%
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	3.00%	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	3.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding \$100,000 sales price	3.00%	N/A								
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)	N/A	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  
Note: N/A - Not applicable because this item was not specifically identified with a rate separate from the general rate.

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,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Retail:</b>										
Building materials	\$ 271,969	\$ 328,562	\$ 363,952	\$ 405,812	\$ 423,160	\$ 391,271	\$ 333,737	\$ 311,332	\$ 316,016	\$ 355,263
General merchandise	654,071	712,426	735,074	767,584	820,549	829,576	810,503	799,387	817,350	840,896
Food stores	478,857	485,947	494,466	508,497	526,981	529,977	520,280	510,104	517,420	539,402
Auto dealers and service stations	751,167	820,454	815,985	817,689	856,109	835,035	672,112	690,797	760,119	830,875
Apparel and accessory stores	160,688	177,017	185,683	194,946	200,131	200,745	191,132	191,110	194,172	205,480
Furniture and home furnishings	189,506	209,525	222,089	238,475	246,569	244,312	215,352	207,398	214,575	224,096
Eating and drinking places	435,505	486,680	518,689	547,547	585,490	605,544	596,893	598,562	615,741	653,210
Miscellaneous retail stores	443,114	491,443	508,694	550,340	580,936	597,649	568,197	560,527	578,884	613,097
Total retail	3,384,877	3,712,054	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319
<b>Services:</b>										
Hotels and lodging places	118,247	124,795	131,675	142,333	154,081	160,909	146,253	137,973	144,129	160,868
Personal services	47,623	51,845	49,818	49,375	51,099	51,151	46,564	46,777	46,923	47,932
Business services	189,019	199,677	218,799	234,810	245,387	254,506	239,143	224,044	236,982	249,083
Auto repair, services, and parking	153,418	163,687	159,935	163,710	174,680	173,481	157,972	153,781	160,268	176,923
Miscellaneous repair services	21,914	23,606	24,873	27,100	28,387	28,441	25,321	22,801	23,189	24,384
Motion pictures	20,868	23,244	22,851	22,282	22,178	21,498	21,512	19,803	17,794	18,972
Amusement services	45,116	49,106	50,854	54,629	59,578	59,636	58,225	57,636	60,071	63,922
Health services	9,137	10,818	11,139	11,710	13,123	13,676	14,228	14,305	13,683	15,122
Other services	23,503	26,747	31,025	34,282	34,400	37,740	43,434	36,802	40,752	42,200
Total services	628,845	673,525	700,969	740,231	782,913	801,038	752,652	713,922	743,791	799,406
<b>Non-retail, non-services:</b>										
Agriculture, forestry, fishing	5,133	5,812	5,968	6,920	7,261	7,451	7,381	7,312	7,259	7,257
Mining	4,126	5,286	5,073	5,635	6,302	7,117	6,126	5,933	5,741	6,491
Construction	38,168	42,275	42,640	48,540	54,075	59,119	52,415	44,038	48,503	49,782
Manufacturing	236,163	261,260	289,494	312,570	305,558	299,223	256,995	225,530	241,844	255,062
Transportation	22,856	26,895	36,239	42,825	46,688	53,866	69,930	34,556	38,345	43,525
Communications	361,677	398,105	385,544	442,837	457,116	475,675	477,281	443,576	430,847	416,347
Electric, gas, and sanitary services	149,710	163,358	174,794	194,574	203,789	215,552	236,692	215,020	237,479	239,531
Wholesale trade	280,882	321,014	349,023	418,607	451,777	450,898	393,100	361,217	398,111	438,113
Finance, insurance, real estate	12,376	11,396	11,037	12,899	17,830	17,908	12,981	17,766	14,027	13,847
Total non-retail, non-services	1,111,091	1,235,401	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955
<b>County Clerk</b>	94,705	108,781	112,753	114,767	126,081	125,355	101,136	110,328	120,986	134,188
<b>Consumer Use Tax</b>	104,786	4,647	5,313	7,545	5,071	4,641	5,250	4,322	4,695	6,334
<b>Flood Relief Tax Rebate</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,649)	N/A
<b>Disaster Relief Tax Rebate</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(121)
<b>Grand Total</b>	\$ 5,324,304	\$ 5,734,408	\$ 5,963,479	\$ 6,378,840	\$ 6,704,386	\$ 6,751,952	\$ 6,280,145	\$ 6,052,737	\$ 6,303,256	\$ 6,672,081

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.

