

# Tennessee

**Comprehensive Annual  
Financial Report**  
For the Fiscal Year Ended June 30, 2011



Comprehensive Annual Financial Report • For the Fiscal Year Ended June 30, 2011



# Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2011

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, 2011**

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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 29, 2011

To the Honorable Bill Haslam, Governor of the State of Tennessee, Members of the Legislature, and Citizens of the State of Tennessee.

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2011.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

State statutes require an annual audit of all financial statements of the state. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2011. The independent auditor's report is located at the front of the financial section of this report.

As part of the audit of these financial statements, the Division of State Audit conducted an organization-wide audit as described in the Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. The audit included tests of compliance with applicable federal laws and regulations, as well as, a study and evaluation of internal controls, including internal accounting and administrative controls used in administering federal financial assistance programs. The results of this single audit are published under separate cover by the Division of State Audit.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

**Profile of the government**

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 42,146 square miles and a population estimated to be 6.3 million. The state has three branches of government, Executive, Legislative and Judicial. The Governor, who appoints commissioners to lead the various departments, heads the Executive branch. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The State of Tennessee provides a full range of services including education, health and social services, transportation, law, correction, safety, resources, regulation, and business and economic development. Its financial reporting entity includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

State 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 the Dairy Promotion Board), 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 department level. Budget revisions during the year, reflecting program changes or interdepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval. Only the legislature, however, may transfer appropriations between departments.

### **Local economy**

The State of Tennessee is situated in the eastern south-central United States. Its 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 choice for business because of its central location and a strong transportation infrastructure. Home to more than 137,000 businesses, including eight Fortune 500 companies, top industries include manufacturing, biotechnology and health care, energy technology, tourism and transportation and logistics. The U.S. Chamber of Commerce and the National Chamber Foundation's study, *Enterprising States*, recently ranked Tennessee no. 1 for taxes and regulation based on the state's low cost of living, low state and local tax burden and manageable budget gap. As a result, more than 770 foreign-owned companies have invested a total of \$23 billion in Tennessee.

Today, Tennessee is beginning to rebound from the most severe recession in the last half century. While recessions are a natural part of the business cycle, the length and depth of the current cycle has been unprecedented. Economic expansion is now taking hold, though unemployment is high and many sectors of the economy remain fragile. Still, most measures of economic performance are expected to post gains in 2011 and 2012 barring a double-dip recession.

The Tennessee labor market is showing broad-based signs of growth. The first quarter of 2011 produced a 1.5 percent seasonally adjusted gain and a 1.2 percent year-over-year gain. This compares to setbacks of 0.3 percent in 2010 and 5.6 percent in 2009. Anticipated job growth for 2011 and 2012 is encouraging news for the state economy, but the job losses that have transpired since the onset of the great recession in December 2007 have been staggering, and the state unemployment rate remains elevated. The state unemployment rate was 9.7 percent in 2010 compared to a national rate of 9.6 percent. In 2000, just before the onset of the 2001 recession, the state unemployment rate was 4.0 percent; in 2007, unemployment in the U.S. and Tennessee was still under 5.0 percent. Following the start of the recession in December 2007, unemployment increased to great heights. Looking forward, the unemployment rate is expected to continue a slow decline, but remain elevated through the decade both at the state and national levels. Tennessee's annual average unemployment rate is projected at 9.7 percent for 2011 and 9.4 percent in 2012.

Like most states, Tennessee has been grappling with fiscal problems, but is now seeing relief from the pain of the bottom of the recession. As of now, the recovery (in terms of tax revenue growth) is quite strong. While revenue recovery in the southeast has been slow in comparison to the other regions and the national average, Tennessee's revenues have been faring a bit better than the southeastern average. Total tax collections for August 2011, the first month of the new fiscal year, were still not at pre-recession levels but getting close.

The economic outlook for the U.S. and Tennessee moving toward 2020 is considered by economists to be generally optimistic although framed by uncertainties and lingering effects of the recent recession. While recent economic growth has slowed, it has not stalled, and is expected to continue to trend upward, but at a somewhat slower growth trajectory than historically has been the case following recessions. Over the next ten years, state GDP (gross domestic product), a primary indicator used to gauge economic health, is projected to grow at a 2.8 percent compound annual growth rate, just slightly below the rate of growth of output for the nation. The factors that rendered the recession ending in June of 2009 to be vastly different from a typical recession, will continue to present the state economy with unique challenges that it believes it is prepared to meet.

### **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 (five year) 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. 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.

A four year budget projection is prepared as part of the annual budget process that estimates the recurring budget surplus or deficit for the general and education trust funds. The lowering of the base of state revenues during the recent recession, and the resultant net recurring imbalance, was addressed through careful multi-year budget planning designed to preserve core services to the people of Tennessee through a combination of program reductions, use of reserves and federal economic assistance. Following this approach, the fiscal 2012 budget was balanced with recurring revenues fully supporting recurring appropriations, and a planned return of \$70.4 million to the revenue fluctuations reserve.

### **Relevant financial policies**

Tennessee consistently maintains a relatively low debt burden. This has been accomplished through the use of sound, prudent, and conservative debt management practices. 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.

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. At June 30, 2011, the balance in this reserve was \$283.6 million.

In recent years, subject to the specific provisions of an appropriation act, state legislation has also been passed authorizing certain funds, reserve accounts or program carry forwards to be denied, and allowing for the transfer of funds from the same, for purposes of meeting the requirements of funding the operations of state government. In addition, 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**

Following a deep national recession that has affected families across the state, Tennessee's top priority at this time is helping its citizens get back to work while simultaneously instituting a plan for long-term economic growth. The overarching goal is to make Tennessee the no. 1 state in the southeast for high quality jobs.

In 2011, the Jobs4TN initiative was launched as the blueprint for accomplishing this. Existing assets in each region of the state are being leveraged to both attract new business and help existing businesses expand and remain competitive. In addition, significant investments are planned in innovation to position Tennessee as a national leader well into the future.

As part of this initiative, a \$50 million dollar commitment was recently made to a new INCITE program. The goal of the program, called INCITE for its focus on innovation, commercialization, investment, technology and entrepreneurship, is to raise Tennessee's profile in innovation-based economic development and drive growth in the creation of knowledge-based jobs. Also, a new export promotion program, TNTrade, has been designed and launched for small and medium-sized businesses to help them open up new markets, explore new sources of revenue and find new customers.

### **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, 2010. This was the thirty-first 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.

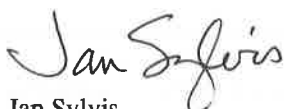
The Tennessee Consolidated Retirement System was awarded GFOA's Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the twenty-third consecutive year that the System received this prestigious award. In addition, for the nineteenth year, the state received GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2010-2011. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

The preparation of this report would not have been possible without the professionalism and dedication demonstrated by the entire staff of the Division of Accounts in the Department of Finance and Administration; and, the cooperation of all state agencies and branches. My sincerest appreciation is extended to all of the contributing staff and organizations.

Respectfully submitted,

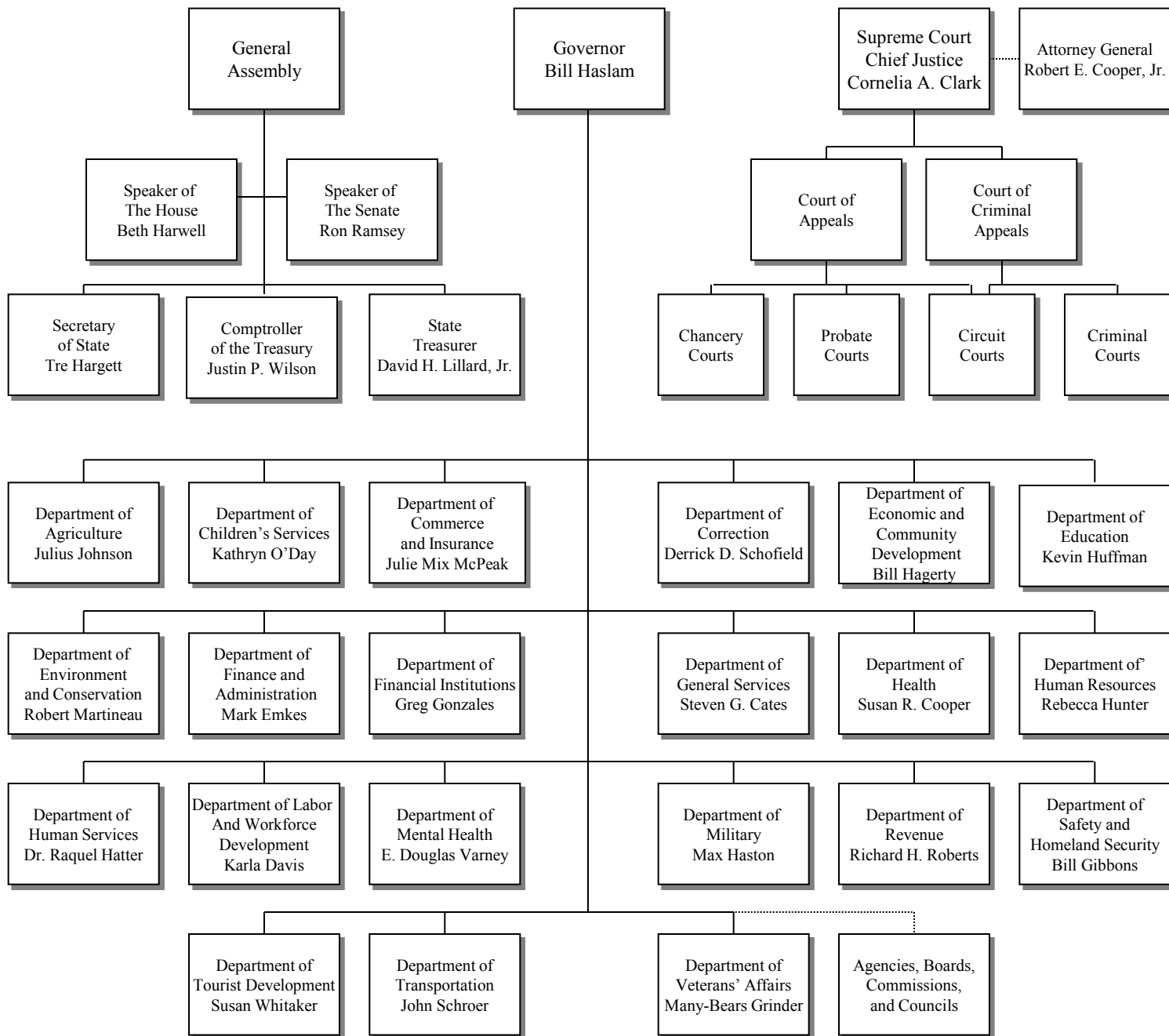
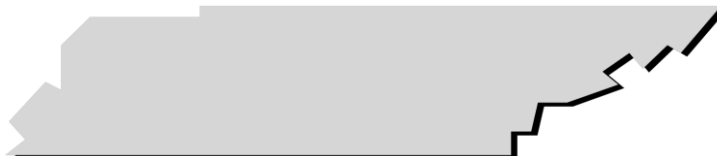


Mark A. Emkes  
Commissioner



Jan Sylvis  
Chief of Accounts

STATE OF TENNESSEE  
 ORGANIZATION CHART  
 As of June 30, 2011



# 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, 2010

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. Enos*

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 29, 2011

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

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, 2011, 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 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

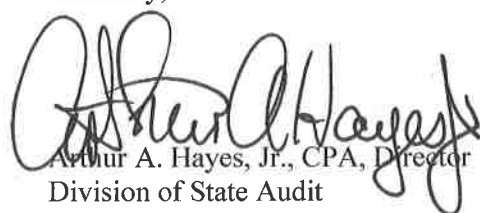
As discussed in Note 3 to the financial statements, the State implemented the Governmental Accounting Standards Board's Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The management's discussion and analysis, the schedule of revenues, expenditures and changes in fund balances – budget and actual, infrastructure assets reported using the modified approach, other post employment benefits schedule of funding progress for primary government, other post employment benefits schedule of funding progress for component units, and AccessTN Insurance Fund – ten-year claims development table are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, statistical section, and the supplementary schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with generally accepted government auditing standards, we will issue our report dated December 29, 2011, 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

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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, 2011. 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 3-6 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, 2011, by \$28.43 billion (reported as net assets). Of this amount, \$1.5 billion may be used to meet the State's obligations not funded by restricted net assets. However, \$24.35 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

Changes in Net Assets - The State's net assets increased by \$1.48 billion. This increase was largely the result of an increase in capital assets.

Component units - Component units reported net assets of \$6.2 billion, an increase of \$637.3 million.

- **Fund Level:**

At June 30, 2011, the State's governmental funds reported combined ending fund balances of \$4.04 billion, an increase of \$262.43 million (see discussion on page 18) compared to the prior year. Of the combined fund balance, approximately \$2.82 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, \$283.6 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 \$38.2 million during the fiscal year to total \$1.968 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 25 and 26-27) 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 30. 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 15. 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 18. The fund financial statements begin on page 30 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 \$28.43 billion as of June 30, 2011.

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), 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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 6,081,500	\$ 6,530,055	\$ 1,675,676	\$ 1,501,963	\$ 7,757,176	\$ 8,032,018
Capital assets	25,074,942	24,046,140			25,074,942	24,046,140
Total assets	<u>31,156,442</u>	<u>30,576,195</u>	<u>1,675,676</u>	<u>1,501,963</u>	<u>32,832,118</u>	<u>32,078,158</u>
Current and other liabilities	1,340,386	2,169,021	93,765	109,463	1,434,151	2,278,484
Noncurrent liabilities	2,959,097	2,838,182	7,247	6,606	2,966,344	2,844,788
Total liabilities	<u>4,299,483</u>	<u>5,007,203</u>	<u>101,012</u>	<u>116,069</u>	<u>4,400,495</u>	<u>5,123,272</u>
Net assets:						
Invested in capital assets, net of related debt	24,346,493	23,360,007			24,346,493	23,360,007
Restricted net assets	1,179,519	924,902	1,420,917	1,235,085	2,600,436	2,159,987
Unrestricted net assets	1,330,947	1,284,083	153,747	150,809	1,484,694	1,434,892
Total net assets	<u>\$ 26,856,959</u>	<u>\$ 25,568,992</u>	<u>\$ 1,574,664</u>	<u>\$ 1,385,894</u>	<u>\$ 28,431,623</u>	<u>\$ 26,954,886</u>

An additional portion of the State's net assets (9.15%) 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 (\$1.48 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.

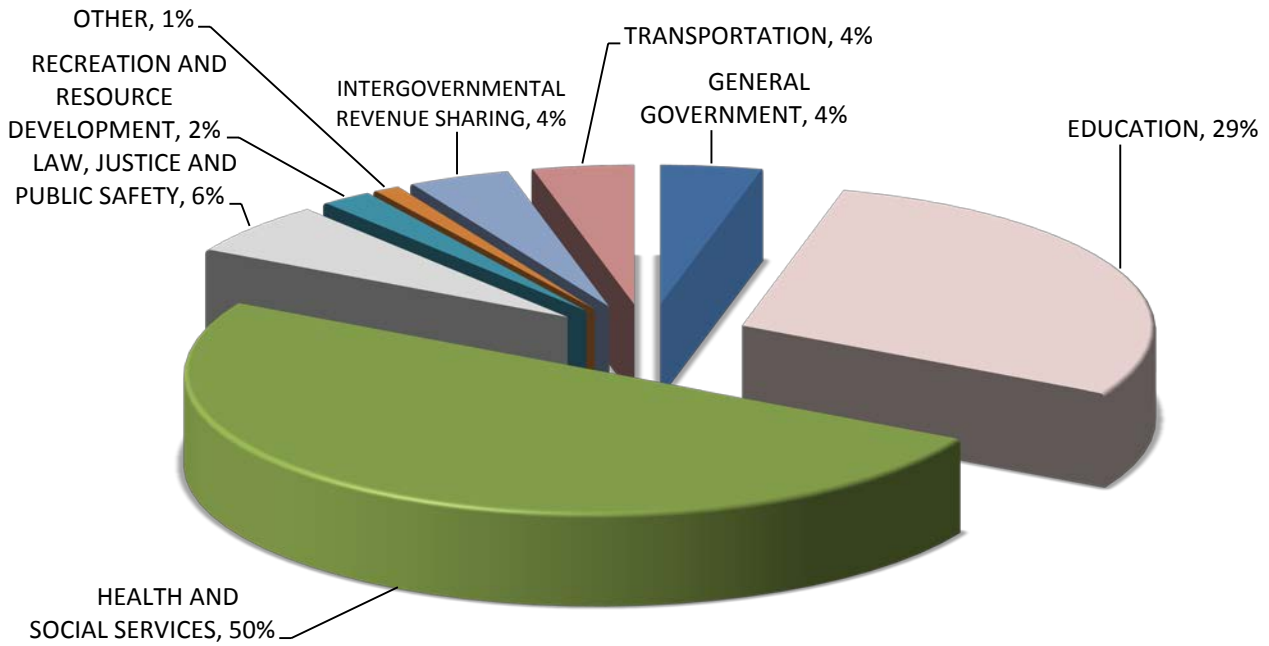
The State's net assets increased by \$1.48 billion during the year ended June 30, 2011. A significant portion of this increase was attributable to the improvement of tax collections compared to the prior year and base budget reductions in the fiscal year's spending.