STATE OF TENNESSEE  
DEBT CAPACITY - RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS  
(expressed in thousands; except for per capita)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FOR THE FISCAL YEAR ENDED JUNE 30,										
Governmental activities debt:										
General obligation bonds	\$ 1,047,531	\$ 1,141,026	\$ 1,044,830	\$ 1,096,765	\$ 1,115,488	\$ 1,175,403	\$ 1,538,942	\$ 1,688,820	\$ 1,754,208	\$ 2,112,602
General obligation bond anticipation notes										
General obligation commercial paper	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770
Capital leases	788	1,008	1,229	3,619	3,943	11,743	10,810	16,301	15,503	14,666
Total governmental activities debt	\$ 1,250,119	\$ 1,224,809	\$ 1,214,634	\$ 1,245,009	\$ 1,250,255	\$ 1,427,772	\$ 1,726,060	\$ 1,946,511	\$ 1,983,928	\$ 2,325,038
Business-type activities debt:										
General obligation bonds	11,070	8,071	5,232	3,378	2,534	1,655	-	-	-	-
Total business-type activities debt	\$ 11,070	\$ 8,071	\$ 5,232	\$ 3,378	\$ 2,534	\$ 1,655	\$ -	\$ -	\$ -	\$ -
Total primary government debt	\$ 1,261,189	\$ 1,232,880	\$ 1,219,866	\$ 1,248,387	\$ 1,252,789	\$ 1,429,427	\$ 1,726,060	\$ 1,946,511	\$ 1,983,928	\$ 2,325,038

Debt Ratios										
Personal income	\$ 165,402,000	\$ 174,741,000	\$ 184,637,000	\$ 195,085,000	\$ 205,112,000	\$ 213,124,000	\$ 217,884,000	\$ 224,358,000	\$ 232,832,000	\$ 232,832,000
Ratio of total debt to personal income	0.76%	0.71%	0.66%	0.64%	0.61%	0.67%	0.79%	0.87%	0.85%	0.85%
Population	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403	6,403
Net general bonded debt per capita	\$ 216	\$ 209	\$ 205	\$ 206	\$ 203	\$ 228	\$ 270	\$ 304	\$ 307	\$ 307

General Bonded Debt:										
General obligation bonds	\$ 1,058,601	\$ 1,149,097	\$ 1,050,062	\$ 1,100,143	\$ 1,118,022	\$ 1,177,058	\$ 1,538,942	\$ 1,688,820	\$ 1,754,208	\$ 2,112,602
General obligation bond anticipation notes										
General obligation commercial paper	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770
Assets restricted for debt principal							(14,509)			
Total net bonded debt	\$ 1,260,401	\$ 1,231,872	\$ 1,218,637	\$ 1,244,768	\$ 1,248,846	\$ 1,417,684	\$ 1,700,741	\$ 1,930,210	\$ 1,968,425	\$ 2,310,372

Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	65.48%	70.45%	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%

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 5H in the basic financial statements.

STATE OF TENNESSEE  
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
(expressed in thousands)

	Collections for Fiscal Year 2012		Fiscal Year 2012 Pledged Amount	Pledged amount
	Portion Pledged	All Governmental Fund Types		
Calculation of 2012 pledged revenues:				
Gasoline tax	25%	\$ 617,991	\$ 154,498	
Petroleum products fee	100%	63,402	63,402	641,583
Motor vehicle registration fee	50%	212,924	106,462	
Franchise tax	100%	638,012	638,012	209,820
		<u>\$ 1,532,329</u>	<u>\$ 962,374</u>	<u>\$ 962,374</u>
				Legal debt service limit (pledged amount/150%)
				Less: 2012 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds
				<u>\$ 431,763</u>