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

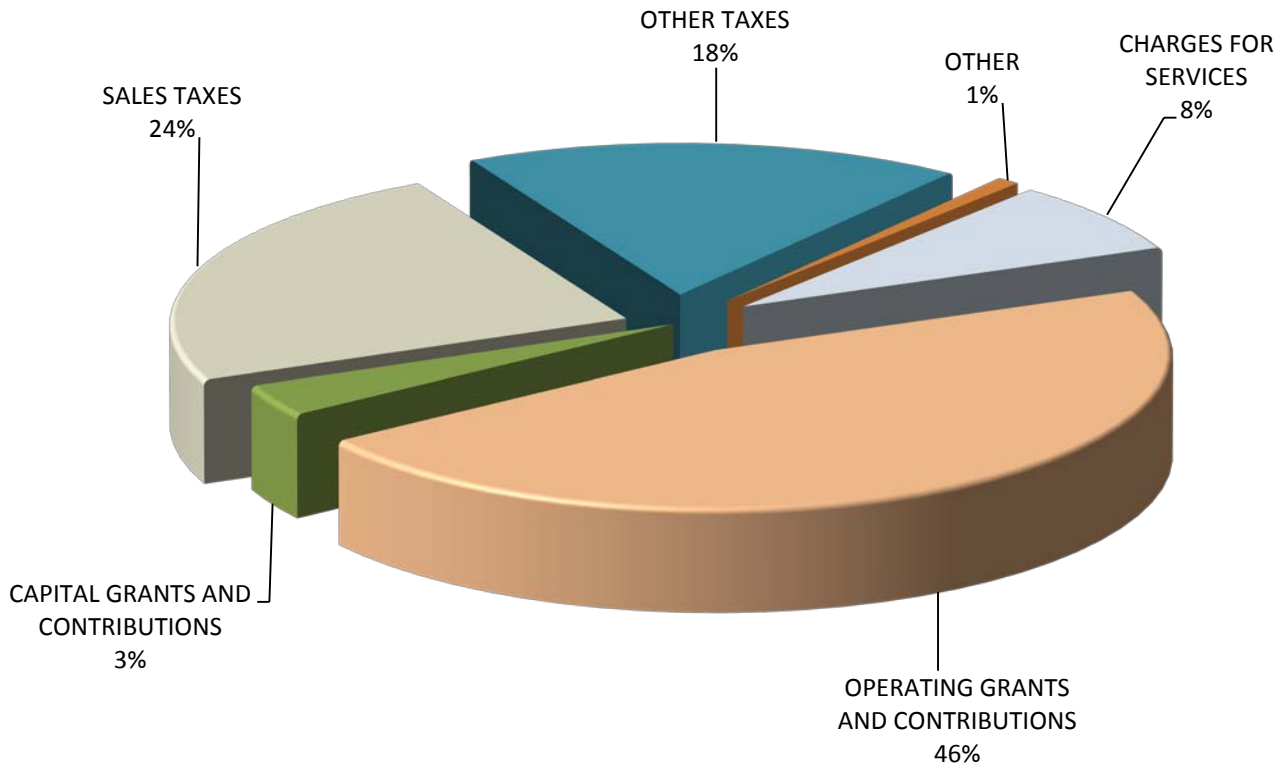
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2,069,585	\$ 1,762,448	\$ 1,318,871	\$ 1,253,402	\$ 3,388,456	\$ 3,015,850
Operating grants and contributions	12,677,291	12,076,579	1,035,693	1,482,113	13,712,984	13,558,692
Capital grants and contributions	901,798	782,188			901,798	782,188
General revenues:						
Sales Taxes	6,461,461	6,170,977			6,461,461	6,170,977
Other taxes	4,907,776	4,323,726			4,907,776	4,323,726
Other	222,232	202,659			222,232	202,659
Total revenues	27,240,143	25,318,577	2,354,564	2,735,515	29,594,707	28,054,092
Expenses:						
General government	1,048,423	1,078,294			1,048,423	1,078,294
Education	7,127,705	6,893,801			7,127,705	6,893,801
Health and social services	13,739,733	12,849,335			13,739,733	12,849,335
Law, justice and public safety	1,436,045	1,365,134			1,436,045	1,365,134
Recreation and resources development	606,317	499,080			606,317	499,080
Regulation of business and professions	127,887	132,784			127,887	132,784
Transportation	911,666	1,010,029			911,666	1,010,029
Intergovernmental revenue sharing	825,777	874,094			825,777	874,094
Interest on long-term debt	63,555	60,566			63,555	60,566
Payments to fiduciary funds	63,114	19,747			63,114	19,747
Employment security			1,613,716	2,135,537	1,613,716	2,135,537
Insurance programs			552,626	557,371	552,626	557,371
Loan programs			1,544	1,406	1,544	1,406
Other			42	1,385	42	1,385
Total expenses	25,950,222	24,782,864	2,167,928	2,695,699	28,118,150	27,478,563
Increase in net assets						
before contributions and transfers	1,289,921	535,713	186,636	39,816	1,476,557	575,529
Transfers	(2,134)	(3,717)	2,134	3,717		
Contributions to permanent funds	180	196			180	196
Increase (decrease) in net assets	1,287,967	532,192	188,770	43,533	1,476,737	575,725
Net assets, July 1	25,568,992	25,036,800	1,385,894	1,342,361	26,954,886	26,379,161
Net assets, June 30	\$ 26,856,959	\$ 25,568,992	\$ 1,574,664	\$ 1,385,894	\$ 28,431,623	\$ 26,954,886

**Governmental activities.** Net assets of the State's governmental activities increased by \$1.29 billion (5%), which accounts for 87% of the total increase in net assets of the primary government. This increase is primarily due to the use of funds to increase capital assets and an 8% increase in total revenues. The primary revenue increase was from an increase in business and sales taxes and grants and contributions derived mostly from federal sources. See notes to the financial statements, note 3, on page 53 for an explanation on June 30, 2010 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 \$188.77 million, a 14% increase. The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net assets of \$167 million due to an increase in operating grants and in the decline of unemployment benefits paid, respectively. The Nonmajor Enterprise funds’ activity resulted in a \$21.74 million increase in net assets.

## 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 decreased to \$283.6 million or 1.58% of the General Fund’s expenditures.

The General Fund revenue collections increased for the year by \$1.36 billion. Contributing to this increase was an increase in federal reimbursements which increased by \$418 million due to the expenditure of funds received through the American Recovery and Reinvestment Act (ARRA) and from cost increases in the TennCare programs. Another significant factor in this increase is an increase in Business tax collections which increased by \$653 million of which \$349 million is a new hospital coverage assessment under the Tennessee Annual Coverage Assessment Act and approximately \$200 million is an increase in the collections of the Franchise and Excise tax.

The General Fund expenditures increased approximately \$1.1 billion. TennCare expenditures increased by \$780 million and an increase in Human Services expenditures accounts for \$126 million of the total increase. These increases reflect the rising cost of community residential placements and associated medical costs as well as a continued increased demand for services in the health and social services function. In addition, a large percentage of ARRA funds were allocated to programs under these agencies.

Assets in the General Fund decreased by approximately 16%. The fund balance of the General Fund increased by 9%. The increase in fund balance is attributable to a 44% decrease in liabilities and the decrease in assets is primarily the result of a decrease in the receivable from the federal government.

The Education Trust Fund revenue collections increased approximately \$315 million for the year. The increase was primarily a result of additional federal reimbursements received through ARRA.

Education Trust Fund expenditures increased overall by \$297 million or 4.5%. The overall increase was due to additional federal funds allocated to the Basic Education Program, Race to the Top, and Improving Schools programs.

Overall revenues and expenditures increased \$56 million and \$24 million, respectively for the Highway Fund. Revenues and expenditures increased primarily as a result of the increase of federal funds. Also contributing to the increase in revenues was the increase in the collections of sales taxes. 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 \$33.7 billion, an increase of approximately \$5.1 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 \$5.5 billion.

### **General Fund Budgetary Highlights**

Higher than expected medical utilization and cost inflation in the CoverKids and other Medicaid programs over the course of the year resulted in increases to federal revenue estimates subsequent to original estimates causing a significant variance between the original and final budgeted amount. A significant variance occurred in tax revenues in the General Fund between final and actual amounts primarily because of the overcollection of sales and excise taxes. Total tax collections were \$200.6 million over estimates due to improved economic conditions. Federal revenue collections were significantly below estimates due to the timing difference of the actual expenditures and appropriation of multi-year projects. Actual expenditures in the TennCare program, Labor and Workforce Development, Economic and Community Development, Finance and Administration 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 that are previously mentioned. 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, 2011, of \$25.07 billion, net of \$1.5 billion accumulated depreciation, consisted of the following:

#### Capital Assets—Primary Government (Expressed in Thousands)

	Capital Assets—Primary Government				Total	
	Governmental Activities		Business-Type Activities		Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,803,968	\$ 1,699,404			\$ 1,803,968	\$ 1,699,404
Infrastructure	20,329,498	19,408,072			20,329,498	19,408,072
Construction in progress	1,270,917	1,304,279			1,270,917	1,304,279
Structures and improvements	2,273,697	2,205,722			2,273,697	2,205,722
Machinery and equipment	836,616	767,950	\$	16	836,616	767,966
Software in development	32,198	37,335			32,198	37,335
Subtotal	26,546,894	25,422,762		16	26,546,894	25,422,778
Accumulated depreciation	(1,471,952)	(1,376,622)		(16)	(1,471,952)	(1,376,638)
Total	\$ 25,074,942	\$ 24,046,140	\$	-	\$ 25,074,942	\$ 24,046,140

More detail of the activity during the fiscal year is presented in Note 4C to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2010 to 2011 by approximately 4.28 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 \$921 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by \$880.3 million and decreased (projects completed and capitalized) by \$938.7 million. Infrastructure right-of-way acreage increased the land classification by \$87.9 million. The structures and improvements increase of \$67.98 million consisted largely of improvements and new structures at state parks and a new readiness center for the Department of Military. The change in machinery and equipment of \$68.6 million resulted primarily from the completion of \$23.98 million in software projects and for telecommunications upgrades for the Department of Safety. During fiscal year 2011, the State had several systems projects in the application development stage, resulting in the capitalization of \$18.84 million in new software in development costs and there were \$23.98 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 8,230 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 113), indicated that bridges were rated at 7 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 2010-2011 fiscal year reflects a \$135.8 million increase 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 allocations for the maintenance of higher education facilities, a new communications center and driver license issuance system for the Department of Safety and new construction of 30 group homes for intellectual disabilities services. Other new projects included capital maintenance for correctional and other state facilities.

### 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, 2011</u>
Highway	\$ 1,055,300
Higher Education	131,063
Environment and Conservation	4,777
Economic and Community Development	384,732
General Government	<u>645,762</u>
Total	<u>\$ 2,221,634</u>

More detail of the activity during the fiscal year is presented in Note 4H 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, 2011</u>	<u>June 30, 2010</u>
Bonds, net	\$ 1,754,208	\$ 1,688,820
Commercial Paper	<u>214,217</u>	<u>241,390</u>
Total	<u>\$ 1,968,425</u>	<u>\$ 1,930,210</u>

The State issued \$186.505 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis, and to directly finance other capital projects. The state also issued \$44.940 million of tax-exempt general obligation refunding bonds to provide for the advance refunding of \$44.325 million of general obligation bonds. Nearly two-thirds 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 4H 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, 2011, the State's annual debt service limit of \$557.1 million was well above the debt service required \$203.9 million, with a legal debt service margin of \$353.2 million.

## FACTORS THAT WILL AFFECT THE FUTURE

Tennessee continues to be one of the most business-friendly states in the nation. Business Facilities, a national economic development publication, has issued its annual 2011 State Rankings Report and Tennessee has been named the No.1 state in the nation for automotive manufacturing strength for a second consecutive year, and ranked in the top eight for transportation infrastructure, economic growth potential and business climate.

Agreements have been recently reached with the following to expand their presence to and in Tennessee:

- Ohio-based Austin Powder, Inc., announced its plan to build a manufacturing facility for the production of liquid ammonium nitrate in Greene County, Tennessee. The company will invest more than \$110 million and create 80 new jobs and will operate under the name US Nitrogen.
- Mitsubishi Electric Power Products announced its decision to invest \$200 million to build a production facility for electric transformers in Memphis, Tennessee, creating up to 275 new jobs. The location will be Mitsubishi's national headquarters for the production of heavy electrical equipment.
- Quaprotec USA announced its decision to locate a manufacturing facility for the production of metal parts for vehicles, engines and power trains in Ripley, Tennessee. The German-based company will invest \$22 million and create 126 jobs over a five year period to supply leading manufacturers within the automotive industry.
- NYX, Inc. a Michigan-based automotive supplier, announced its plan to build a \$23 million manufacturing facility to produce injection molded plastics for a wide variety of automotive manufacturers beginning in early 2012, creating 400 jobs over a five-year period.
- C&F Group announced its decision to locate a manufacturing facility in Kingsport, Tennessee. The Ireland-based company will invest \$12.5 million and create 450 new jobs over a four year period.
- Kruger announced plans to expand its existing Memphis mill investing \$316 million to implement state-of-the-art manufacturing equipment. The expansion will increase its production capacity, creating 100 jobs in Memphis and protecting 2400 existing jobs in its facilities in both the US and Canada.
- MedSolutions announced plans to expand its corporate headquarters in Franklin, Tennessee. The company will invest \$16 million and create 263 jobs over a three year period.
- TeamHealth announced its plans to expand its corporate operations in Alcoa, Tennessee. The company will invest nearly \$18 million and create 160 jobs, anticipating job growth of 550 jobs in management, accounting, medical coding, billing and clerical.
- Viacom, Inc. announced its plans to establish a shared services center to support the company's finance group in the Cool Springs area of Williamson County. The project will create 100 new positions in the accounting, finance and other corporate support function areas.
- Sprint announced it will relocate its call center operations to Sullivan County from its Virginia facility. The move will bring more than 600 new jobs to Tennessee and represents a multimillion dollar investment in the state.
- MANN+HUMMEL USA announced its decision to locate a satellite production facility in Dunlap, Tennessee. The company plans to invest \$15 million and employ approximately 150 workers and technicians by the end of 2013. MANN+HUMMEL designs and produces air intake manifolds and air cleaner systems for the automotive, heavy duty and industrial markets.
- Mulligan Flooring will expand its operations in Johnson City, Tennessee, creating 164 new jobs with a \$12 million investment.
- General Motors (GM) announced it will produce its Chevy Equinox at its Spring Hill plant. The \$61 million investment will create 700 jobs. GM also announced that a second vehicle will be added after a subsequent investment of \$185 million. The second investment will create an additional 1,200 jobs.

Revenue collections in Tennessee continue to indicate consumer confidence in the state's economy. Sales tax collections recorded a first quarter 2012 growth of 6.5%, which is the best first quarter growth since 2006. For fiscal year 2012, total year-to-date tax revenue collections have exceeded budgeted estimates.

Through an innovative partnership that has raised significant sums from the private sector as well as funding from Race to the Top and additional sources, the State has accumulated nearly \$40 million in investments to support new charter schools in Tennessee. This funding, along with new legislation removing the cap on the number of charter schools allowed in the State and opening enrollment to more students, will help provide parents with more education options for their children and school districts innovative tools to address their unique challenges. Public charter schools are considered a critical asset in Tennessee's mission to improve education and provide every child in Tennessee the opportunity to receive a high quality education.

### **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, 2011

(Expressed in Thousands)

Assets	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and cash equivalents	\$ 2,851,839	\$ 422,304	\$ 3,274,143	\$ 2,324,121
Cash on deposit with fiscal agent		347,864	347,864	
Investments	604,285		604,285	1,336,851
Investments with fiscal agent				14
Receivables, net	2,449,757	206,242	2,655,999	615,956
Internal balances	5,446	(5,446)		
Due from primary government				20,112
Due from component units	113,647	5	113,652	
Inventories, at cost	29,889		29,889	12,408
Prepayments	175		175	15,334
Loans receivable, net	15,518	704,707	720,225	3,409,012
Lease receivable	3,101		3,101	
Deferred charges and other	1,287		1,287	61,537
Deferred outflow- derivatives				1,317
Restricted assets:				
Cash and cash equivalents	6,556		6,556	388,106
Investments				263,386
Receivables, net				2,261
Capital assets:				
Land, at cost	1,803,968		1,803,968	181,201
Infrastructure	20,329,498		20,329,498	363,904
Structures and improvements, at cost	2,273,697		2,273,697	4,224,281
Machinery and equipment, at cost	836,616		836,616	1,042,678
Less-Accumulated depreciation	(1,471,952)		(1,471,952)	(2,402,906)
Construction in progress	1,270,917		1,270,917	521,260
Software in development	32,198		32,198	
<b>Total assets</b>	<b>31,156,442</b>	<b>1,675,676</b>	<b>32,832,118</b>	<b>12,380,833</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	933,149	76,837	1,009,986	383,450
Due to primary government				113,652
Due to component units	20,074	38	20,112	
Unearned revenue	283,007	16,890	299,897	206,196
Advance from other governments	101,346		101,346	
Fair value of derivatives				1,316
Other	2,810		2,810	40,524
Noncurrent liabilities:				
Due within one year	269,318		269,318	265,955
Due in more than one year	2,689,779	7,247	2,697,026	5,152,215
<b>Total liabilities</b>	<b>4,299,483</b>	<b>101,012</b>	<b>4,400,495</b>	<b>6,163,308</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	24,346,493		24,346,493	2,741,532
Restricted for:				
Wildlife Resources	39,799		39,799	
Capital projects	5,570		5,570	102,141
Lottery scholarships	390,208		390,208	
Single family bond programs				504,874
Sewer loans		790,949	790,949	
Unemployment compensation		492,651	492,651	
Drinking water loans		137,317	137,317	
Other	608,522		608,522	544,958
Permanent:				
Expendable				133,011
Nonexpendable	135,420		135,420	813,342
Unrestricted	1,330,947	153,747	1,484,694	1,377,667
<b>Total net assets</b>	<b>\$ 26,856,959</b>	<b>\$ 1,574,664</b>	<b>\$ 28,431,623</b>	<b>\$ 6,217,525</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, 2011

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
<b>Primary Government:</b>		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,048,423	\$ 856,264	\$ 78,943	\$ 50
Education	7,127,705	50,052	1,991,573	
Health and social services	13,739,733	724,971	10,021,219	
Law, justice and public safety	1,436,045	120,137	165,029	7,203
Recreation and resources development	606,317	139,302	208,861	13,068
Regulation of business and professions	127,887	149,090	1,133	
Transportation	911,666	29,769	210,533	881,477
Intergovernmental revenue sharing	825,777			
Interest on long-term debt	63,555			
Payments to fiduciary fund	63,114			
Total governmental activities	25,950,222	2,069,585	12,677,291	901,798
Business-type activities:				
Employment security	1,613,716	754,108	994,869	
Insurance programs	552,626	547,207	282	
Loan programs	1,561	17,350	40,537	
Other	25	206	5	
Total business-type activities	2,167,928	1,318,871	1,035,693	
Total primary government	\$ 28,118,150	\$ 3,388,456	\$ 13,712,984	\$ 901,798
<b>Component units:</b>				
Higher education institutions	\$ 4,197,632	\$ 1,419,868	\$ 1,747,659	\$ 164,988
Loan programs	646,004	208,576	381,865	
Lottery program	1,106,491	1,106,330	45	
Other	87,723	60,829	3,603	
Total component units	\$ 6,037,850	\$ 2,795,603	\$ 2,133,172	\$ 164,988

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
\$ (113,166)		\$ (113,166)	
(5,086,080)		(5,086,080)	
(2,993,543)		(2,993,543)	
(1,143,676)		(1,143,676)	
(245,086)		(245,086)	
22,336		22,336	
210,113		210,113	
(825,777)		(825,777)	
(63,555)		(63,555)	
<u>(63,114)</u>		<u>(63,114)</u>	
<u>(10,301,548)</u>		<u>(10,301,548)</u>	
	\$ 135,261	135,261	
	(5,137)	(5,137)	
	56,326	56,326	
	<u>186</u>	<u>186</u>	
	<u>186,636</u>	<u>186,636</u>	
<u>(10,301,548)</u>	<u>186,636</u>	<u>(10,114,912)</u>	
			\$ (865,117)
			(55,563)
			(116)
			<u>(23,291)</u>
			<u>(944,087)</u>
6,461,461		6,461,461	
846,384		846,384	
3,536,200		3,536,200	
525,192		525,192	
			1,377,060
			125,615
4,602		4,602	28,559
217,630		217,630	6,366
180		180	43,759
<u>(2,134)</u>	<u>2,134</u>		
<u>11,589,515</u>	<u>2,134</u>	<u>11,591,649</u>	<u>1,581,359</u>
1,287,967	188,770	1,476,737	637,272
<u>25,568,992</u>	<u>1,385,894</u>	<u>26,954,886</u>	<u>5,580,253</u>
<u>\$ 26,856,959</u>	<u>\$ 1,574,664</u>	<u>\$ 28,431,623</u>	<u>\$ 6,217,525</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.

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

State of Tennessee  
Balance Sheet  
Governmental Funds  
June 30, 2011

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 1,111,882	\$ 9	\$ 318,370	\$ 901,946	\$ 2,332,207
Investments		369,749		234,536	604,285
Receivables, net	1,555,902	514,762	338,128	26,336	2,435,128
Due from other funds	275,943	301			276,244
Due from component units	30,823	82,200		526	113,549
Inventories, at cost	13,838	77	8,929		22,844
Prepayments	10				10
Deferred charges and other	1,712				1,712
Loans receivable, net	3,294		1,935	10,289	15,518
Leases receivable	1,289				1,289
<b>Restricted assets:</b>					
Cash and cash equivalents				5,570	5,570
<b>Total assets</b>	<b>\$ 2,994,693</b>	<b>\$ 967,098</b>	<b>\$ 667,362</b>	<b>\$ 1,179,203</b>	<b>\$ 5,808,356</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities:</b>					
Accounts payable and accruals	\$ 578,226	\$ 66,894	\$ 97,906	\$ 86,365	\$ 829,391
Due to other funds	10,552	270,196	887	336	281,971
Due to component units	2,199	15,989		1,886	20,074
Deferred revenue	311,590	80,711	126,726	13,211	532,238
Advance from other governments	48,874	518	17,961	33,993	101,346
Other	513		2,031	266	2,810
<b>Total liabilities</b>	<b>951,954</b>	<b>434,308</b>	<b>245,511</b>	<b>136,057</b>	<b>1,767,830</b>
<b>Fund balances:</b>					
<b>Nonspendable</b>					
Inventories	13,838	77	8,929		22,844
Long term portion of accounts receivable	5,505				5,505
Permanent fund corpus				135,420	135,420
<b>Restricted</b>	<b>100,942</b>	<b>474,664</b>	<b>153,547</b>	<b>323,011</b>	<b>1,052,164</b>
<b>Committed</b>	<b>235,301</b>	<b>3,962</b>	<b>114,327</b>	<b>73,268</b>	<b>426,858</b>
<b>Assigned</b>	<b>1,179,652</b>	<b>54,087</b>	<b>145,048</b>	<b>511,447</b>	<b>1,890,234</b>
<b>Unassigned</b>	<b>507,501</b>				<b>507,501</b>
<b>Total fund balances</b>	<b>2,042,739</b>	<b>532,790</b>	<b>421,851</b>	<b>1,043,146</b>	<b>4,040,526</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,994,693</b>	<b>\$ 967,098</b>	<b>\$ 667,362</b>	<b>\$ 1,179,203</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.	24,533,911
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	290,416
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.	595,413
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,603,307)
<b>Net assets of governmental activities</b>	<b>\$ 26,856,959</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, 2011

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Taxes:					
Sales	\$ 2,649,385	\$ 3,731,556	\$ 66,984	\$ 46,027	\$ 6,493,952
Fuel	15,963		706,931	123,490	846,384
Business	3,021,749	299,197	4,747	224,264	3,549,957
Other	515,759	128		16,104	531,991
Licenses, fines, fees, and permits	299,753	1,537	214,250	178,162	693,702
Investment income	10,012	319		34,758	45,089
Federal	10,437,678	1,643,298	942,339	39,136	13,062,451
Departmental services	2,179,766	29,788	51,102	74,852	2,335,508
Other	202,975	307,210	3,725	9	513,919
Total revenues	<u>19,333,040</u>	<u>6,013,033</u>	<u>1,990,078</u>	<u>736,802</u>	<u>28,072,953</u>
<b>Expenditures</b>					
Current:					
General government	538,997			24,198	563,195
Education		6,971,684		6,752	6,978,436
Health and social services	14,873,339				14,873,339
Law, justice and public safety	1,394,859			5,966	1,400,825
Recreation and resources development	516,011			166,520	682,531
Regulation of business and professions	89,083			47,561	136,644
Transportation			1,882,068		1,882,068
Intergovernmental revenue sharing	533,237		292,540		825,777
Debt service:					
Principal				112,234	112,234
Interest				68,496	68,496
Debt issuance costs				4,363	4,363
Capital outlay				391,519	391,519
Total expenditures	<u>17,945,526</u>	<u>6,971,684</u>	<u>2,174,608</u>	<u>827,609</u>	<u>27,919,427</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,387,514</u>	<u>(958,651)</u>	<u>(184,530)</u>	<u>(90,807)</u>	<u>153,526</u>
<b>Other financing sources (uses)</b>					
Bonds and commercial paper issued				307,318	307,318
Commercial paper redeemed				(155,382)	(155,382)
Refunding bond proceeds				43,014	43,014
Refunding bond premium				2,122	2,122
Refunding payment to escrow				(44,816)	(44,816)
Bond premium				11,132	11,132
Other	50,995	158		1,588	52,741
Transfers in	101,880	942,536	104,600	357,473	1,506,489
Transfers out	(1,400,377)	(8)	(1,529)	(211,797)	(1,613,711)
Total other financing sources (uses)	<u>(1,247,502)</u>	<u>942,686</u>	<u>103,071</u>	<u>310,652</u>	<u>108,907</u>
Net change in fund balances	<u>140,012</u>	<u>(15,965)</u>	<u>(81,459)</u>	<u>219,845</u>	<u>262,433</u>
Fund balances, July 1	<u>1,902,727</u>	<u>548,755</u>	<u>503,310</u>	<u>823,301</u>	<u>3,778,093</u>
Fund balances, June 30	<u>\$ 2,042,739</u>	<u>\$ 532,790</u>	<u>\$ 421,851</u>	<u>\$ 1,043,146</u>	<u>\$ 4,040,526</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, 2011

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	\$	262,433
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.		1,061,030
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		34,048
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.		(51,184)
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.		(51,940)
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.		33,580
Changes in net assets of governmental activities	\$	1,287,967

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, 2011

(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	\$ 215,201		\$ 207,103	\$ 422,304	\$ 519,632
Cash on deposit with fiscal agent		\$ 347,864		347,864	
Receivables:					
Accounts receivable		199,142	2,391	201,533	4,257
Interest	1	4,701	7	4,709	
Loans receivable	32,191		22,174	54,365	
Due from other funds		461		461	1,764
Due from component units		5		5	98
Inventories, at cost					7,045
Prepaid expenses					165
<b>Total current assets</b>	<u>247,393</u>	<u>552,173</u>	<u>231,675</u>	<u>1,031,241</u>	<u>532,961</u>
Noncurrent assets:					
Accounts receivable					10,372
Deferred charges					215
Due from other funds					237
Loans receivable	550,108		100,234	650,342	
Lease receivable					1,812
Restricted assets:					
Cash and cash equivalents					986
Capital assets:					
Land, at cost					62,980
Structures and improvements, at cost					567,713
Machinery and equipment, at cost					372,760
Less-accumulated depreciation					(464,738)
Construction in progress					2,316
<b>Total capital assets, net of accumulated depreciation</b>					<u>541,031</u>
<b>Total noncurrent assets</b>	<u>550,108</u>		<u>100,234</u>	<u>650,342</u>	<u>554,653</u>
<b>Total assets</b>	<u>797,501</u>	<u>552,173</u>	<u>331,909</u>	<u>1,681,583</u>	<u>1,087,614</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	1,627	36,687	38,523	76,837	79,276
Due to other funds		5,907		5,907	522
Due to component units		38		38	
Lease obligations payable					146
Bonds payable					18,739
Unearned revenue		16,890		16,890	41,027
Other					44,753
<b>Total current liabilities</b>	<u>1,627</u>	<u>59,522</u>	<u>38,523</u>	<u>99,672</u>	<u>184,463</u>
Noncurrent liabilities:					
Lease obligations payable					524
Commercial paper payable					48,060
Bonds payable, net					191,119
Other noncurrent liabilities	4,925		2,322	7,247	68,035
<b>Total noncurrent liabilities</b>	<u>4,925</u>		<u>2,322</u>	<u>7,247</u>	<u>307,738</u>
<b>Total liabilities</b>	<u>6,552</u>	<u>59,522</u>	<u>40,845</u>	<u>106,919</u>	<u>492,201</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt					283,428
Restricted for capital projects					986
Unrestricted	790,949	492,651	291,064	1,574,664	310,999
<b>Total net assets</b>	<u>\$ 790,949</u>	<u>\$ 492,651</u>	<u>\$ 291,064</u>	<u>\$ 1,574,664</u>	<u>\$ 595,413</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, 2011

(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	\$ 15,493		\$ 2,063	\$ 17,556	\$ 485,385
Investment income	409		120	529	
Premiums		\$ 754,108	547,207	1,301,315	669,536
Other					767
<b>Total operating revenues</b>	<u>15,902</u>	<u>754,108</u>	<u>549,390</u>	<u>1,319,400</u>	<u>1,155,688</u>
<b>Operating expenses</b>					
Personal services					61,437
Contractual services	1,041		24,744	25,785	213,682
Materials and supplies					103,041
Rentals and insurance					42,480
Depreciation and amortization					45,945
Benefits		1,613,716	520,300	2,134,016	674,050
Other			8,127	8,127	21,950
<b>Total operating expenses</b>	<u>1,041</u>	<u>1,613,716</u>	<u>553,171</u>	<u>2,167,928</u>	<u>1,162,585</u>
Operating income (loss)	<u>14,861</u>	<u>(859,608)</u>	<u>(3,781)</u>	<u>(848,528)</u>	<u>(6,897)</u>
<b>Nonoperating revenues (expenses)</b>					
Taxes					2
Operating grants	38,470	986,753	38,195	1,063,418	1,375
Insurance claims recoveries					5,583
Interest income		8,116	289	8,405	666
Interest expense					(9,123)
Other	(28,455)		(8,204)	(36,659)	
<b>Total nonoperating revenues (expenses)</b>	<u>10,015</u>	<u>994,869</u>	<u>30,280</u>	<u>1,035,164</u>	<u>(1,497)</u>
Income (loss) before contributions and transfers	24,876	135,261	26,499	186,636	(8,394)
Transfers in	6,890		2,178	9,068	45,823
Transfers out			(6,934)	(6,934)	(3,849)
Change in net assets	31,766	135,261	21,743	188,770	33,580
Net assets, July 1	<u>759,183</u>	<u>357,390</u>	<u>269,321</u>	<u>1,385,894</u>	<u>561,833</u>
Net assets, June 30	<u>\$ 790,949</u>	<u>\$ 492,651</u>	<u>\$ 291,064</u>	<u>\$ 1,574,664</u>	<u>\$ 595,413</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, 2011

(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		\$ 739,891	\$ 553,374	\$ 1,293,265	\$ 336,366
Receipts from interfund services provided		5,431		5,431	854,288
Payments to suppliers			(551,626)	(551,626)	(1,033,357)
Payments to employees			(1)	(1)	(60,875)
Payments for unemployment benefits		(1,636,675)		(1,636,675)	
Payments for interfund services used	\$ (1,041)		(8,561)	(9,602)	(57,112)
Net cash from (used for) operating activities	(1,041)	(891,353)	(6,814)	(899,208)	39,310
<b>Cash flows from noncapital financing activities</b>					
Operating grants received	38,470	1,012,612	38,220	1,089,302	
Negative cash balance implicitly repaid		(10,144)		(10,144)	(54)
Transfers in	6,890		2,178	9,068	45,823
Transfers out			(6,934)	(6,934)	(3,849)
Payments to component units			(25)	(25)	
Tax revenues received					2
Subsidy to borrowers			(4)	(4)	
Net cash from (used for) noncapital financing activities	45,360	1,002,468	33,435	1,081,263	41,922
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets					(32,718)
Bond and commercial paper proceeds					47,347
Proceeds from sale of capital assets					946
Insurance claims recoveries					5,583
Bond issuance cost					(14)
Principal payments					(55,601)
Interest paid					(9,524)
Net cash from (used for) capital and related financing activities					(43,981)
<b>Cash flows from investing activities</b>					
Loans issued and other disbursements to borrowers	(87,754)		(42,726)	(130,480)	
Collection of loan principal	36,805		7,305	44,110	
Interest received	16,018	8,116	2,194	26,328	666
Net cash from (used for) investing activities	(34,931)	8,116	(33,227)	(60,042)	666
Net increase (decrease) in cash and cash equivalents	9,388	119,231	(6,606)	122,013	37,917
Cash and cash equivalents, July 1	205,813	228,633	213,709	648,155	482,701
Cash and cash equivalents, June 30	\$ 215,201	\$ 347,864	\$ 207,103	\$ 770,168	\$ 520,618

(continued from previous page)

State of Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2011

(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)	\$ 14,861	\$ (859,608)	\$ (3,781)	\$ (848,528)	\$ (6,897)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					45,937
Loss on disposal of capital assets					7,236
Bond issuance cost					29
Capital lease executory costs paid					28
Investment income			(1,802)	(1,802)	
Charges for services			(24)	(24)	
Interest income	(15,902)			(15,902)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		(14,804)	(448)	(15,252)	338
(Increase) decrease in due from other funds		(126)		(126)	1,296
(Increase) decrease in due from component units		(4)		(4)	(89)
(Increase) decrease in inventories					(1,255)
(Increase) decrease in prepaid expenses					51
Increase (decrease) in accounts payable		(17,144)	(759)	(17,903)	(7,758)
Increase (decrease) in due to other funds		1		1	318
Increase (decrease) in due to component units		(9)		(9)	
Increase (decrease) in unearned revenue		341		341	76
Total adjustments	(15,902)	(31,745)	(3,033)	(50,680)	46,207
Net cash provided by (used for) operating activities	\$ (1,041)	\$ (891,353)	\$ (6,814)	\$ (899,208)	\$ 39,310

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, 2011

(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	\$ 415,360	\$ 562,812	\$ 48,666	\$ 420,098
Receivables:				
Accounts				1,461
Taxes			37	371,806
Interest and dividends	150,341	968	810	
Due from sale of investments	892,036			
Derivative instruments	388,894			
Due from other governments	57,307			
Real estate income	61			
Other	24,836		60	
Total receivables	<u>1,513,475</u>	<u>968</u>	<u>907</u>	<u>373,267</u>
Due from other funds	9,694			
Due from component units	8,068			
Investments, at fair value:				
Short-term securities		1,835,864		
Government bonds	8,688,290			
Corporate bonds	5,545,680			
Corporate stocks	17,826,699			
Mutual funds			99,285	
Derivative instruments	11			
Private equities	74,636			
Real estate	1,085,564			
Total investments	<u>33,220,880</u>	<u>1,835,864</u>	<u>99,285</u>	
Capital assets, at cost				
Intangible assets	1,897			
Total assets	<u>35,169,374</u>	<u>2,399,644</u>	<u>148,858</u>	<u>793,365</u>
<b>Liabilities</b>				
Accounts payable and accruals	1,116,435		1,006	688,004
Derivative instruments	388,156			
Amounts held in custody for others				105,361
Total liabilities	<u>1,504,591</u>		<u>1,006</u>	<u>793,365</u>
<b>Net assets</b>				
Held in trust for:				
Pension benefits	33,663,308			
Employees' flexible benefits	1,475			
Pool participants		2,399,644		
Individuals, organizations and other governments			147,852	
Total net assets	<u>\$ 33,664,783</u>	<u>\$ 2,399,644</u>	<u>\$ 147,852</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, 2011

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
<b>Additions</b>			
Contributions:			
Members	\$ 268,942		
Employers	995,540		
Federal			\$ 9,814
Private			50,246
State			14,750
Other			2,419
	1,264,482		77,229
Investment income:			
Net increase in fair value of investments	4,597,653		11,945
Interest	561,568	\$ 6,369	2,865
Dividends	337,178		
Real estate income	64,567		
	5,560,966	6,369	14,810
Less: Investment expenses	32,213		
Administrative fee		1,265	
	5,528,753	5,104	14,810
Capital share transactions:			
Shares sold		3,895,535	
Less: Shares redeemed		3,935,543	
Net capital share transactions		(40,008)	
Total additions	6,793,235	(34,904)	92,039
<b>Deductions</b>			
Annuity benefits:			
Retirement benefits	1,356,976		
Cost of living	290,396		
Death benefits	5,498		
Other	8,129		39,458
Refunds	35,540		3,872
Administrative expenses	7,157		5,850
	1,703,696		49,180
Change in net assets held in trust for:			
Pension benefits	5,089,113		
Employees' flexible benefits	426		
Individuals, organizations and other governments		(34,904)	42,859
Net assets, July 1	28,575,244	2,434,548	104,993
Net assets, June 30	\$ 33,664,783	\$ 2,399,644	\$ 147,852

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, 2011**  
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**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**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 guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.
2. The 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 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

10. 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.
11. 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 (Continued)**  
**JUNE 30, 2011**

**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*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter 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. Also, agency funds, custodial in nature, do not recognize revenues and expenditures and do not present the results of operations or have a measurement focus.

Generally, sales and gross receipt taxes, as well as petroleum and vehicular related taxes and fees and other similar measurable fines, are considered to be available if received in the first 60 days of the new fiscal year. Federal grants, departmental services, and interest associated with the current fiscal period are all considered to be available if received in six months, however, tobacco settlement monies are considered to be available if received in twelve months. All other revenue items are considered to be measurable and available only when cash is received by the State.

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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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 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 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.

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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.

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). 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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, are defined by the State as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. Infrastructure assets 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

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.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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 \$2.6 billion restricted by the primary government, \$516.7 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 only be used for specific purposes pursuant to constraints imposed by formal action, such as passage of a new statute by the General Assembly, the state's highest level of decision-making authority. Modifications of these constraints require the same type of action employed to previously commit those amounts.
  - *Assigned* fund balance represents amounts that are constrained by the state’s intent to be used for specific purposes. Intent is expressed by state officials to whom the legislature has delegated the authority, by directive of the General Assembly or by legislation, to assign such amounts.
  - *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 Dairy Promotion Board, 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.

STATE OF TENNESSEE  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)  
 JUNE 30, 2011

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 \$2,603.307 million difference are as follows (expressed in thousands):

Bonds payable	\$	1,470,285
Plus: Premium on bonds issued (to be amortized as interest expense)		96,164
Less: Deferred charge for issuance costs (to be amortized over life of debt)		(913)
Less: Deferred charge for bond refundings (to be amortized as interest expense)		(22,099)
Commercial paper payable		166,157
Accrued interest payable		16,996
Capital leases payable		14,833
Claims and judgments		123,139
Compensated absences		229,197
Other post employee benefits		386,881
Pollution remediation		52,843
Other long-term liabilities and accounts payable		69,824
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net assets—governmental activities</i>	\$	2,603,307

STATE OF TENNESSEE  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2011

**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 \$1,061.030 million difference are as follows (expressed in thousands):

Capital outlay	\$ 1,134,762
Depreciation expense	<u>(73,732)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>1,061,030</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 \$51.184 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	\$ 43,014
Issuance of general obligation bonds	157,062
Issuance of commercial paper	150,256
Bond premium capitalized	13,254
Debt reduced:	
General obligation bonds/payments to escrow	(44,822)
General obligation debt	(112,198)
Commercial paper redeemed	<u>(155,382)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>51,184</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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 \$51.940 million difference are as follows (expressed in thousands):

Compensated absences	\$	(2,133)
Claims and judgments		(50,735)
Accrued interest		(678)
Capital lease		(689)
Other postemployment benefits		90,519
Pollution remediation		(1,220)
Amortization of deferred charge		40
Loss on disposal of capital assets		20,955
Amortization of issuance costs		180
Amortization of bond premiums		(6,852)
Amortization of deferred amount on bond refunding		<u>2,553</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>		<u>\$ 51,940</u>

**NOTE 3 – Accounting changes**

The following schedule enumerates adjustments for the fiscal year ended June 30, 2011, (expressed in thousands):

	6/30/2010 Net Assets <u>As Reported</u>	Adjustments to Net Assets <u>                    </u>	6/30/2010 Net Assets <u>As Restated</u>
Government-wide statements:			
Primary Government			
Governmental Activities	\$ 25,569,101	\$ (109)	\$ 25,568,992
Business-Type Activities	<u>1,385,785</u>	<u>109</u>	<u>1,385,894</u>
Total Primary Government	<u>\$ 26,954,886</u>	<u>\$ -</u>	<u>\$ 26,954,886</u>
Component Units	<u>\$ 5,578,644</u>	<u>\$ 1,609</u>	<u>\$ 5,580,253</u>
Total Component Units	<u>\$ 5,578,644</u>	<u>\$ 1,609</u>	<u>\$ 5,580,253</u>

**Adjustments to Net Assets**

Primary Government

- The state transferred the Property Utilization fund, previously reported as an enterprise fund to the Warehousing and Distribution fund, an internal service fund.