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	\$ 550,211	\$ 578,609	\$ 594,778	\$ 628,010	\$ 673,748	\$ 673,070	\$ 525,905	\$ 489,075	\$ 557,098	\$ 641,583
Total net debt service applicable to limit	148,079	143,702	155,215	148,033	145,975	145,721	154,803	186,684	203,866	209,820
Legal debt service margin	<u>\$ 402,132</u>	<u>\$ 434,907</u>	<u>\$ 439,563</u>	<u>\$ 479,977</u>	<u>\$ 527,773</u>	<u>\$ 527,349</u>	<u>\$ 371,102</u>	<u>\$ 302,391</u>	<u>\$ 353,232</u>	<u>\$ 431,763</u>
Legal debt service margin as a percentage of the debt limit	73.09%	75.16%	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%

STATE OF TENNESSEE  
 DEMOGRAPHIC AND ECONOMIC INFORMATION  
 FOR THE LAST TEN CALENDAR YEARS  
 (expressed in thousands; except per capita)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Population	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403 (est)
Total personal income	\$ 159,173,000	\$ 165,622,000	\$ 174,727,000	\$ 184,567,000	\$ 195,656,000	\$ 205,112,000	\$ 213,124,000	\$ 217,884,000	\$ 224,358,000	\$ 232,832,000
Per capita personal income	\$ 27,434	\$ 28,377	\$ 29,761	\$ 31,127	\$ 32,474	\$ 33,746	\$ 34,995	\$ 35,065	\$ 36,489	\$ 38,233
Unemployment rate	5.2%	5.5%	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%

Source: Population from www.census.gov  
 All other from the University of Tennessee Economic Report to the Governor  
 Note: N/A means not available.

STATE OF TENNESSEE  
 DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY  
 PRIOR YEAR AND NINE YEARS AGO

Industry	2011			2002		
	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	557,700	1	21.14%	577,000	1	21.65%
Government	427,100	2	16.19%	410,200	3	15.39%
Education and Health Services	380,700	3	14.43%	300,100	4	11.26%
Professional and Business Services	313,800	4	11.89%	296,400	5	11.12%
Manufacturing	300,100	5	11.38%	428,500	2	16.08%
Leisure and Hospitality	264,700	6	10.03%	239,900	6	9.00%
Financial Activities	138,400	7	5.25%	138,200	7	5.19%
Natural Resources, Mining, and Construction	110,500	8	4.19%	119,500	8	4.48%
Other Services	100,800	9	3.82%	101,600	9	3.81%
Information	44,300	10	1.68%	53,300	10	2.00%
<b>Total</b>	<b>2,638,100</b>		<b>100.00%</b>	<b>2,664,700</b>		<b>100.00%</b>
<b>Total State Employment</b>	<b>2,845,020</b>			<b>Calendar Year 2002</b>		
				<b>2,715,040</b>		

Source: An Economic Report to the Governor of the State of Tennessee January 2012 and the Tennessee Department of Labor and Workforce Development

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.

STATE OF TENNESSEE  
OPERATING INFORMATION - FULL-TIME EMPLOYEES BY FUNCTION  
FOR THE LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	4,163	4,254	4,394	4,671	4,964	5,040	4,947	4,866	4,786	4,705
Education	966	1,014	1,028	1,025	1,070	1,206	1,157	1,193	1,154	1,128
Health and social services (1)	19,144	19,255	20,431	21,246	21,208	20,990	19,704	19,241	17,917	17,453
Law, justice and public safety	10,569	10,691	10,922	10,987	10,843	11,004	10,530	10,629	10,534	10,592
Recreation and resources development	3,689	3,762	3,757	3,846	3,885	3,901	3,698	3,640	3,564	3,515
Regulation of business and professions	668	680	718	738	776	754	708	717	714	706
Transportation	4,528	4,460	4,454	4,448	4,380	4,294	4,167	4,326	3,940	3,809
<b>Total</b>	<b>43,727</b>	<b>44,116</b>	<b>45,704</b>	<b>46,961</b>	<b>47,126</b>	<b>47,189</b>	<b>44,911</b>	<b>44,612</b>	<b>42,609</b>	<b>41,908</b>

Source: Department of Human Resources

(1) In 2005, in the Department of Human Services, a TenCare appeals unit, and three new family assistance service centers were established.