Component Units

- Tennessee Local Development Agency—\$1.6 million is a correction of an error resulting in receivables being understated in prior years.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**Changes in Accounting Principle**

The state has implemented Governmental Accounting Standards Board's Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. Governmental fund balances are classified into one or more of the following five (5) categories: nonspendable, restricted, committed, assigned, and unassigned. These classifications of fund balance are based primarily on the extent to which a government is bound to follow constraints imposed upon the uses of the resources. Details of the state's fund balance classifications and policies are presented in Note 1D and 4J.

The governmental fund types reported by the state were evaluated based on the provisions of GASB Statement 54. As a result, the following funds were reclassified from nonmajor special revenue funds to general fund: Job Skills, Regulatory Boards, Small and Minority Owned Business Assistance, Sex Offender Treatment Program, and Pre-Need Consumer Protection. In addition, the Academic Scholars and the Natural Resources Trust funds, formerly reported as permanent funds, were reclassified to the education fund and the general fund, respectively. The following schedule enumerates adjustments made to the beginning fund balances for fiscal year ended June 30, 2011, due to these mentioned changes, (expressed in thousands):

	6/30/2010		6/30/2010
	Total Fund Balances	Adjustments to	Total Fund Balances
	<u>As Reported</u>	<u>Fund Balances</u>	<u>As Restated</u>
General Fund	\$ 1,866,992	\$ 35,735	\$ 1,902,727
Education Fund	545,048	3,707	548,755
Nonmajor Governmental Funds	862,743	(39,442)	823,301

Adjustment to fund balances:

Of the \$35.735 million of fund balance that was reclassified to the general fund, \$26.137 million and \$9.598 million were previously reported in the nonmajor special revenue funds and the Natural Resources Trust fund (a permanent fund), respectively.

The \$3.707 million of fund balance that was reclassified to the education fund was previously reported in the Academic Scholars fund (a permanent fund).

Of the \$39.442 million of fund balance that was reclassified from the nonmajor governmental funds to the general fund and education fund, \$26.137 million was from nonmajor special revenue funds and \$13.305 million was from permanent funds. Of the \$13.305 million of fund balance that was reclassified from the permanent funds, \$9.598 million was Natural Resources Trust fund and \$3.707 million was Academic Scholars fund.

**Reclassification**

The state combined several internal service funds. Central Stores and Records Management were combined into Warehousing and Distribution, Comprehensive Food Services was combined with TRICOR, and Capitol Print Shop was combined with General Services Printing.

**NOTE 4 – 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

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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.

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As of June 30, 2011, the State's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS  
INVESTMENTS

<u>Investment Type</u>	<u>Fair Value</u>	<u>United States<sup>1</sup> Treasury/Agency</u>	<u>AAA</u>
Debt Investments			
U.S. Government			AAA
U.S. Government Treasuries, Notes, Bonds	\$ 2,521,160	\$ 2,511,136	\$ 10,024
U.S. Government STRIPS	2,500,941	2,500,941	
U.S. Government Agencies	4,249,486	103,765	1,166,432
U.S. Government Asset-Backed	122,995	122,995	
Municipal Bonds	155,023		35,030
Mortgage-Backed			
Government Pass-through	3,791,375	441,153	26,576
Corporate Pass-through	392,967		317,406
Collateralized Mortgage Obligations			
Corporate CMO's	313,391		56,374
Corporate			
Corporate Bonds	3,931,368		140,061
Corporate Asset-Backed	1,016,641		770,097
Non-U.S. - Government/Sovereign	610,630		290,256
Short Term			
Commercial Paper	1,248,024		
Total Debt Investments	<u>20,854,001</u>	<u>\$ 5,679,990</u>	<u>\$ 2,812,256</u>
Other Investments			
Equity			
U.S.	11,399,485		
Non-U.S.	6,497,376		
Derivatives	11		
Real Estate	1,085,564		
Private Equities	74,636		
Commingled Funds			
U.S. Equity	137,168		
U.S. Fixed Income	49,211		
Non-U.S. Equity	33,988		
Money Market Funds (rated AAA)	18,170		
Money Market Funds (rated NR)	113,804		
Total Other Investments	<u>19,409,413</u>		
Total Investments	<u>\$ 40,263,414</u>		

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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>
\$ 23,653									\$ 2,955,636
58,248	\$ 61,745								
64,905	10,043				\$ 613				3,323,646
			\$ 2,021	\$ 68,922	156,593	\$ 15,529	\$ 10,077		3,875
328,450	1,207,986	\$ 2,002,346	168,915	28,325		1,201			54,084
123,431	70,559	41,765			9,152				1,637
320,374									
\$ 919,061	\$ 1,350,333	\$ 2,044,111	\$ 170,936	\$ 97,247	\$ 166,358	\$ 16,730	\$ 10,077	\$ 1,248,024	\$ 6,338,878

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.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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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, 2011, 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, 2011, 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.

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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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, 2011, 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	\$ 2,464,337	6.12
Federal National Mortgage Association	3,272,062	8.13

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, 2011, the SPIF held one security which was purchased with a remaining maturity of four hundred ten (410) days which is in violation of the investment policy; however, the market value (\$50,046,000) was not material. The maximum weighted average maturity of the pool was ninety (90) days until an investment policy change on April 26, 2011. 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 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

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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 7 to 275 days at June 30, 2011. Interest rates on certificates of deposit held at June 30, 2011, ranged from 0.20 percent to 0.40 percent. The days to maturity on U.S. Government Agencies ranged from 25 to 410 days at June 30, 2011. Interest rates on U.S. Government Agencies held at June 30, 2011 ranged from 0.02 percent to 2.25 percent. The days to maturity on commercial paper ranged from 1 to 45 days at June 30, 2011. Interest rates on commercial paper held at June 30, 2011, ranged from 0.02 percent to 0.17 percent.

As of June 30, 2011, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND  
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Months)
U.S. Government Agencies	\$ 3,862,484	5.11
U.S. Government Treasuries	1,105,066	5.47
Commercial paper	859,960	0.45

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, 2011	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 397,214	5.50
Government Bonds	1,870,530	9.25
Government Inflation Indexed	2,475,914	3.80
Government Mortgage-Backed	3,667,503	2.89
Government Asset-Backed	117,625	6.31
Municipal Bonds	149,480	10.56
Corporate Fixed Income		
Collateralized Mortgage Obligations	313,391	3.82
Commercial Mortgage Backed	381,608	2.21
Asset Backed Securities	1,015,712	0.71
Corporate Bonds	3,764,808	6.83
Guaranteed Fixed Income	10,024	0.25
Short Term		
Commercial Paper	388,064	0.01
Total Debt Investments	<u>\$ 14,551,873</u>	

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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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, 2011	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	\$ 16,024	7.69
U.S. TIPS	25,026	3.51
U.S. Agencies	7,386	2.69
Government Mortgage-Backed	28,485	2.17
Government Asset-Backed	1,013	7.64
Municipal Bonds	2,903	7.60
Corporate Fixed Income		
Corporate Mortgage-Backed	5,689	1.81
Corporate Bonds	31,033	5.37
Corporate Asset-Backed	929	0.11
Total Debt Investments	<u>\$ 118,488</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, 2011	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 68,144	6.19
Government Bonds	44,404	7.94
Government Mortgage-Backed	95,387	1.00
Government Asset-Backed	4,357	7.25
Municipal Bonds	2,640	10.25
Corporate Fixed Income		
Commercial Mortgage Backed	5,670	7.93
Corporate Bonds	135,528	4.37
Total Debt Investments	<u>\$ 356,130</u>	

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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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 5.17 years at June 30, 2011.

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, 2011, was as follows (expressed in thousands):

<u>Currency</u>	<u>Total Fair Value</u>	<u>Fixed Income</u>	<u>Equity</u>	<u>Cash</u>
Australian Dollar	\$ 284,181		\$ 284,011	\$ 170
British Pound Sterling	1,042,358	\$ 67,057	975,026	275
Canadian Dollar	1,831,495	112,936	1,717,840	719
Danish Krone	69,323		69,163	160
Euro Currency	1,397,786	99,868	1,287,817	10,101
Hong Kong Dollar	134,900		134,886	14
Japanese Yen	1,308,285	320,374	984,129	3,782
New Israeli Shekel	11,348		11,348	
New Zealand Dollar	4,964		4,945	19
Norwegian Krone	89,807	23,985	65,639	183
Singapore Dollar	76,919		76,899	20
Swedish Krona	111,190		110,983	207
Swiss Franc	321,680		321,112	568
Total	<u>\$ 6,684,236</u>	<u>\$ 624,220</u>	<u>\$ 6,043,798</u>	<u>\$ 16,218</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 daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial

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statement date. As of June 30, 2011, 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, 2011, 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, 2011</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						
		\$ (121)		\$ (121)	4,450	AUD
		(1,304)	Derivative Instruments	(1,304)	65,000	CAD
	Investment	<u>(953)</u>	Instruments	<u>(953)</u>	37,260	EUR
	Income	\$ <u>(2,378)</u>	Payable	\$ <u>(2,378)</u>		
Future Contracts						
	Investment		Derivative Instruments			
	Income	\$ 485,290	Receivable	\$ 3,883	\$ 1,585,441	
Option Contracts						
	Investment		Derivative Instruments			
	Income	\$ (17)	Instruments	\$ 11	\$ 11	
TBA Mortgage-Backed Securities						
	Investment		Derivative Instruments			
	Income	\$ (767)	Payable	\$ (767)	\$ 260,632	

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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 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, 2011, the University's investments were rated as follows (expressed in thousands):

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Rated Debt Instruments	Fair Value	Credit Quality Rating			
		US Treasury/ Agency	Aaa	Aa1	Aa2
U.S. Treasuries	\$ 3,664	\$ 3,664			
U.S. Agencies	10,902		\$ 9,757		
Corporate Bonds	16,070		2,039		\$ 955
Municipal Bonds	3,395			\$ 223	1,286
Mutual Funds – Bonds	27,389		1,153		1,499
Mortgages and Notes	236				
Money Market Mutual Fund	1,761		1,761		
	<u>\$ 63,417</u>	<u>\$ 3,664</u>	<u>\$ 14,710</u>	<u>\$ 223</u>	<u>\$ 3,740</u>

(Continued)

Rated Debt Instruments	Credit Quality Rating				
	Aa3	A1	A2	A3	Baa1
U.S. Treasuries					
U.S. Agencies					
Corporate Bonds	\$ 306	\$ 1,394	\$ 3,022	\$ 1,607	\$ 3,415
Municipal Bonds	762	184			426
Mutual Funds – Bonds			1,629		
Mortgages and Notes					
Money Market Mutual Fund					
Total	<u>\$ 1,068</u>	<u>\$ 1,578</u>	<u>\$ 4,651</u>	<u>\$ 1,607</u>	<u>\$ 3,841</u>

(Continued)

Rated Debt Instruments	Credit Quality Rating				
	Baa2	Ba2	B1	B2	Unrated
U.S. Treasuries					
U.S. Agencies					\$ 1,145
Corporate Bonds	\$ 2,823				509
Municipal Bonds					514
Mutual Funds – Bonds	1,476	\$ 1,281	\$ 87	\$ 40	20,224
Mortgages and Notes					236
Money Market Mutual Fund					
Total	<u>\$ 4,299</u>	<u>\$ 1,281</u>	<u>\$ 87</u>	<u>\$ 40</u>	<u>\$ 22,628</u>



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Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2011, the University had the following debt investments and maturities (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</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	\$ 3,664	\$ 50	\$ 2,157	\$ 758	\$ 699
U.S. Agencies	10,902	174	6,585	2,248	1,895
Corporate Bonds	16,070	4,889	5,070	6,087	24
Municipal Bonds	3,395	974	700	2	1,719
Mortgages and Notes	236	14	222		
Bond Mutual Funds	27,389		6,310	17,234	3,845
	<u>\$ 61,656</u>	<u>\$ 6,101</u>	<u>\$ 21,044</u>	<u>\$ 26,329</u>	<u>\$ 8,182</u>

University foundations' investments in the amount of \$128.071 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-one limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2011, the estimated fair value of these assets is \$361.2 million and total capital contributions, less returns of capital, equal \$344.7 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 (Continued)**  
**JUNE 30, 2011**

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, 2011, 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	U.S. Treasury/ Agency	Credit Quality Rating					Not Rated
			AAA	AA	A	BBB	BB	
U.S. Treasuries	\$ 44,047	\$ 44,047						
U. S. Agencies	63,691	3,050	\$ 60,641					
Commercial Paper	2,249				\$ 2,249			
Corporate Bonds	16,000		400	\$ 1,309	9,543	\$ 1,170		\$ 3,578
Municipal Bonds	602		36	539	27			
Mutual Funds—Bonds	25,704		13,113	1,700	2,428	1,804	\$ 696	5,963
Collateralized Mortgage Obligation	2,130		1,089					1,041
Money Market Mutual Fund	1,368							1,368
<b>Total Debt Instruments</b>	<b>\$ 155,791</b>	<b>\$ 47,097</b>	<b>\$ 75,279</b>	<b>\$ 3,548</b>	<b>\$ 14,247</b>	<b>\$ 2,974</b>	<b>\$ 696</b>	<b>\$ 11,950</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, 2011, 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	\$ 44,047	\$ 19,647	\$ 22,383	\$ 1,987	\$ 30
U.S. Agencies	63,691	124	56,262	6,634	671
Commercial Paper	2,249	2,249			
Corporate Bonds	16,000	365	12,454	3,100	81
Municipal Bonds	602		256	313	33
Mutual Funds—Bonds	25,704	1,962	7,328	5,044	11,370
Mortgage Backed Securities	1,038			77	961
Collateralized Mortgage Obligation	1,092		712	31	349
<b>Total Debt Investments</b>	<b>\$ 154,423</b>	<b>\$ 24,347</b>	<b>\$ 99,395</b>	<b>\$ 17,186</b>	<b>\$ 13,495</b>

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 \$210.832 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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, 2011, were rated by Standard and Poor's as follows (expressed in thousands):

<u>Rated Debt Instruments</u>	<u>Fair Value</u>	<u>U.S. Treasury/ Agency</u>	<u>Credit Quality Rating</u>		
			<u>AAA</u>	<u>AA-2</u>	<u>Not Rated</u>
U.S. Agencies	\$ 146,533		\$ 140,738	\$ 5,177	\$ 618
U.S. Treasuries	184,042	\$ 184,042			
Repurchase Agreements	<u>100,000</u>				<u>100,000</u>
Total Debt Instruments	<u>\$ 430,575</u>	<u>\$ 184,042</u>	<u>\$ 140,738</u>	<u>\$ 5,177</u>	<u>\$ 100,618</u>

Concentration of Credit Risk

At June 30, 2011, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal Home Loan Bank	\$ 24,770	5.75
Federal National Mortgage Association	75,256	17.48
Repurchase Agreements – Morgan Stanley Dean Witter	60,000	13.93
Repurchase Agreements – UBS	40,000	9.29
Federal Home Loan Mortgage Corp	32,375	7.52

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

Interest Rate Risk

As of June 30, 2011, 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	\$ 146,533	2.052
U.S. Treasury Coupon	89,252	5.248
U.S. Treasury Discount	94,790	0.073
Total	<u>\$ 330,575</u>	

**B. Accounts and notes receivable**

Receivables at June 30, 2011, 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>				<u>Total Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Total Receivables</u>
	<u>Accounts</u>	<u>Taxes</u>	<u>Due From Other Government</u>	<u>Other</u>			
<b>Governmental Activities:</b>							
General	\$ 143,982	\$ 763,433	\$ 757,578	\$ 1,662	\$ 1,666,655	\$ (110,753)	\$ 1,555,902
Education	4,036	472,435	70,285		546,756	(31,994)	514,762
Highway	309	84,045	243,553	10,221	338,128		338,128
Nonmajor governmental	590	9,327	15,135	1,775	26,827	(491)	26,336
Internal Service	4,170		10,372	2	14,544	(116)	14,428
Total—governmental activities	<u>\$ 153,087</u>	<u>\$ 1,329,240</u>	<u>\$ 1,096,923</u>	<u>\$ 13,660</u>	<u>\$ 2,592,910</u>	<u>\$ (143,354)</u>	<u>\$ 2,449,556</u>
Amounts not expected to be collected within one year		<u>\$ 13,379</u>	<u>\$ 10,372</u>				<u>\$ 23,751</u>
<b>Business-type Activities:</b>							
Employment Security	\$ 68,414	\$ 165,105	\$ 11,655	\$ 4,701	\$ 249,875	\$ (46,032)	\$ 203,843
Sewer Treatment Loan				1	1		1
Nonmajor enterprise	2,556			7	2,563	(165)	2,398
Total—business-type activities	<u>\$ 70,970</u>	<u>\$ 165,105</u>	<u>\$ 11,655</u>	<u>\$ 4,709</u>	<u>\$ 252,439</u>	<u>\$ (46,197)</u>	<u>\$ 206,242</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2011, was as follows (expressed in thousands):

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,699,404	\$ 108,407	\$ (3,843)	\$ 1,803,968
Infrastructure	19,408,072	938,676	(17,250)	20,329,498
Construction in progress	1,304,279	972,649	(1,006,011)	1,270,917
Software in development	37,335	18,844	(23,981)	32,198
Total capital assets, not being depreciated	<u>22,449,090</u>	<u>2,038,576</u>	<u>(1,051,085)</u>	<u>23,436,581</u>
Capital assets, being depreciated:				
Structures and improvements	2,205,722	73,097	(5,122)	2,273,697
Machinery and equipment	767,966	97,465	(28,815)	836,616
Total capital assets being depreciated	<u>2,973,688</u>	<u>170,562</u>	<u>(33,937)</u>	<u>3,110,313</u>
Less accumulated depreciation for:				
Structures and improvements	(898,456)	(51,854)	2,709	(947,601)
Machinery and equipment	(478,182)	(67,800)	21,631	(524,351)
Total accumulated depreciation	<u>(1,376,638)</u>	<u>(119,654)</u>	<u>24,340</u>	<u>(1,471,952)</u>
Total capital assets, being depreciated, net	<u>1,597,050</u>	<u>50,908</u>	<u>(9,597)</u>	<u>1,638,361</u>
Governmental activities capital assets, net	<u>\$ 24,046,140</u>	<u>\$ 2,089,484</u>	<u>\$ (1,060,682)</u>	<u>\$ 25,074,942</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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

Governmental activities:	
General Government	\$ 3,149
Education	1,169
Health and Social Services	13,967
Law, Justice and Public Safety	26,337
Recreation and Resource Development	12,385
Regulation of Business and Professions	592
Transportation	16,132
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>45,923</u>
Total depreciation expense – governmental activities	<u>\$ 119,654</u>

Highway Construction Commitments — At June 30, 2011, the Department of Transportation had contractual commitments of approximately \$1.932 billion for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$1.720 billion) and general obligation bond proceeds (\$211.6 million).

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**Discretely Presented Component Units**

Capital asset activity for the year ended June 30, 2011, for the discretely presented component units was as follows (expressed in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 157,183	\$ 11,498	\$ (267)	\$ 168,414
Construction in progress	423,492	252,086	(159,094)	516,484
Total capital assets, not being depreciated	<u>580,675</u>	<u>263,584</u>	<u>(159,361)</u>	<u>684,898</u>
Capital assets, being depreciated:				
Infrastructure	335,053	30,191	(2,349)	362,895
Structures and improvements	3,886,484	208,021	(3,464)	4,091,041
Machinery and equipment	<u>957,478</u>	<u>107,601</u>	<u>(48,605)</u>	<u>1,016,474</u>
Total capital assets being depreciated	5,179,015	345,813	(54,418)	5,470,410
Less accumulated depreciation for:				
Infrastructure	(162,867)	(14,838)	143	(177,562)
Structures and improvements	(1,495,480)	(104,401)	1,602	(1,598,279)
Machinery and equipment	<u>(552,256)</u>	<u>(85,668)</u>	<u>45,846</u>	<u>(592,078)</u>
Total accumulated depreciation	<u>(2,210,603)</u>	<u>(204,907)</u>	<u>47,591</u>	<u>(2,367,919)</u>
Total capital assets, being depreciated, net	<u>2,968,412</u>	<u>140,906</u>	<u>(6,827)</u>	<u>3,102,491</u>
Total capital assets, net	<u>\$ 3,549,087</u>	<u>\$ 404,490</u>	<u>\$ (166,188)</u>	<u>\$ 3,787,389</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2011, balances are available as follows (expressed in thousands):

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 12,787
Construction in progress	4,776
Total capital assets, not being depreciated	17,563
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	133,240
Machinery and equipment	26,204
Total capital assets being depreciated	160,453
Less: Total accumulated depreciation	(34,987)
Total capital assets, being depreciated, net	125,466
Total capital assets, net	\$ 143,029

**D. Interfund balances**

1. Interfund balances at June 30, 2011, consisted of the following (expressed in thousands):

**DUE FROM**

	<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Employment Security</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
<b>D</b> General		\$ 269,896		\$ 5,907	\$ 70	\$ 70	\$ 275,943
<b>U</b> Education	\$ 301						301
<b>E</b> Employment Security	461						461
<b>T</b> Internal Service Funds	1,816					185	2,001
<b>O</b> Fiduciary Funds	7,974	300	\$ 887		266	267	9,694
<b>Total</b>	\$ 10,552	\$ 270,196	\$ 887	\$ 5,907	\$ 336	\$ 522	\$ 288,400

Of the \$269.896 million due to the General Fund from the Education Fund, \$269.861 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 \$5.907 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. 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 \$1.712 million to various general fund agencies for computer systems development. Of this amount, \$237 thousand is considered long term and not expected to be repaid within one year.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2011, 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 PRIMARY GOVERNMENT:</b>						
<b>A</b> General			\$ 138	\$ 30,562	\$ 123	\$ 30,823
<b>Y</b> Education		\$ 81,925	137	138		82,200
<b>A</b> Employment Security					5	5
<b>B</b> Nonmajor Governmental Funds			11	515		526
<b>L</b> Internal Service Funds			3	3	92	98
<b>E</b> Fiduciary Funds	\$ 71		4,329	3,648	20	8,068
<b>T</b>						
<b>O</b> Total	\$ <u>71</u>	\$ <u>81,925</u>	\$ <u>4,618</u>	\$ <u>34,866</u>	\$ <u>240</u>	\$ <u>121,720</u>

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2011, consisted of the following (expressed in thousands):

**RECEIVABLE FROM  
PRIMARY GOVERNMENT**

	General	Education	Employment Security	Nonmajor Governmental Funds	Total
<b>R E C E COMPONENT UNITS: I</b>					
<b>V</b> Tennessee Board of Regents		\$ 5,659		\$ 801	\$ 6,460
<b>A</b> University of Tennessee	\$ 154	10,330		1,085	11,569
<b>B</b> Nonmajor Component <b>L</b> Units	2,045	\$	\$ 38		2,083
<b>E</b>					
Total	\$ <u>2,199</u>	\$ <u>15,989</u>	\$ <u>38</u>	\$ <u>1,886</u>	\$ <u>20,112</u>
<b>T O</b>					

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**E. Transfers**

Transfers between the various primary government funds for fiscal year ended June 30, 2011, are as follows (expressed in thousands):

<b>Transfers Out</b>	<b>Transfers In</b>								<b>Total</b>
	<b>General</b>	<b>Education</b>	<b>Highway</b>	<b>Nonmajor Governmental Funds</b>	<b>Sewer Treatment</b>	<b>Nonmajor Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Private Purpose Trust Funds</b>	
General		\$ 942,536		\$ 339,982	\$ 6,890	\$ 2,178	\$ 45,677	\$ 63,114	\$ 1,400,377
Education							8		8
Highway	\$ 1,529								1,529
Nonmajor Governmental Funds	91,417		\$ 104,600	15,642			138		211,797
Nonmajor Enterprise Funds	6,934								6,934
Internal Service Funds	2,000			1,849					3,849
<b>Totals</b>	<b>\$ 101,880</b>	<b>\$ 942,536</b>	<b>\$ 104,600</b>	<b>\$ 357,473</b>	<b>\$ 6,890</b>	<b>\$ 2,178</b>	<b>\$ 45,823</b>	<b>\$ 63,114</b>	<b>\$ 1,624,494</b>

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, 2011, the general fund transferred \$1.4 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: \$942.5 million to subsidize the activities of the education fund, \$323.6 million for capital outlay expenditures, \$128.2 million to provide appropriations to finance various programs in other funds, \$2.3 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 \$104.6 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**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
2012	\$ 21,281
2013	18,950
2014	13,431
2015	10,277
2016	4,904
2017-2021	18,610
2022	2,893
Total Minimum Payments Required	\$ 90,346

Expenditures for rent under leases for the years ended June 30, 2011 and 2010 amounted to \$60.6 million and \$59.5 million, respectively.

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 16 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	2,771	28,339
	\$	28,689

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

At June 30, 2011, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2012	\$ 1,560
2013	1,561
2014	1,562
2015	1,522
2016	1,431
2017-2021	6,828
2022-2026	6,881
2027	304
Total	21,649
Less - Interest	6,047
Less - Executory Costs	99
Present value of net minimum lease payments	\$ 15,503

**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, 2011 (expressed in thousands):

Year Ended June 30	Total
2012	\$ 458
2013	461
2014	458
2015	460
2016	201
2017-2021	1,007
Total minimum future lease payments	\$ 3,045
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	\$ 3,045
Plus: deferred charges	316
Net investment in direct financing lease	\$ 3,361

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**H. Long term debt**

1. General Obligation Bonds – Bonds Payable at June 30, 2011, are shown below (expressed in thousands):

	<u>Amount</u>
<u>Governmental Activities:</u>	
General obligation bonds, 1.86% to 6.5%, due in generally decreasing amounts of principal and interest from \$132.057 million in 2012 to \$9.663 million in 2031	\$ 1,246,340
General obligation refunding bonds, 1999 Series A, 4.5% to 5%, principal and interest due in amounts from \$22.383 million in 2012 to \$5.398 million in 2015	57,702
General obligation refunding bonds, 2004 Series A, 5.1%, principal and interest due in the amount of \$1.629 million in 2012	1,550
General obligation refunding bonds, 2004 Series C, 3.5% to 5.25%, principal and interest due in amounts from \$36.170 million in 2012 to \$11.388 million in 2018	178,431
General obligation refunding bonds, 2005 Series A, 5% to 5.25%, principal and interest due in amounts from \$10.361 million in 2012 to \$7.628 million in 2020	104,711
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from \$3.939 million in 2012 to \$7.544 million in 2022	99,213
General obligation refunding bonds, 2009 Series D, 1.865% to 5.589%, principal and interest due in amounts from \$2.001 million in 2012 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 \$1.379 million in 2012 to \$7.375 million in 2024	47,041
	1,778,973
Less: Unamortized bond refunding costs	(24,765)
Total Governmental Activities	\$ 1,754,208

General obligation bonds issued during the year ended June 30, 2011:

October 2010	Bond Series 2010A in the amount of \$186.505 million Refunding Bond Series 2010B in the amount of \$44.940 million
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The October 2010, bond series 2010A, general obligation bond issuance in the amount of \$186.505 million represents tax-exempt bonds maturing serially through 2031 at interest rates ranged from 3 percent to 4 percent. The bonds were sold at a premium of \$12.961 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In October 2010, the state issued general obligation refunding bonds, series 2010B, in the amount of \$44.325 million of general obligation bonds issued in series 2003A. 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 \$2.216 million.

The net carrying amount of the refunded bonds was \$46.089 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$740 thousand. 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 14 years by \$5.772 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of \$5.053 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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, 2011, \$184.190 million of bonds outstanding are considered defeased.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2011, is shown below (expressed in thousands).

	<u>Commercial Paper</u>
General obligation commercial paper, interest rates ranging from .30% to .35% for tax exempt and .30% to .52% for taxable, varying maturities	\$ 241,217

The full faith and credit of the State, together with certain tax revenues, are pledged to secure all general obligation bonds and commercial paper listed above.

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, 2011, \$214.217 million of commercial paper was outstanding (\$188.678 million tax exempt and \$25.539 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2011, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds		Total Requirements
	Principal	Interest	
2012	\$ 142,801	\$ 67,019	\$ 209,820
2013	143,828	60,909	204,737
2014	137,183	54,834	192,017
2015	129,083	48,553	177,636
2016	123,695	43,021	166,716
2017-2021	511,318	150,503	661,821
2022-2026	387,484	66,559	454,043
2027-2031	203,581	6,364	209,945
	<u>\$ 1,778,973</u>	<u>\$ 497,762</u>	<u>\$ 2,276,735</u>

The above principal for bonds does not reflect a \$24.765 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2011, 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			Unissued June 30, 2011
	July 1, 2010	Authorized	Canceled	
Highway	\$ 998,400	\$ 161,500	\$ 104,600	\$ 1,055,300
Higher Education	56,053	79,600	4,590	131,063
Environment & Conservation	77	4,700		4,777
Economic & Community Development	176,059	264,400	55,727	384,732
General Government	<u>775,467</u>	<u>19,200</u>	<u>148,905</u>	<u>645,762</u>
Totals	<u>\$ 2,006,056</u>	<u>\$ 529,400</u>	<u>\$ 313,822</u>	<u>\$ 2,221,634</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2011, follows (expressed in thousands).

<b>Changes In Long-Term Obligations</b>					
	<u>Beginning</u>		<u>Reductions</u>	<u>Ending</u>	<u>Amounts</u>
	<u>Balance</u>	<u>Additions</u>		<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Commercial Paper Payable:					
General Obligation Debt	\$ 1,957,279	\$ 413,035	\$ (377,123)	\$ 1,993,191	\$ 134,675
Less Deferred Amount on Refundings	<u>(27,069)</u>	<u>(740)</u>	<u>3,044</u>	<u>(24,765)</u>	
Total Bonds and Commercial Paper Payable	1,930,210	412,295	(374,079)	1,968,426	134,675
Capital Leases	16,300		(797)	15,503	836
Compensated Absences	237,022	150,628	(152,681)	234,969	87,653
Claims and Judgments	218,189	46,428	(84,398)	180,219	44,753
Pollution Remediation	116,216	1,861	(18,587)	99,490	1,401
Other Post Employment Benefits	300,497	91,881		392,378	
Other Long-Term Liabilities	<u>19,748</u>	<u>48,364</u>		<u>68,112</u>	
Governmental Activities Long-Term Obligations	<u>\$ 2,838,182</u>	<u>\$ 751,457</u>	<u>\$ (630,542)</u>	<u>\$ 2,959,097</u>	<u>\$ 269,318</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Deposits Payable	\$ 6,434	\$ 825	\$ (12)	\$ 7,247	
Compensated Absences	56		(56)		-
Other Post Employment Benefits	<u>116</u>		<u>(116)</u>		<u>-</u>
Business-Type Activities Long-Term Obligations	<u>\$ 6,606</u>	<u>\$ 825</u>	<u>\$ (184)</u>	<u>\$ 7,247</u>	<u>\$ -</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.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**I. Payables**

Payables as of June 30, 2011, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>					
General	\$ 409,983	\$ 78,135		\$ 98,082	\$ 586,200
Education	42,218	3,519		21,457	67,194
Highway	91,449	7,344			98,793
Nonmajor governmental	84,471	1,817	\$ 17,073	267	103,628
Internal Service	<u>75,471</u>	<u>1,863</u>			<u>77,334</u>
 Total— governmental activities	 <u>\$ 703,592</u>	 <u>\$ 92,678</u>	 <u>\$ 17,073</u>	 <u>\$ 119,806</u>	 <u>\$ 933,149</u>
 <b>Business-Type Activities:</b>					
Employment Security	\$ 27			\$ 36,660	\$ 36,687
Sewer Treatment Loan	1,627				1,627
Other Proprietary	<u>38,518</u>			<u>5</u>	<u>38,523</u>
 Total—business-type activities	 <u>\$ 40,172</u>			 <u>\$ 36,665</u>	 <u>\$ 76,837</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**J. Governmental Fund Balances—Restricted, Committed, and Assigned**

**Governmental Fund Balances**  
(expressed in thousands)

	Restricted Purposes	Committed Purposes	Assigned Purposes
<b>General Fund</b>			
General government	\$ 2,269	\$ 29,808	\$ 530,134
Health and social services	20,438	99,176	344,020
Law, justice and public safety	64,268	66,305	9,226
Recreation and resources development	9,715	16,801	296,172
Regulation of business and professions	4,252	23,211	100
	<u>\$ 100,942</u>	<u>\$ 235,301</u>	<u>\$ 1,179,652</u>
<b>Education</b>			
After School Program	\$ 18,215		
Lottery For Education	390,208		
Energy Efficient School Initiative	66,241		
Other		\$ 3,962	\$ 54,087
	<u>\$ 474,664</u>	<u>\$ 3,962</u>	<u>\$ 54,087</u>
<b>Highway</b>			
State Matching	\$ 153,547		
Railway, Aeronautics, and Waterway Program		\$ 27,003	
State Aid		85,374	
Future Highway Projects			\$ 130,729
Railroad Inspection		1,950	
Other			14,319
	<u>\$ 153,547</u>	<u>\$ 114,327</u>	<u>\$ 145,048</u>
<b>Other Nonmajor Fund</b>			
Capital Projects	\$ 5,570		\$ 507,110
Debt Service		\$ 5,400	4,337
General government	1,679	12,924	
Education	143,176		
Health and social services			
Law, justice and public safety	2,309	3,176	
Recreation and resources development	95,414	48,810	
Regulation of business and professions	74,863	2,958	
	<u>\$ 323,011</u>	<u>\$ 73,268</u>	<u>\$ 511,447</u>

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**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

**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, 2011 (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	\$ 2,428,069	\$ 126,966	\$ 1,691,418	\$ 2,062,518	\$ 358,582	\$ 6,667,553
Due from						
Primary Government			6,460	11,569	2,083	20,112
Due from						
Other Component Units					1,108,997	1,108,997
Restricted Assets	306,691	2,311			344,751	653,753
Capital Assets, Net	157	1,020	2,051,367	1,850,593	27,281	3,930,418
Total Assets	2,734,917	130,297	3,749,245	3,924,680	1,841,694	12,380,833
<b>Liabilities</b>						
Accounts Payable and Other Current Liabilities	63,173	44,973	222,674	233,457	58,282	622,559
Due to Primary Government	71	81,925	4,618	34,866	240	121,720
Due to Other Component Units			575,473	533,524		1,108,997
Long-Term Liabilities	2,151,717	3,398	176,919	311,688	1,666,310	4,310,032
Total Liabilities	2,214,961	130,296	979,684	1,113,535	1,724,832	6,163,308
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	157	1,020	1,481,330	1,237,400	21,625	2,741,532
Restricted	517,587	1	493,176	1,081,850	5,712	2,098,326
Unrestricted	2,212	(1,020)	795,055	491,895	89,525	1,377,667
Total Net Assets	\$ 519,956	\$ 1	\$ 2,769,561	\$ 2,811,145	\$ 116,862	\$ 6,217,525

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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	\$ 497,163	\$ 136,447	\$ 361,996	
Tennessee Education Lottery	1,106,491	1,106,330	45	
Board of Regents	2,336,915	834,516	845,368	\$ 64,535
University of Tennessee	1,860,717	585,352	902,291	100,453
Nonmajor Component Units	236,564	132,958	23,472	
Total	\$ 6,037,850	\$ 2,795,603	\$ 2,133,172	\$ 164,988

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 \$809.3 million were made to the TBR and \$574.4 million to the UT.

Capital project expenditures in the amount of \$100 million were made for the TBR and \$65 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 \$48 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of \$282 million for the State's Lottery for Education Account.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
\$ 1,280					\$ 1,280
	\$ (116)				(116)
		\$ (592,496)			(592,496)
			\$ (272,621)		(272,621)
				\$ (80,134)	(80,134)
1,280	(116)	(592,496)	(272,621)	(80,134)	(944,087)
		768,827	534,686	73,547	1,377,060
		117,206	820	7,589	125,615
(86)	110	5,542	22,901	92	28,559
(86)	110	4,712	558,407	1,654	6,366
		896,287	558,407	82,882	1,537,600
		13,274	30,485		43,759
1,194	(6)	317,065	316,271	2,748	637,272
518,762	7	2,452,496	2,494,874	114,114	5,580,253
\$ 519,956	\$ 1	\$ 2,769,561	\$ 2,811,145	\$ 116,862	\$ 6,217,525

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, 2011, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	\$ 22,453	\$ 552,752
University of Tennessee	27,812	505,121
Total	\$ 50,265	\$ 1,057,873

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2011, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, homeownership program revenue bonds, and housing finance program bonds, various Series, .35% to 7.93%, due in amounts of principal and interest ranging from \$168.104 million in 2012 to \$303.513 million in 2042	\$ 2,146,560
Less: Unamortized bond refunding costs	(6,074)
Net Bonds Payable	\$ <u>2,140,486</u>
Preserve Loan Program Note, 3% interest with principal maturing in December 2011.	\$ <u>3,250</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, 2011, included the following issues:

October 2010—Program bonds of \$120.7 million

On October 13, 2010, the agency issued \$120.7 million in Homeownership Program Bonds, Issue 2010-1. The agency used \$99.835 million of these bonds to refund bonds.