STATE OF TENNESSEE  
OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION  
FOR THE LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government	7,701	7,785	6,689	7,067	7,276	7,392	7,562	7,536	7,621	6,530
Motor pool vehicles	61	61	108	107	107	107	107	107	109	110
Buildings	3,581	3,861	3,634	3,657	3,586	3,528	3,166	3,888	4,061	4,121
Machinery and equipment	5	5	5	5	5	5	5	5	5	5
Number of residential schools	223	228	244	219	209	240	242	260	249	307
Machinery and equipment	391	388	342	340	339	329	320	320	316	314
Buildings	1,973	1,964	2,031	2,142	2,303	2,443	2,462	2,856	2,600	2,862
Machinery and equipment	19	19	19	19	19	19	19	19	19	19
Correctional facilities	90	86	86	86	86	83	83	83	83	83
Armories	1,882	2,009	2,352	2,552	2,586	3,103	3,156	3,732	4,424	4,506
Machinery and equipment	158,581	158,723	164,251	164,399	164,537	165,486	173,878	163,032	173,382	191,563
Recreation and resources development	2,093	2,185	2,295	2,476	2,543	2,729	2,736	2,949	2,912	3,075
Acraege of state parks	68	82	93	104	138	147	140	148	146	151
Machinery and equipment	14,107	14,289	14,151	14,163	13,835	13,887	13,882	13,871	13,867	13,877
Transportation	19,493	19,621	19,646	19,432	19,515	19,563	19,536	19,595	19,595	19,659
State highways (in miles)	120	120	122	122	122	122	122	122	122	122
Bridges, state and local highways	671	682	710	713	717	708	708	708	754	754
Facilities										
Buildings										

STATE OF TENNESSEE  
OPERATING INFORMATION - OPERATING INDICATORS  
FOR THE LAST TEN FISCAL YEARS

Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>General government</b>										
Tax returns processed (1)	1,999,458	2,225,891	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716
New corporate charters registered	11,563	11,826	12,103	11,807	11,726	10,745	11,073	11,724	9,717	9,618
Investment return on total portfolio	1.64%	1.11%	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%
Residential and commercial property reappraisals completed	256,916	265,373	1,441,168	554,798	336,050	255,250	511,050	677,720	525,516	185,965
<b>Education</b>										
Number of public schools (K-12)	1,659	1,677	1,693	1,699	1,714	1,718	1,736	1,736	1,736	1,784
Enrollment of public schools (K-12)	973,170	973,626	976,574	991,489	925,898	929,543	930,525	933,703	934,246	935,317
Number of high school graduates from public schools	48,341	50,203	51,436	53,960	54,191	57,486	60,371	62,526	62,147	
<b>Health and social services</b>										
TennCare enrollees	1,287,600	1,336,700	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521
Food stamp recipients	692,300	791,695	833,687	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000
Percentage of population (4)	11.85%	13.43%	13.98%	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%
Temporary assistance recipients	68,300	73,158	72,676	70,108	64,684	60,000	60,000	58,000	61,500	57,000
Percentage of population (4)	1.17%	1.24%	1.22%	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%
Children in state custody (2)	10,345	10,869	10,467	9,700	9,048	8,149	7,202	7,336	7,870	8,533
Percentage of population (4)	0.18%	0.18%	0.18%	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%
Mental health institutes average daily census	958	960	888	845	808	780	688	575	538	517
<b>Law, justice and public safety</b>										
Correctional institutions average daily census	18,170	19,117	19,141	19,119	26,573	26,998	27,325	27,164	27,782	29,231
Department of Safety citations issued	388,356	423,305	453,630	472,465	403,363	380,586	358,104	347,571	301,394	340,575
Drivers licenses issued	1,271,141	1,334,417	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905
<b>Recreation and resources development</b>										
Hunting/fishing licenses and boats registered	718,307	723,305	733,554	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935	547,660	586,839
Wetland acres acquired	74,831	6,569	782	3,308 (est.)	891 (est.)	3,602	2,327	79	559	1,604
Number of visitors to state parks	26,878,838	26,702,434	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603
Air pollution monitoring sites	92	91	86	87	86	78	89	93	32	32
<b>Regulation of business and professions</b>										
Fire safety inspections		41,402		18,418	34,976	39,518	34,241	37,920	34,539	27,058
Consumer affairs written complaints		4,747		5,528	5,420	5,797	5,481	6,240	5,818	5,541
<b>Transportation</b>										
Lane miles resurfaced (3)	2,194	2,238	2,188	1,632	2,408	1,968	2,893	2,261	2,317	2,298
HELP program services provided	123,809	137,615	148,805	154,362	128,006	130,062	108,460	112,438	116,865	130,941