Current Refundings

During the year ended June 30, 2011, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$12.260 million, in the Homeownership Program in the amount of \$317.390 million, and in the Housing Finance Program in the amount of \$5.780 million. The respective carrying values of the bonds were \$12.214 million, \$321.059 million, and \$5.769 million. This resulted in an expense to the Mortgage Finance Program of \$11 thousand and in income to the Homeownership Program of \$3.669 million.

On November 1, 2010, the agency used \$99.835 million of Homeownership Program bonds, 2010-1, to refund bonds previously issued in the Homeownership Program (this amount consists of \$99.835 million early redemption). The carrying amount of these bonds was \$99.372 million. The refunding resulted in a difference of \$463 thousand between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by \$22.228 million over the next 15 years, and the agency realized an economic gain (difference between present values of old and new debt service payments) of \$10.477 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

Debt Service requirements to maturity for revenue bonds payable at June 30, 2011, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total Requirements
	Principal	Interest	
2012	\$ 78,021	\$ 90,083	\$ 168,104
2013	50,000	89,091	139,091
2014	50,865	87,530	138,395
2015	51,550	85,803	137,353
2016	53,635	83,911	137,546
2017-2021	231,488	389,628	621,116
2022-2026	332,608	333,122	665,730
2027-2031	245,998	257,470	503,468
2032-2036	320,252	196,089	516,341
2037-2041	432,373	84,174	516,547
2042	299,770	3,743	303,513
	<u>\$ 2,146,560</u>	<u>\$ 1,700,644</u>	<u>\$ 3,847,204</u>

The debt principal in the preceding table is \$6.074 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.

In October 2008, the Internal Revenue Service issued Notice 2008-88, amending Notice 2008-41. With an effective date of March 28, 2008, this notice provides temporary relief to issuers by allowing them to purchase their own bonds and commercial paper without causing an extinguishment of the debt for tax purposes. Therefore, on October 9, 2008, due to unstable credit markets, the agency purchased at par \$83.05 million of its Single Family Mortgage Notes Trust Indenture from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2009, after which the notes will be available to reissue. However, in accordance with Financial Accounting Standards Board Statement No. 76, Paragraph 3, the outstanding notes are not recorded for financial reporting purposes.

Due to continuing unstable credit markets, on December 31, 2009, the Internal Revenue Service extended the amount of time the agency is allowed to hold its outstanding notes purchased from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2010, however, the notes matured on August 12, 2010.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

The following table is a summary of the note activity for the year ended June 30, 2011 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 3,672	\$ -	\$ 422	\$ 3,250

The \$3.250 million of notes outstanding at year end consist of Preserve Loan Program notes. These notes will mature on December 22, 2011. Interest rates are 3% and are charged quarterly.

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

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2011, are shown below (expressed in thousands):

Revenue bonds, 3.4% to 5%, due in generally decreasing amounts of principal and interest from \$1.611 million in 2012 to \$26 thousand in 2029	\$ 9,085
Less: Unamortized bond refunding costs	<u>(499)</u>
Net Bonds Payable	<u><u>\$ 8,586</u></u>

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

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2011, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2012	\$ 1,253	\$ 358	\$ 1,611
2013	1,063	310	1,373
2014	1,093	264	1,357
2015	937	218	1,155
2016	809	179	988
2017-2021	2,686	442	3,128
2022-2026	1,191	194	1,385
2027-2029	53	22	75
	<u>\$ 9,085</u>	<u>\$ 1,987</u>	<u>\$ 11,072</u>

The above principal for revenue bonds does not reflect a \$499 thousand deduction from bonds payable for the deferred amount on refunding.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2011, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from \$109.383 million in 2012 to \$4.414 million in 2040	\$ 1,505,273
Less: Unamortized bond refunding costs	(17,328)
Net Bonds Payable	<u>\$ 1,487,945</u>
Commercial paper, interest rates ranging from .14% to .40%, varying maturities	<u>\$ 162,653</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.

On September 15, 2010, the Authority issued two new series of bonds, 2010 Series A and B. The 2010 Series A tax-exempt bond proceeds in the amount of \$213.920 million were issued to redeem \$94.036 million of the Authority's tax-exempt commercial paper and \$110.498 million of the Authority's taxable commercial paper. The 2010 Series B taxable bond proceeds in the amount of \$18.015 million were issued to redeem \$15.832 million of the Authority's taxable commercial paper. The balance of the proceeds of the 2010 Series A and B was used to pay for new construction projects, various costs of issuance and to fund the debt service reserve fund.

On October 7, 2010, the Authority issued 2010 Qualified School Construction Bonds ("2010 QSCBs"). The 2010 QSCB proceeds in the amount of \$212.440 million were issued for the purposes of financing various qualifying QSCB projects and to pay the costs of issuance of the 2010 QSCBs.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2011, \$199.575 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2011, 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>
2012	\$ 65,426	\$ 43,960	\$ 109,386
2013	51,991	42,222	94,213
2014	53,551	40,092	93,643
2015	49,401	37,985	87,386
2016	61,446	35,962	97,408
2017-2021	294,456	146,822	441,278
2022-2026	246,062	90,207	336,269
2027-2031	563,921	41,990	605,911
2032-2036	84,259	13,789	98,048
2037-2040	34,760	701	35,461
	<u>\$ 1,505,273</u>	<u>\$ 493,730</u>	<u>\$ 1,999,003</u>

The above principal for revenue bonds is more than that presented on the accompanying financial statements by \$17.328 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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, 2011, \$145.058 million of tax-exempt and \$17.595 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 .14% to .40% 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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

A summary of changes in long-term obligations for the year ended June 30, 2011, follows (expressed in thousands).

**Changes In Long-Term Obligations**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee (UT)					
Loans and Notes Payable	\$ 545,168	\$ 158,354	\$ (163,300)	\$ 540,222	\$ 27,703
Tennessee Board of Regents (TBR)					
Loans and Notes Payable	537,394	163,834	(112,525)	588,703	23,613
Tennessee Housing Development Agency (THDA) Bonds Payable	2,322,679	201,856	(377,975)	2,146,560	83,035
Less Deferred Amount on Refunding	(5,931)	(1,099)	956	(6,074)	
THDA Notes Payable	3,672		(422)	3,250	
Nonmajor Component Units Bonds, Notes, and Loans Payable	1,484,584	568,353	(370,177)	1,682,760	65,210
Less Deferred Amount on Refunding	<u>(19,892)</u>		<u>1,806</u>	<u>(18,086)</u>	
Total Revenue Bonds, Notes and Loans Payable	\$ 4,867,674	\$ 1,091,298	\$ (1,021,637)	\$ 4,937,335	\$ 199,561
UT Compensated Absences	75,499	43,957	(43,443)	76,013	43,443
UT Other Post Employment Benefits	55,259	11,302		66,561	
UT Due to Grantors, Deferred Revenue and Annuities Payable	57,352	1,771	(1,915)	57,208	
UT Capital Leases	1,273		(622)	651	651
TBR Compensated Absences	57,371	33,192	(33,759)	56,804	5,154
TBR Other Post Employment Benefits	69,188	12,561		81,749	
TBR Due to Grantors, Deferred Revenue and Other	23,642	2,303	(1,077)	24,868	
THDA Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	9,525	4,686	(8,218)	5,993	528
THDA Compensated Absences	945	66	(17)	994	477
THDA Other Post Employment Benefits	794	200		994	
Tennessee Education Lottery Corporation (TELC) Prizes Annuities Payable	2,345	225	(156)	2,414	104
TELC Compensated Absences	533	629	(598)	564	383
TELC Deferred Lease	578		(158)	420	61
Nonmajor Component Units Compensated Absences	1,334	374	(580)	1,128	614
Nonmajor Component Units Other Post Employment Benefits	<u>337</u>	<u>170</u>		<u>507</u>	
Component Units Long-Term Obligations	\$ <u>5,223,649</u>	\$ <u>1,202,734</u>	\$ <u>(1,112,180)</u>	\$ <u>5,314,203</u>	\$ <u>260,976</u>

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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 \$103.967 million (\$1.731 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, 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, 2011, net appreciation of \$122.265 million is available to be spent, of which \$119.701 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, 2011, net appreciation of \$10.746 million is available to be spent, of which \$10.595 million is restricted to specific purposes.

**NOTE 5 – 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, 2011, included 123 local education agencies and one education cooperatives, with 51,173 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, 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.

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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):

	2011	2010
Unpaid Claims at Beginning of Year	\$ 30,681	\$ 28,257
Incurred Claims:		
Provision for insured events of the current year	429,286	383,088
Increase (decrease) in provision for insured events of prior years	3,184	(896)
Total Incurred Claims Expenses	432,470	382,192
Payments:		
Claims attributable to insured events of the current year	400,378	352,408
Claims attributable to insured events of prior years	33,703	27,360
Total Payments	434,081	379,768
Total Unpaid Claims at End of the Year	\$ 29,070	\$ 30,681

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, 2011, included 70 counties, 147 municipalities and 161 quasi-governmental organizations, with 12,478 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.

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

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

	<u>2011</u>	<u>2010</u>
Unpaid Claims at Beginning of Year	\$ 7,716	\$ 7,427
Incurred Claims:		
Provision for insured events of the current year	100,159	105,944
Increase (decrease) in provision for insured events of prior years	<u>(1,153)</u>	<u>(201)</u>
Total Incurred Claims Expenses	<u>99,006</u>	<u>105,743</u>
Payments:		
Claims attributable to insured events of the current year	93,242	98,228
Claims attributable to insured events of prior years	<u>6,561</u>	<u>7,226</u>
Total Payments	<u>99,803</u>	<u>105,454</u>
Total Unpaid Claims at End of the Year	<u>\$ 6,919</u>	<u>\$ 7,716</u>

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3. Risk Management - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State's management believes it is more economical to manage its 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, flood, earthquake, and builder's risk losses and surety bond coverage on the State's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence to an aggregate of \$5 million. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the State participate in RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization (a component unit). The Tennessee Education Lottery Corporation (a component unit) participates in the RMF for general liability purposes but is responsible for its own workers' compensation coverage. 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.

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 does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, such as salvage or subrogation, are another component of the claims liability estimate. At June 30, 2011, the present value of the casualty liability as actuarially determined was \$86.167 million (discounted at 2%). Changes in the balances of claims liabilities during fiscal years 2010 and 2011 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
2010-2011	\$ 106,630	\$ 38,928	\$ (49,330)	\$ 7,500	\$ 103,728
2009-2010	\$ 93,156	\$ 41,086	\$ (32,612)	5,000	\$ 106,630

At June 30, 2011, RMF held \$107.6 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees and certain former employees with work related injuries are eligible to participate. Fund members at June 30, 2011, included 64,632 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.



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

	2011	2010
Unpaid Claims at Beginning of Year	\$ 50,139	\$ 47,768
Incurred Claims:		
Provision for insured events of the current year	655,683	672,642
Increase (decrease) in provision for insured events of prior years	(414)	(1,760)
Total Incurred Claims Expenses	655,269	670,882
Payments:		
Claims attributable to insured events of the current year	609,829	622,502
Claims attributable to insured events of prior years	49,668	46,009
Total Payments	659,497	668,511
Total Unpaid Claims at End of the Year	\$ 45,911	\$ 50,139

5. 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 are Tennessee residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2011, the plan had 3,563 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 latest assessment for AccessTN is projected following the end of fiscal year 2011, approximately September 29, 2011. 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):

	2011	2010
Unpaid Claims at Beginning of Year	\$ 3,731	\$ 6,166
Incurred Claims:		
Provision for insured events of the current year	44,448	42,814
Increase (decrease) in provision for insured events of prior years	(238)	(1,371)
Total Incurred Claims Expenses	44,210	41,443
Payments:		
Claims attributable to insured events of the current year	41,463	39,086
Claims attributable to insured events of prior years	3,461	4,792
Total Payments	44,924	43,878
Total Unpaid Claims at End of the Year	\$ 3,017	\$ 3,731

**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., and the Tennessee Automobile Insurance Plan.

**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 2011 membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid \$13,000 for 2011 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 \$77,500 for 2011 membership dues.

The Interstate Mining Compact has 19 member states, including Tennessee. Tennessee paid \$18,131 for 2011 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 2011 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 38 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 41 member states, including Tennessee.

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 35 member states, including Tennessee. Tennessee paid \$2,370 for 2011 membership dues.

**D. Joint ventures**

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

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

	<u>2010</u>	<u>2009</u>
Current Assets	\$ 219	\$ 193
Capital Assets, less depreciation	<u>356</u>	<u>362</u>
Total Assets	<u>575</u>	<u>555</u>
Total Liabilities	327	347
Net Assets	<u>248</u>	<u>208</u>
Total Liabilities and Net Assets	<u><u>575</u></u>	<u><u>555</u></u>
Revenues	353	383
Expenditures	<u>313</u>	<u>374</u>
Excess of Revenues over Expenditures	40	9
Beginning Net Assets	<u>208</u>	<u>199</u>
Ending Net Assets	<u><u>\$ 248</u></u>	<u><u>\$ 208</u></u>

**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

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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. In previous fiscal years, prior to reaching the age of 65, all members had the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2011, the insurance plan structure was changed, and as a result, all members now 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 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; 25 years, 70 percent; and 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; 25 years, \$37.50; and 20 years, \$25.

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</u>	
			<u>State</u>	<u>Teachers</u>
Annual required contribution	\$ 92,764	\$ 22,478	\$ 15,837	\$ 11,730
Interest on the net OPEB obligation	9,921	1,259	1,412	936
Adjustment to the ARC	<u>(9,397)</u>	<u>(1,192)</u>	<u>(1,337)</u>	<u>(886)</u>
Annual OPEB cost	93,288	22,545	15,912	11,780
Amount of contribution	<u>(25,162)</u>	<u>(17,327)</u>	<u>(5,309)</u>	<u>(3,962)</u>
Increase in net OPEB obligation	68,126	5,218	10,603	7,818
Net OPEB obligation				
—beginning of year	220,458	27,977	31,374	20,804
Net OPEB obligation				
—end of year	<u>\$ 288,584</u>	<u>\$ 33,195</u>	<u>\$ 41,977</u>	<u>\$ 28,622</u>

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Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2009	Employee Group	\$ 118,812	36%	\$ 153,781
6/30/2010	Employee Group	102,674	35%	220,458
6/30/2011	Employee Group	93,288	27%	288,584
6/30/2009	Teacher Group (State Share)	25,914	61%	20,332
6/30/2010	Teacher Group (State Share)	24,649	69%	27,977
6/30/2011	Teacher Group (State Share)	22,545	77%	33,195
6/30/2009	Medicare Supp State	15,164	31%	20,789
6/30/2010	Medicare Supp State	15,604	32%	31,374
6/30/2011	Medicare Supp State	15,912	33%	41,977
6/29/2009	Medicare Supp Teachers	10,252	36%	13,113
6/30/2010	Medicare Supp Teachers	11,548	33%	20,804
6/30/2011	Medicare Supp Teachers	11,780	34%	28,622

Annual OPEB Cost and Net OPEB Obligation—Component Units  
(expressed in thousands)

	Employee Group Plan	Local Government Group Plan
Annual required contribution	\$ 52,892	\$ 215
Interest on the net OPEB obligation	5,685	6
Adjustment to the ARC	(5,385)	(6)
Annual OPEB cost	53,192	215
Amount of contribution	(29,018)	(55)
Increase in net OPEB obligation	24,174	160
Net OPEB obligation		
—beginning of year	126,336	128
Net OPEB obligation		
—end of year	\$ 150,510	\$ 288

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2009	Employee Group	\$ 71,023	37%	\$ 90,971
6/30/2010	Employee Group	58,521	40%	126,336
6/30/2011	Employee Group	53,192	55%	150,510
6/30/2009	Local Government Group	110	50%	127
6/30/2010	Local Government Group	46	98%	128
6/30/2011	Local Government Group	215	26%	288

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Funded Status and Funding Progress

The funded status of the plans as of July 1, 2010, was as follows (expressed in thousands):

*Primary Government*

	<u>Employee Group Plan</u>	<u>Teacher Group Plan (State Share)</u>	<u>Medicare Supplement Plan</u>	
			<u>State</u>	<u>Teachers</u>
Actuarial valuation date	7/1/2010	7/1/2010	7/1/2009	7/1/2009
Actuarial accrued liability (AAL) \$	977,935	\$ 215,202	\$ 209,622	\$ 158,789
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	<u>\$ 977,935</u>	<u>\$ 215,202</u>	<u>\$ 209,622</u>	<u>\$ 158,789</u>
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%	0.00%	0.00%
Covered payroll (active plan members) \$	1,560,085	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*

	<u>Employee Group Plan</u>	<u>Local Government Group Plan</u>
Actuarial valuation date	7/1/2010	7/1/2010
Actuarial accrued liability (AAL) \$	518,083	\$ 2,166
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	<u>\$ 518,083</u>	<u>\$ 2,166</u>
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%
Covered payroll (active plan members) \$	1,362,560	\$ 21,500
UAAL as a percentage of covered payroll	38%	10%

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

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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, 2010, actuarial valuation for each plan except the Medicare Supplement plan which is still dated as of July 1, 2009, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent in fiscal year 2011 for the Employee Group plan, the Local Education plan, and Medicare Supplement plan. In all plans, the rate decreased to 9.5 percent in fiscal year 2012, and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 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, 2011, there were 8,142 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 paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense.
- c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-201, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Employee Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retiree premiums are based on years of service; therefore, retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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, 2011, there were 5,832 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 paid 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.



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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 70 counties, 147 municipalities, and 161 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, 2011, there were 185 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 paid 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 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.

4. Retiree Health Plan—Medicare Supplement

- a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2011, there were 24,054 retirees enrolled. The State insurance committee establishes premiums annually.
- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid 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 are subsidized \$50 per month; 25 years, \$37.50; and 20 years, \$25. This plan is funded on a pay-as-you-go basis.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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 447 former employees during fiscal year 2010-2011, and the State Plan paid approximately \$5.67 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 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, 2011, 2010, and 2009, were \$721.759 million, \$578.404 million, and \$583.985 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 (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 482 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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.

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 \$84.9 million for the year ended June 30, 2011.

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, 2011, contributions totaling \$140.4 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

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, 2011, TSAC was guarantor of \$3.739 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

#### **I. Nashville correctional facilities revenue bonds**

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville that were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2011, of \$1.985 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

#### **J. Contingencies**

##### 1. Litigation

The State is a defendant in multiple legal proceedings. Included in these claims are cases associated with the legality and compliance of the policies and practices of the State's Medicaid agency.

The State is also involved in other litigating matters that include claims which normally recur in governmental operations. Some of these lawsuits, including the ones referred to above, may have a future budgetary programmatic impact. They will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the State approximately \$158 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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2011**

- The State commences or legally obligates itself to commence pollution remediation activities.

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

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

During the fiscal year, the State spent \$2 million for remediation activities and had an expected recovery of \$146 thousand from responsible parties. At June 30, 2011, the State had a pollution remediation obligation of \$99.5 million and an estimated potential recovery of \$6.1 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.

**K. Subsequent events**

Primary Government

Subsequent to June 30, the State issued \$117.1 million in general obligation commercial paper. In October 2011, the State issued 2011 Series A tax-exempt general obligation bonds in the amount of \$255.4 million at a premium of \$37 million, 2011 Series B tax-exempt general obligation bonds in the amount of \$62.2 million at a premium of \$10.5 million, and 2011 Series C taxable general obligation bonds in the amount of \$228.9 at a premium of \$21 thousand. The Series A issuance was used to redeem commercial paper and to finance the purchase of capital assets, the Series B issuance was used to refund a portion of 2003 Series A and a portion of 2005 Series B tax-exempt general obligation bonds, and Series C was used to redeem commercial paper, finance capital projects, and refund a portion of 2002 Series B and a portion of 2003 Series B taxable general obligation bonds.

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuances: 2011-B in August 2011 in the amount of \$40 million, 2009-B, Subseries B-4 in August 2011 in the amount of \$60 million, 2011-C in November 2011 in the amount of \$65.2 million, 2009-B, Subseries B-5 in November 2011 in the amount of \$34.7 million, and 2011-1 in December 2011 in the amount of \$141.2 million. The agency used mortgage prepayments and foreclosures proceeds to redeem \$52.1 million of outstanding bonds in July 2011, and \$57.3 million in October 2011.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued \$35 million in commercial paper.

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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, 2011	89.20
June 30, 2010	89.40
June 30, 2009	89.60

**BRIDGES**

Measurement Scale

The state maintains information on its 8,230 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, 2010	82.00%
June 30, 2008	81.00%
June 30, 2006	85.80%



**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>
2011	\$376,965	\$482,271	\$36,904	\$11,044
2010	259,147	425,681	39,707	44,312
2009	374,003	405,439	40,217	46,815
2008	270,331	310,355	36,224	29,196
2007	236,556	286,663	35,624	28,183
2006	224,472	277,442	33,052	38,327

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

**Other Post Employment Benefits Schedule of Funding Progress—Primary Government**  
(dollars in thousands)

<u>Actuarial Valuation Date</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>
7/1/07 State Plan	\$ 0	\$ 1,152,887	\$ 1,152,887	0 %	\$ 1,944,150	59.30%
7/1/09 State Plan	\$ 0	\$ 1,104,073	\$ 1,104,073	0 %	\$ 1,729,937	63.82%
7/1/10 State Plan	\$ 0	\$ 977,935	\$ 977,935	0 %	\$ 1,560,085	62.68%
7/1/07 Teacher Grp (State-Share)	\$ 0	\$ 252,546	\$ 252,546	0 %	N/A	N/A
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
7/1/07 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
7/1/07 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

\* An additional year will be reported for the Medicare Supplement plan as data becomes available.

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

<u>Actuarial Valuation Date</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>
7/1/07 State P	\$ 0	\$ 652,696	\$ 652,696	0 %	\$ 1,378,089	47%

7/1/09	State P	\$ 0	\$ 577,744	\$ 577,744	0 %	\$ 1,371,949	42%
7/1/10	State P	\$ 0	\$ 518,083	\$ 518,083	0 %	\$ 1,362,560	38%
7/1/07	Loc Gov	\$ 0	\$ 671	\$ 671	0 %	\$ 19,519	3%
7/1/09	Loc Gov	\$ 0	\$ 139	\$ 139	0 %	\$ 20,978	1%
7/1/10	Loc Gov	\$ 0	\$ 2,166	\$ 2,166	0 %	\$ 21,500	10%

\* An additional year will be reported as data becomes available.

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>
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773	18,579
(2) Unallocated expenses	3,520	2,830	2,085	1,195	888
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	45,418	*
(4) Net paid (cumulative) as of:					
End of policy year	6,591	34,095	36,859	45,389	*
One year later	9,044	38,791	40,277	*	
Two years later	9,056	40,010	*		
Three years later	9,452	*			
(5) Reestimated net incurred claims and expenses:					
End of policy year	8,922	38,764	39,811	45,418	*
One year later	8,975	38,715	40,276	*	
Two years later	9,051	40,010	*		
Three years later	9,452	*			
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	530	1,246	465	-	*

\* 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, 2011

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	\$ 1,902,727	\$ 1,902,727	\$ 1,902,727	
Add:				
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	1,902,727	1,902,727	1,902,727	
Revenues:				
Taxes	6,002,303	6,002,303	6,202,856	\$ 200,553
Licenses, fines, fees, and permits	296,490	296,490	299,753	3,263
Interest on investments	7,000	7,000	10,012	3,012
Federal	9,944,949	10,945,523	10,437,678	(507,845)
Departmental services	2,066,346	2,345,736	2,179,766	(165,970)
Other	171,167	171,167	202,975	31,808
Other financing sources:				
Transfers in	96,228	101,880	101,880	
Bond authorization				
Insurance recoveries		50,995	50,995	
Total sources of financial resources	20,487,210	21,823,821	21,388,642	(435,179)
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	74,344	74,366	36,937	37,429
Secretary of State	49,592	50,622	38,521	12,101
Comptroller	100,199	92,871	79,039	13,832
Treasurer	73,554	58,804	47,835	10,969
Governor	4,693	4,593	4,011	582
Commissions	80,618	82,639	75,510	7,129
Finance and Administration	227,949	214,997	120,194	94,803
Personnel	12,107	14,716	12,067	2,649
General Services	22,959	22,809	19,412	3,397
Revenue	110,491	115,160	105,265	9,895
Miscellaneous Appropriations	1,054	1,074	206	868
Education				
Health and social services				
Veterans Affairs	5,469	5,269	4,848	421
Labor and Workforce Development	267,743	295,189	232,262	62,927
TennCare	8,785,710	9,521,305	8,967,960	553,345
Mental Health	334,507	337,562	275,944	61,618
Intellectual Disabilities	768,853	854,088	803,807	50,281
Health	590,014	609,909	526,580	83,329
Human Services	3,052,545	3,340,944	3,202,879	138,065
Cover Tennessee	266,018	263,518	202,281	61,237
Children's Services	668,248	693,087	656,778	36,309
Law, justice and public safety				
Judicial	292,347	298,826	281,756	17,070
Correction	699,920	681,639	654,609	27,030
Probation and Parole	90,449	89,649	86,120	3,529
Military	114,033	198,578	139,516	59,062
Bureau of Criminal Investigation	69,032	68,980	63,832	5,148
Safety	216,626	183,398	169,026	14,372
Recreation and resource development				
Agriculture	88,468	87,094	73,262	13,832
Tourist Development	20,334	19,834	17,915	1,919
Environment and Conservation	317,781	322,682	251,650	71,032
Economic and Community Development	500,441	577,316	173,184	404,132
Regulation of business and professions				
Commerce and Insurance	90,280	91,586	73,025	18,561
Financial Institutions	18,544	17,944	16,058	1,886
Transportation				
Intergovernmental revenue sharing	533,237	533,237	533,237	
Other financing uses:				
Transfers out	1,369,994	1,400,377	1,400,377	
Total uses of financial resources	19,918,153	21,224,662	19,345,903	1,878,759
Fund balances (budgetary basis), June 30	\$ 569,057	\$ 599,159	\$ 2,042,739	\$ 1,443,580

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		
\$ 548,755	\$ 548,755	\$ 548,755		\$ 8,417	\$ 8,417	\$ 8,417	
				494,893	494,893	494,893	
548,755	548,755	548,755		503,310	503,310	503,310	
3,898,600	3,898,600	4,030,881	\$ 132,281	752,400	752,400	778,662	\$ 26,262
1,800	1,800	1,537	(263)	215,500	215,500	214,250	(1,250)
		319	319				
2,065,649	2,076,941	1,643,298	(433,643)	755,101	4,041,583	942,339	(3,099,244)
42,569	42,709	29,788	(12,921)	199,553	317,483	51,102	(266,381)
309,400	309,400	307,210	(2,190)	4,640	4,640	3,725	(915)
930,300	942,536	942,536			104,600	104,600	
				164,500	59,900		(59,900)
7,797,073	7,820,741	7,504,324	(316,417)	2,595,004	5,999,416	2,597,988	(3,401,428)
7,481,159	7,501,103	6,971,684	529,419				
				2,330,438	5,734,654	2,294,991	3,439,663
				288,100	288,100	292,539	(4,439)
	8	8		1,529	1,529	1,529	
7,481,159	7,501,111	6,971,692	529,419	2,620,067	6,024,283	2,589,059	3,435,224
\$ 315,914	\$ 319,630	\$ 532,632	\$ 213,002	\$ (25,063)	\$ (24,867)	\$ 8,929	\$ 33,796

State of Tennessee  
Required Supplementary Information  
Reconciliation of Budget to GAAP  
Note to RSI  
For the Fiscal Year Ended June 30, 2011

(Expressed in thousands)

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

	<u>General Fund</u>	<u>Education Fund</u>	<u>Highway Fund</u>
<b>Sources of financial resources</b>			
Actual amounts (budgetary basis)	\$ 21,388,642	\$ 7,504,324	\$ 2,597,988
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.	(1,902,727)	(548,755)	(503,310)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	<u>(152,875)</u>	<u>(942,536)</u>	<u>(104,600)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 19,333,040</u>	<u>\$ 6,013,033</u>	<u>\$ 1,990,078</u>
<b>Uses of financial resources</b>			
Actual amounts (budgetary basis)	\$ 19,345,903	\$ 6,971,692	\$ 2,589,059
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.			(412,922)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	<u>(1,400,377)</u>	<u>(8)</u>	<u>(1,529)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 17,945,526</u>	<u>\$ 6,971,684</u>	<u>\$ 2,174,608</u>

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 Dairy Promotion Board), 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, 2011. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$110.7 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.

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.

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, 2011

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 288,480	\$ 5,911	\$ 563,896	\$ 43,659	\$ 901,946
Investments				234,536	234,536
Receivables:					
Taxes	3,761	5,060		15	8,836
Due from other governments	7,108		8,027		15,135
Interest				1,775	1,775
Other	590				590
Due from component units				526	526
Loans receivable		10,289			10,289
Restricted assets:					
Cash and cash equivalents			5,570		5,570
 Total assets	<u>\$ 299,939</u>	<u>\$ 21,260</u>	<u>\$ 577,493</u>	<u>\$ 280,511</u>	<u>\$ 1,179,203</u>
<b>Liabilities and fund balances</b>					
Liabilities:					
Accounts payable and accruals	\$ 21,476	\$ 76	\$ 64,813		\$ 86,365
Due to other funds	336				336
Due to component units				\$ 1,886	1,886
Deferred revenue	2,030	11,181			13,211
Advance from federal government	33,993				33,993
Other		266			266
 Total liabilities	<u>57,835</u>	<u>11,523</u>	<u>64,813</u>	<u>1,886</u>	<u>136,057</u>
Fund balances:					
Nonspendable:					
Permanent fund corpus				135,420	135,420
Restricted	174,236		5,570	143,205	323,011
Committed	67,868	5,400			73,268
Assigned		4,337	507,110		511,447
 Total fund balances	<u>242,104</u>	<u>9,737</u>	<u>512,680</u>	<u>278,625</u>	<u>1,043,146</u>
 Total liabilities and fund balances	<u>\$ 299,939</u>	<u>\$ 21,260</u>	<u>\$ 577,493</u>	<u>\$ 280,511</u>	<u>\$ 1,179,203</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, 2011

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>					
Taxes:					
Sales		\$ 46,027			\$ 46,027
Fuel	\$ 15,290	108,200			123,490
Business	291	223,973			224,264
Other	16,104				16,104
Licenses, fines, fees, and permits	172,996	2,700		\$ 2,466	178,162
Investment income	496			34,262	34,758
Federal	33,510		\$ 5,626		39,136
Departmental services	11,222	3,762	59,868		74,852
Other	7			2	9
<b>Total revenues</b>	<u>249,916</u>	<u>384,662</u>	<u>65,494</u>	<u>36,730</u>	<u>736,802</u>
<b>Expenditures</b>					
Current:					
General government	24,198				24,198
Education				6,752	6,752
Law, justice and public safety	5,966				5,966
Recreation and resources development	166,435			85	166,520
Regulation of business and professions	47,561				47,561
Debt service:					
Bond principal retirement		112,234			112,234
Bond interest		67,994			67,994
Commercial paper interest		502			502
Debt issuance costs		4,363			4,363
Capital outlay			391,519		391,519
<b>Total expenditures</b>	<u>244,160</u>	<u>185,093</u>	<u>391,519</u>	<u>6,837</u>	<u>827,609</u>
Excess (deficiency) of revenues over (under) expenditures	<u>5,756</u>	<u>199,569</u>	<u>(326,025)</u>	<u>29,893</u>	<u>(90,807)</u>
<b>Other financing sources (uses)</b>					
Bond and commercial paper issued			307,318		307,318
Commercial paper redeemed			(155,382)		(155,382)
Refunding bond proceeds		43,014			43,014
Refunding bond premium		2,122			2,122
Refunding payment to escrow		(44,816)			(44,816)
Bond premium		11,132			11,132
Insurance claims recoveries	618		970		1,588
Transfers in	12,689	3,643	341,141		357,473
Transfers out	(138)	(211,642)	(17)		(211,797)
<b>Total other financing sources (uses)</b>	<u>13,169</u>	<u>(196,547)</u>	<u>494,030</u>		<u>310,652</u>
Net changes in fund balances	18,925	3,022	168,005	29,893	219,845
Fund balances, July 1	<u>223,179</u>	<u>6,715</u>	<u>344,675</u>	<u>248,732</u>	<u>823,301</u>
Fund balances, June 30	<u>\$ 242,104</u>	<u>\$ 9,737</u>	<u>\$ 512,680</u>	<u>\$ 278,625</u>	<u>\$ 1,043,146</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.

Dairy Promotion Board—This Board was formed to promote the consumption of milk and milk products. Revenue is derived from an assessment against commercial milk and milk product producers.

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, 2011

(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	\$ 54,155	\$ 10,406	\$ 7,984	\$ 35,643	\$ 11,194	\$ 7,545
Receivables:						
Taxes	59	626	1,767			
Due from other governments	2,309	3,848				128
Other	124		1			
	<u>56,647</u>	<u>14,880</u>	<u>9,752</u>	<u>35,643</u>	<u>11,194</u>	<u>7,673</u>
Total assets	<u>\$ 56,647</u>	<u>\$ 14,880</u>	<u>\$ 9,752</u>	<u>\$ 35,643</u>	<u>\$ 11,194</u>	<u>\$ 7,673</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 3,143	\$ 5,690	\$ 926		\$ 3	\$ 218
Due to other funds	215	44	6			14
Deferred revenue	1					1,542
Advance from other governments				\$ 33,993		
	<u>3,359</u>	<u>5,734</u>	<u>932</u>	<u>33,993</u>	<u>3</u>	<u>1,774</u>
Total liabilities	<u>3,359</u>	<u>5,734</u>	<u>932</u>	<u>33,993</u>	<u>3</u>	<u>1,774</u>
Fund balances:						
Restricted	48,333			1,650		
Committed	4,955	9,146	8,820		11,191	5,899
	<u>53,288</u>	<u>9,146</u>	<u>8,820</u>	<u>1,650</u>	<u>11,191</u>	<u>5,899</u>
Total fund balances	<u>53,288</u>	<u>9,146</u>	<u>8,820</u>	<u>1,650</u>	<u>11,191</u>	<u>5,899</u>
Total liabilities and fund balances	<u>\$ 56,647</u>	<u>\$ 14,880</u>	<u>\$ 9,752</u>	<u>\$ 35,643</u>	<u>\$ 11,194</u>	<u>\$ 7,673</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>
\$ 13,827	\$ 1,946	\$ 48,533	\$ 83,653	\$ 682	\$ 1,927
		1,246		63	
	431	566			
		1			
<u>\$ 13,827</u>	<u>\$ 2,377</u>	<u>\$ 50,346</u>	<u>\$ 83,653</u>	<u>\$ 745</u>	<u>\$ 1,927</u>
\$ 692	\$ 54	\$ 4,113	\$ 5,828	\$ 36	\$ 1
	14	20	4	1	
		473			
<u>692</u>	<u>68</u>	<u>4,606</u>	<u>5,832</u>	<u>37</u>	<u>1</u>
	2,309	45,740	74,863		1,341
13,135			2,958	708	585
<u>13,135</u>	<u>2,309</u>	<u>45,740</u>	<u>77,821</u>	<u>708</u>	<u>1,926</u>
<u>\$ 13,827</u>	<u>\$ 2,377</u>	<u>\$ 50,346</u>	<u>\$ 83,653</u>	<u>\$ 745</u>	<u>\$ 1,927</u>

State of Tennessee  
Combining Balance Sheet  
Nonmajor Special Revenue Funds (continued)  
June 30, 2011

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority
<b>Assets</b>						
Cash and cash equivalents	\$ 1,751	\$ 1,158	\$ 8	\$ 1,354	\$ 1,653	\$ 2,593
Receivables:						
Taxes						
Due from other governments						257
Other			2			31
	<u>1,751</u>	<u>1,158</u>	<u>10</u>	<u>1,354</u>	<u>1,653</u>	<u>2,881</u>
Total assets	<u>\$ 1,751</u>	<u>\$ 1,158</u>	<u>\$ 10</u>	<u>\$ 1,354</u>	<u>\$ 1,653</u>	<u>\$ 2,881</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 440	\$ 33	\$ 5	\$ 97		\$ 197
Due to other funds		4		1		27
Deferred revenue						
Advance from other governments						
	<u>440</u>	<u>37</u>	<u>5</u>	<u>98</u>		<u>224</u>
Total liabilities	<u>440</u>	<u>37</u>	<u>5</u>	<u>98</u>		<u>224</u>
Fund balances:						
Restricted						
Committed	1,311	1,121	5	1,256	1,653	2,657
	<u>1,311</u>	<u>1,121</u>	<u>5</u>	<u>1,256</u>	<u>1,653</u>	<u>2,657</u>
Total fund balances	<u>1,311</u>	<u>1,121</u>	<u>5</u>	<u>1,256</u>	<u>1,653</u>	<u>2,657</u>
Total liabilities and fund balances	<u>\$ 1,751</u>	<u>\$ 1,158</u>	<u>\$ 10</u>	<u>\$ 1,354</u>	<u>\$ 1,653</u>	<u>\$ 2,881</u>

Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
\$ 2,468	\$ 288,480
	3,761
	7,108
	<u>590</u>
<u>\$ 2,468</u>	<u>\$ 299,939</u>
	\$ 21,476
	336
	2,030
	<u>33,993</u>
	<u>57,835</u>
	174,236
\$ 2,468	<u>67,868</u>
<u>2,468</u>	<u>242,104</u>
<u>\$ 2,468</u>	<u>\$ 299,939</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, 2011