Source: Tennessee fact book, various state agencies

- Notes:
- (1) Tennessee does not tax employment income.
  - (2) Children who are abused/dependent, neglected, delinquent, and 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) Blank lines indicate 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		University of Memphis				Middle Tennessee State University				Tennessee State University				
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	\$ 413,632	\$ 409,612	-	24,804	2003	\$ 127,638	\$ 102,139	-	\$ 6,334	2003	\$ 108,974	\$ 82,144	-	\$ 6,537
2004	417,191	406,033	75	24,508	2004	140,957	100,602	-	6,291	2004	126,161	81,057	-	6,540
2005	448,955	430,412	66	25,317	2005	151,536	106,393	-	6,937	2005	136,192	85,305	-	6,455
2006	484,786	440,014	56	23,896	2006	166,652	108,395	-	86,971	2006	149,759	86,971	-	7,875
2007	532,582	471,730	45	26,652	2007	177,082	116,006	-	94,005	2007	158,641	94,005	-	8,011
2008	565,963	510,261	35	33,177	2008	188,462	123,719	-	100,859	2008	168,872	92,908	-	12,962
2009	599,973	476,333	35	43,577	2009	195,365	114,524	-	101,836	2009	182,576	101,836	-	12,962
2010	648,298	493,304	12	43,998	2010	214,426	122,480	-	100,110	2010	199,352	100,110	-	14,928
2011	685,003	548,787	-	49,835	2011	237,768	133,514	-	74,071	2011	223,096	100,110	-	14,928
2012	584,147	411,729	-	49,835	2012	259,510	97,773	-	74,071	2012	234,159	74,071	-	14,780
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)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)					
2003	\$ 42,577	\$ 31,100	48	1,516	2003	\$ 108,974	\$ 82,144	-	\$ 6,537					
2004	40,120	30,712	48	1,515	2004	126,161	81,057	-	6,540					
2005	44,332	32,216	-	2,242	2005	136,192	85,305	-	6,937					
2006	50,818	32,684	-	2,104	2006	149,759	86,971	-	7,875					
2007	56,119	34,977	-	2,253	2007	158,641	94,005	-	8,011					
2008	57,821	36,371	-	2,581	2008	168,872	94,005	-	100,859					
2009	62,358	33,427	-	3,512	2009	182,576	92,908	-	12,962					
2010	70,128	39,157	-	3,512	2010	199,352	101,836	-	12,962					
2011	78,214	36,102	-	3,531	2011	223,096	100,110	-	14,928					
2012	85,043	26,502	-	3,330	2012	234,159	74,071	-	14,780					
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)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)					
2003	\$ 76,414	\$ 79,735	319	2,608	2003	\$ 47,326	\$ 34,988	-	\$ 3,137					
2004	85,854	79,247	315	2,609	2004	54,375	34,569	-	3,136					
2005	92,599	83,221	312	2,824	2005	57,504	37,110	-	3,001					
2006	100,454	86,173	2,242	2,221	2006	59,847	37,864	-	2,893					
2007	107,798	91,709	2,070	2,895	2007	60,537	39,913	-	2,911					
2008	93,073	63,403	1,889	5,172	2008	85,505	41,775	-	3,506					
2009	103,738	58,723	1,699	9,489	2009	80,016	38,085	-	4,041					
2010	121,868	52,643	1,399	9,502	2010	85,831	44,400	-	4,041					
2011	129,854	62,962	1,399	9,229	2011	91,919	40,831	-	4,071					
2012	135,925	46,196	1,399	9,142	2012	97,171	28,782	-	4,056					

(continued on next 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				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)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	\$ 45,293	\$ 40,790	-	415	2003	\$ 4,010	\$ 6,108	-	-
2004	47,194	40,165	-	897	2004	5,219	6,035	-	-
2005	52,138	42,742	-	1,168	2005	5,490	6,386	-	-
2006	56,568	43,370	-	1,042	2006	5,451	6,490	-	-
2007	61,679	46,012	-	1,242	2007	6,032	7,118	-	\$ 117
2008	70,801	48,812	-	1,273	2008	6,141	7,612	-	116
2009	76,045	47,577	-	1,786	2009	6,945	7,276	-	116
2010	81,475	48,133	-	1,786	2010	9,027	7,758	-	116
2011	89,100	50,616	-	3,104	2011	9,988	7,985	-	-
2012	100,915	55,747	-	3,102	2012	10,626	6,570	-	-

Chatanooga State Technical Community College				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)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	\$ 15,034	\$ 21,108	-	73	2003	\$ 7,173	\$ 10,768	-	-
2004	17,297	20,802	-	73	2004	8,290	10,610	-	-
2005	18,216	21,977	-	65	2005	8,958	11,282	-	-
2006	19,084	22,336	-	69	2006	9,280	11,480	-	-
2007	20,832	23,697	-	280	2007	10,614	12,383	-	\$ 168
2008	22,190	25,074	-	489	2008	11,512	13,147	-	166
2009	26,466	23,937	-	489	2009	12,383	13,264	-	166
2010	29,512	24,926	-	489	2010	14,749	11,710	-	-
2011	34,021	26,901	-	285	2011	15,739	13,193	-	-
2012	36,319	20,643	-	285	2012	16,009	10,652	-	-

Cleveland State Community College				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)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	\$ 4,757	\$ 9,212	-	-	2003	\$ 14,921	\$ 11,540	-	-
2004	5,631	9,053	-	-	2004	10,799	11,344	-	-
2005	5,737	9,580	-	-	2005	12,133	12,839	-	\$ 17
2006	6,249	9,683	-	-	2006	13,027	12,731	-	17
2007	6,422	10,317	-	169	2007	13,829	13,710	-	17
2008	7,360	10,856	-	168	2008	10,903	13,986	-	18
2009	8,336	10,379	-	213	2009	11,755	13,824	-	14
2010	9,958	10,992	-	213	2010	14,406	14,324	-	18
2011	10,979	11,432	-	45	2011	15,413	14,116	-	18
2012	11,373	9,088	-	45	2012	15,599	11,467	-	18

(continued on next 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)

Molow State Community College				Nashville State Technical Community College				Northeast State Technical Community College				Roane State Community College				Southwest Tennessee Community College				Pelissippi State Technical Community College									
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	\$ 5,660	\$ 8,893	-	-	2003	\$ 13,519	\$ 13,099	-	-	2003	\$ 7,283	\$ 10,543	-	-	2003	\$ 14,393	\$ 18,247	-	-	2003	\$ 14,393	\$ 18,247	-	-	2003	\$ 21,839	\$ 34,827	-	-
2004	6,369	8,747	-	-	2004	12,202	12,730	-	-	2004	8,910	10,391	-	-	2004	17,109	17,985	-	-	2004	16,472	34,191	-	-	2004	16,472	34,191	-	-
2005	7,022	9,343	-	-	2005	13,955	13,449	-	-	2005	9,883	10,958	-	-	2005	17,376	18,935	-	-	2005	16,749	36,210	-	-	2005	16,749	36,210	-	-
2006	7,678	9,434	-	-	2006	15,615	14,045	-	-	2006	10,505	11,147	-	-	2006	19,184	19,252	-	-	2006	18,166	36,905	-	-	2006	18,166	36,905	-	-
2007	8,661	10,290	-	-	2007	15,828	15,185	-	-	2007	11,731	12,256	-	-	2007	20,801	20,657	-	-	2007	22,942	38,723	-	-	2007	22,942	38,723	-	-
2008	9,780	10,951	171	-	2008	17,657	16,370	-	-	2008	12,086	13,199	-	-	2008	23,917	22,037	-	-	2008	30,403	40,131	-	-	2008	30,403	40,131	-	-
2009	11,148	12,890	170	-	2009	19,900	15,619	-	-	2009	13,534	12,678	-	-	2009	25,530	20,983	-	-	2009	36,691	38,230	-	-	2009	36,691	38,230	-	-
2010	13,121	9,143	170	-	2010	24,984	14,585	-	-	2010	16,728	13,247	-	-	2010	32,052	19,105	-	-	2010	39,346	40,340	-	-	2010	39,346	40,340	-	-
2011	13,983	11,023	-	-	2011	30,011	16,451	-	-	2011	19,302	13,291	-	-	2011	35,757	22,100	-	-	2011	42,093	40,168	-	-	2011	42,093	40,168	-	-
2012	14,494	9,774	-	-	2012	30,181	13,965	-	-	2012	19,865	12,069	-	-	2012	36,322	18,910	-	-	2012	41,966	32,359	-	-	2012	41,966	32,359	-	-

(continued on next 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		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)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2003	\$ 10,333	\$ 15,641	-	-	2003	\$ 9,990	\$ 15,909	-	-
2004	12,256	15,417	-	-	2004	11,211	15,689	-	-
2005	13,206	16,303	-	-	2005	11,798	16,643	-	-
2006	14,224	16,548	-	\$	2006	12,740	16,860	-	-
2007	14,974	17,995	-	140	2007	14,097	18,249	-	\$ 294
2008	16,565	19,245	-	139	2008	15,810	19,429	-	289
2009	17,802	18,351	-	139	2009	17,859	19,601	-	289
2010	22,240	18,944	-	139	2010	21,454	19,180	-	289
2011	24,326	20,729	-	17	2011	21,821	19,986	-	102
2012	26,812	15,650	-	17	2012	23,034	16,078	-	102

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, 2012

Schedule 16

<u>Institution</u>	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	\$ 240	\$ 9,092	\$ 27,582	\$ 3,602	\$ 5,150
University of Tennessee- Chattanooga	300	7,212	21,558	3,000	5,300
University of Tennessee- Martin	380	7,081	20,237	2,400	4,570
Austin Peay State University	274	6,918	21,714	2,780	5,593
East Tennessee State University	180	6,997	22,369	3,080	4,780
Middle Tennessee State University	408	7,492	22,840	3,110	4,453
Tennessee State University	178	6,702	19,854	3,140	3,264
Tennessee Technological University	58	6,948	21,816	4,982	3,158
University of Memphis	192	8,234	23,684	3,399	5,099
Chattanooga State Technical Community College		3,737	14,369		
Cleveland State Community College		3,671	14,303		
Columbia State Community College		3,673	14,305		
Dyersburg State Community College		3,693	14,325		
Jackson State Community College		3,685	14,317		
Motlow State Community College		3,678	14,310		
Nashville State Technical Community College		3,627	14,259		
Northeast State Technical Community College		3,683	14,315		
Pellissippi State Technical Community College	30	3,719	14,351		
Roane State Community College		3,685	14,317		
Southwest Tennessee Community College		3,717	14,349		
Volunteer State Community College		3,669	14,301		
Walters State Community College		3,681	14,313		

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, 2012

Schedule 17

<u>Institution</u>	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	\$ 495,967	\$ 94,187	\$ 590,154
Austin Peay State University	35,368	31,727	67,095
East Tennessee State University	109,334	23,504	132,838
Middle Tennessee State University	147,399	74,339	221,738
Tennessee State University	34,176	3,200	37,376
Tennessee Technological University	35,577	9,692	45,269
University of Memphis	101,244	88	101,332
Chattanooga State Technical Community College	1,910	1,625	3,535
Cleveland State Community College	378		378
Columbia State Community College	33	1,581	1,614
Nashville State Technical Community College	589		589
Northeast State Technical Community College	320		320
Pellissippi State Technical Community College	1,435		1,435
Roane State Community College	1,130		1,130
Southwest Tennessee Community College	2,681		2,681
Volunteer State Community College	32		32
Walters State Community College	752		752
	<u>\$ 968,325</u>	<u>\$ 239,943</u>	<u>\$ 1,208,268</u>

Source: Comptroller of the Treasury,  
Division of State and Local Finance

## SECURITIES & EXCHANGE COMMISSION DISCLOSURES

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## ACKNOWLEDGEMENTS

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### DEPARTMENT OF FINANCE AND ADMINISTRATION

**Mark Emkes, Commissioner**

**Mike Morrow, Deputy Commissioner, F&A Operations**

**Jan Sylvis, 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  
Departmental Accounting  
General Ledger  
Payroll  
Payroll Call Center  
Policy Development  
Vendor 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.