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection	Hazardous Waste
<b>Revenues</b>						
Taxes:						
Fuel	\$ 536					
Business	291					
Other	6,000		\$ 6,939			
Licenses, fines, fees, and permits	36,978	\$ 9,188	2,525		\$ 41,221	
Interest on investments	109	20	16	\$ 3	23	\$ 16
Federal	22,467	3,848		1,249		1,536
Departmental services	7,646		31			3,250
Other		7				
<b>Total revenues</b>	<u>74,027</u>	<u>13,063</u>	<u>9,511</u>	<u>1,252</u>	<u>41,244</u>	<u>4,802</u>
<b>Expenditures</b>						
General government		14,614		1,292		
Law, justice and public safety						
Recreation and resources development	73,779		6,376		41,719	5,999
Regulation of business and professions						
<b>Total expenditures</b>	<u>73,779</u>	<u>14,614</u>	<u>6,376</u>	<u>1,292</u>	<u>41,719</u>	<u>5,999</u>
Excess (deficiency) of revenues over (under) expenditures	<u>248</u>	<u>(1,551)</u>	<u>3,135</u>	<u>(40)</u>	<u>(475)</u>	<u>(1,197)</u>
<b>Other financing sources (uses)</b>						
Insurance claims recoveries	618					
Transfers in	3,910					1,000
Transfers out	(138)					
<b>Total other financing sources (uses)</b>	<u>4,390</u>					<u>1,000</u>
<b>Net change in fund balances</b>	4,638	(1,551)	3,135	(40)	(475)	(197)
Fund balances, July 1	48,650	10,697	5,685	1,690	11,666	6,096
<b>Fund balances, June 30</b>	<u>\$ 53,288</u>	<u>\$ 9,146</u>	<u>\$ 8,820</u>	<u>\$ 1,650</u>	<u>\$ 11,191</u>	<u>\$ 5,899</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>
		\$ 14,754			
\$ 75	\$ 4,230	4,621	\$ 59,465	\$ 710	\$ 10
27	3	103	163		2
5	218	3,017			807
		5			20
<u>107</u>	<u>4,451</u>	<u>22,500</u>	<u>59,628</u>	<u>710</u>	<u>839</u>
	4,473			683	
7,071		23,427			73
			<u>47,561</u>		
<u>7,071</u>	<u>4,473</u>	<u>23,427</u>	<u>47,561</u>	<u>683</u>	<u>73</u>
<u>(6,964)</u>	<u>(22)</u>	<u>(927)</u>	<u>12,067</u>	<u>27</u>	<u>766</u>
6,831		10			
<u>6,831</u>		<u>10</u>			
(133)	(22)	(917)	12,067	27	766
<u>13,268</u>	<u>2,331</u>	<u>46,657</u>	<u>65,754</u>	<u>681</u>	<u>1,160</u>
\$ <u>13,135</u>	\$ <u>2,309</u>	\$ <u>45,740</u>	\$ <u>77,821</u>	\$ <u>708</u>	\$ <u>1,926</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, 2011

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority
<b>Revenues</b>						
Taxes:						
Fuel						
Business						
Other	\$ 2,250		\$ 840			
Licenses, fines, fees, and permits		\$ 1,579		\$ 666	\$ 3,191	\$ 7,621
Interest on investments	3			3	5	
Federal	184					402
Departmental services		15	2			30
Other						
Total revenues	<u>2,437</u>	<u>1,594</u>	<u>842</u>	<u>669</u>	<u>3,196</u>	<u>8,053</u>
<b>Expenditures</b>						
General government		1,284				7,008
Law, justice and public safety						
Recreation and resources development	3,331		842	728	3,090	
Regulation of business and professions						
Total expenditures	<u>3,331</u>	<u>1,284</u>	<u>842</u>	<u>728</u>	<u>3,090</u>	<u>7,008</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(894)</u>	<u>310</u>	<u>-</u>	<u>(59)</u>	<u>106</u>	<u>1,045</u>
<b>Other financing sources (uses)</b>						
Insurance claims recoveries						
Transfers in	938					
Transfers out						
Total other financing sources (uses)	<u>938</u>					
Net change in fund balances	44	310		(59)	106	1,045
Fund balances, July 1	<u>1,267</u>	<u>811</u>	<u>5</u>	<u>1,315</u>	<u>1,547</u>	<u>1,612</u>
Fund balances, June 30	<u>\$ 1,311</u>	<u>\$ 1,121</u>	<u>\$ 5</u>	<u>\$ 1,256</u>	<u>\$ 1,653</u>	<u>\$ 2,657</u>

<u>Fraud and Economic Crime</u>	<u>Total Nonmajor Special Revenue Funds</u>
	\$ 15,290
	291
	16,104
\$ 991	172,996
	496
	33,510
	11,222
	<u>7</u>
<u>991</u>	<u>249,916</u>
	24,198
810	5,966
	166,435
	<u>47,561</u>
<u>810</u>	<u>244,160</u>
<u>181</u>	<u>5,756</u>
	618
	12,689
	<u>(138)</u>
	<u>13,169</u>
181	18,925
<u>2,287</u>	<u>223,179</u>
<u>\$ 2,468</u>	<u>\$ 242,104</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, 2011

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 48,650	\$ 48,650	
Revenues:			
Taxes	5,844	6,827	\$ 983
Licenses, fines, fees, and permits	37,656	36,978	(678)
Interest on investments		109	109
Federal	27,480	22,467	(5,013)
Departmental services	3,601	7,646	4,045
Other	9,134		(9,134)
Other financing sources - transfers in	3,910	3,910	
Other financing sources - insurance recoveries	618	618	
<b>Total sources of financial resources</b>	<b>136,893</b>	<b>127,205</b>	<b>(9,688)</b>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	90,717	73,779	16,938
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	138	138	
<b>Total uses of financial resources</b>	<b>90,855</b>	<b>73,917</b>	<b>16,938</b>
Fund balances (budgetary basis), June 30	<u>\$ 46,038</u>	<u>\$ 53,288</u>	<u>\$ 7,250</u>

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 10,697	\$ 10,697		\$ 5,685	\$ 5,685	
7,872	9,188	\$ 1,316	4,807	6,939	\$ 2,132
3,700	3,848	148	3,482	2,525	(957)
3	7	4		16	16
			234	31	(203)
<u>22,272</u>	<u>23,760</u>	<u>1,488</u>	<u>14,208</u>	<u>15,196</u>	<u>988</u>
15,900	14,614	1,286			
			10,142	6,376	3,766
<u>15,900</u>	<u>14,614</u>	<u>1,286</u>	<u>10,142</u>	<u>6,376</u>	<u>3,766</u>
\$ <u><u>6,372</u></u>	\$ <u><u>9,146</u></u>	\$ <u><u>2,774</u></u>	\$ <u><u>4,066</u></u>	\$ <u><u>8,820</u></u>	\$ <u><u>4,754</u></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, 2011

(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,690	\$ 1,690	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		3	3
Federal	19,500	1,249	(18,251)
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>21,190</u>	<u>2,942</u>	<u>(18,248)</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State	20,500	1,292	19,208
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>20,500</u>	<u>1,292</u>	<u>19,208</u>
Fund balances (budgetary basis), June 30	<u>\$ 690</u>	<u>\$ 1,650</u>	<u>\$ 960</u>

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 11,666	\$ 11,666		\$ 6,096	\$ 6,096	
48,901	41,221	\$ (7,680)		16	\$ 16
	23	23	1,990	1,536	(454)
			3,579	3,250	(329)
			1,000	1,000	
<u>60,567</u>	<u>52,910</u>	<u>(7,657)</u>	<u>12,665</u>	<u>11,898</u>	<u>(767)</u>
48,573	41,719	6,854	11,813	5,999	5,814
<u>48,573</u>	<u>41,719</u>	<u>6,854</u>	<u>11,813</u>	<u>5,999</u>	<u>5,814</u>
\$ <u><u>11,994</u></u>	\$ <u><u>11,191</u></u>	\$ <u><u>(803)</u></u>	\$ <u><u>852</u></u>	\$ <u><u>5,899</u></u>	\$ <u><u>5,047</u></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, 2011

(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 13,268	\$ 13,268	
Revenues:			
Taxes	75	75	
Licenses, fines, fees, and permits			
Interest on investments		27	\$ 27
Federal			
Departmental services		5	5
Other			
Other financing sources - transfers in	6,831	6,831	
Other financing sources - insurance recoveries			
<b>Total sources of financial resources</b>	<b>20,174</b>	<b>20,206</b>	<b>32</b>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation	9,018	7,071	1,947
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
<b>Total uses of financial resources</b>	<b>9,018</b>	<b>7,071</b>	<b>1,947</b>
Fund balances (budgetary basis), June 30	\$ <u>11,156</u>	\$ <u>13,135</u>	\$ <u>1,979</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)
\$ 2,331	\$ 2,331		\$ 46,657	\$ 46,657	
4,059	4,230	\$ 171	15,000	14,754	\$ (246)
	3	3	4,269	4,621	352
	218	218	5,615	103	103
				3,017	(2,598)
				5	5
			10	10	
<u>6,390</u>	<u>6,782</u>	<u>392</u>	<u>71,551</u>	<u>69,167</u>	<u>(2,384)</u>
4,572	4,473	99			
			27,587	23,427	4,160
<u>4,572</u>	<u>4,473</u>	<u>99</u>	<u>27,587</u>	<u>23,427</u>	<u>4,160</u>
\$ <u>1,818</u>	\$ <u>2,309</u>	\$ <u>491</u>	\$ <u>43,964</u>	\$ <u>45,740</u>	\$ <u>1,776</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, 2011

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 65,754	\$ 65,754	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	57,200	59,465	\$ 2,265
Interest on investments		163	163
Federal	1,500		(1,500)
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	124,454	125,382	928
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance	85,077	47,561	37,516
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	85,077	47,561	37,516
Fund balances (budgetary basis), June 30	\$ 39,377	\$ 77,821	\$ 38,444

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 681	\$ 681		\$ 1,160	\$ 1,160	
799	710	\$ (89)	500	10	\$ (490)
				2	2
				807	807
				20	20
<u>1,480</u>	<u>1,391</u>	<u>(89)</u>	<u>1,660</u>	<u>1,999</u>	<u>339</u>
799	683	116	500	73	427
<u>799</u>	<u>683</u>	<u>116</u>	<u>500</u>	<u>73</u>	<u>427</u>
<u>\$ 681</u>	<u>\$ 708</u>	<u>\$ 27</u>	<u>\$ 1,160</u>	<u>\$ 1,926</u>	<u>\$ 766</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, 2011

(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	\$ 1,267	\$ 1,267	
Revenues:			
Taxes	2,250	2,250	
Licenses, fines, fees, and permits			
Interest on investments		3	\$ 3
Federal	250	184	(66)
Departmental services			
Other			
Other financing sources - transfers in	938	938	
Other financing sources - insurance recoveries			
<b>Total sources of financial resources</b>	<b>4,705</b>	<b>4,642</b>	<b>(63)</b>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	4,688	3,331	1,357
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
<b>Total uses of financial resources</b>	<b>4,688</b>	<b>3,331</b>	<b>1,357</b>
Fund balances (budgetary basis), June 30	\$ 17	\$ 1,311	\$ 1,294

(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)
\$ 811	\$ 811	\$	1,315	\$ 1,315	
1,476	1,579	\$ 103	2,532	666	\$ (1,866)
	15	15		3	3
<u>2,287</u>	<u>2,405</u>	<u>118</u>	<u>3,847</u>	<u>1,984</u>	<u>(1,863)</u>
			2,523	728	1,795
1,476	1,284	192			
<u>1,476</u>	<u>1,284</u>	<u>192</u>	<u>2,523</u>	<u>728</u>	<u>1,795</u>
\$ <u>811</u>	\$ <u>1,121</u>	\$ <u>310</u>	\$ <u>1,324</u>	\$ <u>1,256</u>	\$ <u>(68)</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, 2011

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,547	\$ 1,547	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,355	3,191	\$ 836
Interest on investments		5	5
Federal			
Departmental services	120		(120)
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>4,022</u>	<u>4,743</u>	<u>721</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,115	3,090	25
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	<u>3,115</u>	<u>3,090</u>	<u>25</u>
Fund balances (budgetary basis), June 30	<u>\$ 907</u>	<u>\$ 1,653</u>	<u>\$ 746</u>

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,612	\$ 1,612		\$ 220,887	\$ 220,887	
			27,976	30,845	\$ 2,869
8,100	7,621	\$ (479)	179,201	172,005	(7,196)
				496	496
588	402	(186)	60,623	33,510	(27,113)
2	30	28	7,536	11,220	3,684
			9,137	7	(9,130)
			12,689	12,689	
			618	618	
<u>10,302</u>	<u>9,665</u>	<u>(637)</u>	<u>518,667</u>	<u>482,277</u>	<u>(36,390)</u>
			4,572	4,473	99
			20,500	1,292	19,208
			15,900	14,614	1,286
8,663	7,008	1,655	8,663	7,008	1,655
			799	683	116
			7,803	6,421	1,382
			110,156	85,393	24,763
			90,717	73,779	16,938
			85,077	47,561	37,516
			1,476	1,284	192
			138	138	
<u>8,663</u>	<u>7,008</u>	<u>1,655</u>	<u>345,801</u>	<u>242,646</u>	<u>103,155</u>
<u>\$ 1,639</u>	<u>\$ 2,657</u>	<u>\$ 1,018</u>	<u>\$ 172,866</u>	<u>\$ 239,631</u>	<u>\$ 66,765</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, 2011

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 6,715	\$ 6,715	
Revenues:			
Taxes	366,500	378,200	\$ 11,700
Licenses, fines, fees, and permits	2,700	2,700	
Other		3,762	3,762
Other financing sources			
Transfers in	3,643	3,643	
Refunding bonds proceeds		320	320
Bond premium	11,132	11,132	
Total sources of financial resources	<u>390,690</u>	<u>406,472</u>	<u>15,782</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	404,087	185,093	218,994
Other financing uses - transfers out	211,642	211,642	
Total uses of financial resources	<u>615,729</u>	<u>396,735</u>	<u>218,994</u>
Fund balances (budgetary basis), June 30	<u>\$ (225,039)</u>	<u>\$ 9,737</u>	<u>\$ 234,776</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, 2011

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 8,155	\$ 35,504	\$ 43,659
Investments	234,536		234,536
Receivables:			
Taxes		15	15
Interest	1,775		1,775
Due from component units	526		526
 Total assets	\$ 244,992	\$ 35,519	\$ 280,511
<b>Liabilities and fund balances</b>			
Liabilities:			
Due to component units	\$ 1,886		\$ 1,886
 Total liabilities	1,886		1,886
Fund balances:			
Nonspendable			
Permanent fund corpus	99,930	\$ 35,490	135,420
Restricted	143,176	29	143,205
 Total fund balances	243,106	35,519	278,625
 Total liabilities and fund balances	\$ 244,992	\$ 35,519	\$ 280,511

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Permanent Funds  
For the Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
<b>Revenues</b>			
Licenses, fines, fees and permits		\$ 2,466	\$ 2,466
Investment income	\$ 34,192	70	34,262
Other		2	2
Total revenues	34,192	2,538	36,730
<b>Expenditures</b>			
Education	6,752		6,752
Recreation and resources development		85	85
Total expenditures	6,752	85	6,837
Excess of revenues over expenditures	27,440	2,453	29,893
Net change in fund balances	27,440	2,453	29,893
Fund balances, July 1	215,666	33,066	248,732
Fund balances, June 30	\$ 243,106	\$ 35,519	\$ 278,625

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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.**

State Loan Program—Operated since the early 1970's through the Department of Environment and Conservation, this program has provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery and waterworks facilities. In order for these borrowing entities to generate funds necessary to repay the loans, the imposition of a user's fee by the local systems was authorized. In order to finance this program, general obligation bonds were sold which, although remaining full faith and credit obligations of the state, are being retired from resources of this fund. Future financing for this program will be generated from the sale of revenue bonds or notes by the Local Development Authority.

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, 2011

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 17,406	\$ 130,392	\$ 12,536	\$ 40,495
Receivables:				
Accounts receivable		1,985	406	
Interest				7
Loans receivable	2,410			5,345
Total current assets	19,816	132,377	12,942	45,847
Noncurrent assets:				
Loans receivable	5,789			94,445
Total noncurrent assets	5,789			94,445
Total assets	25,605	132,377	12,942	140,292
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals		30,502	7,159	653
Total current liabilities		30,502	7,159	653
Noncurrent liabilities:				
Other noncurrent liabilities				2,322
Total noncurrent liabilities				2,322
Total liabilities		30,502	7,159	2,975
<b>Net assets</b>				
Unrestricted	25,605	101,875	5,783	137,317
Total net assets	\$ 25,605	\$ 101,875	\$ 5,783	\$ 137,317

<u>Grain Indemnity</u>	<u>Energy Efficient Schools Initiative</u>	<u>Client Protection</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 3,092	\$ 564	\$ 2,618	\$ 207,103
			2,391
	14,419		7
			22,174
<u>3,092</u>	<u>14,983</u>	<u>2,618</u>	<u>231,675</u>
			<u>100,234</u>
			<u>100,234</u>
<u>3,092</u>	<u>14,983</u>	<u>2,618</u>	<u>331,909</u>
	<u>207</u>	<u>2</u>	<u>38,523</u>
	<u>207</u>	<u>2</u>	<u>38,523</u>
			<u>2,322</u>
			<u>2,322</u>
	<u>207</u>	<u>2</u>	<u>40,845</u>
<u>3,092</u>	<u>14,776</u>	<u>2,616</u>	<u>291,064</u>
<u>\$ 3,092</u>	<u>\$ 14,776</u>	<u>\$ 2,616</u>	<u>\$ 291,064</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, 2011

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Operating revenues</b>				
Charges for services		\$ 24		
Investment income	\$ 3	45		
Premiums			\$ 444,530	\$ 102,677
Total operating revenues	3	69	444,530	102,677
<b>Operating expenses</b>				
Contractual services			19,970	4,230
Benefits			419,119	101,181
Other			6,798	1,243
Total operating expenses			445,887	106,654
Operating income (loss)	3	69	(1,357)	(3,977)
<b>Nonoperating revenues (expenses)</b>				
Operating grants	(25)			
Interest income			243	33
Other				
Total nonoperating revenues (expenses)	(25)		243	33
Income (loss) before transfers	(22)	69	(1,114)	(3,944)
Transfers in				
Transfers out	(1,283)	(5,651)		
Change in net assets	(1,305)	(5,582)	(1,114)	(3,944)
Net assets, July 1	1,305	31,187	102,989	9,727
Net assets, June 30	\$ -	\$ 25,605	\$ 101,875	\$ 5,783

Drinking Water	Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
\$ 1,682		\$ 151	\$ 206	\$ 2,063
72				120
				547,207
<u>1,754</u>		<u>151</u>	<u>206</u>	<u>549,390</u>
503		17	24	24,744
	\$ 85		1	520,300
<u>503</u>	<u>85</u>	<u>17</u>	<u>25</u>	<u>8,127</u>
<u>1,251</u>	<u>(85)</u>	<u>134</u>	<u>181</u>	<u>(3,781)</u>
23,580		14,640		38,195
(8,204)	6	2	5	289
<u>15,376</u>	<u>6</u>	<u>14,642</u>	<u>5</u>	<u>(8,204)</u>
16,627	(79)	14,776	186	30,280
2,178				26,499
<u>18,805</u>	<u>(79)</u>	<u>14,776</u>	<u>186</u>	<u>2,178</u>
118,512	3,171	-	2,430	(6,934)
<u>\$ 137,317</u>	<u>\$ 3,092</u>	<u>\$ 14,776</u>	<u>\$ 2,616</u>	<u>\$ 21,743</u>
				269,321
				<u>291,064</u>

State of Tennessee  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Cash flows from operating activities</b>				
Receipts from customers and users			\$ 449,534	\$ 103,556
Payments to suppliers			(444,360)	(107,159)
Payments to employees				
Payments for interfund services used			(6,798)	(1,243)
Net cash from (used for) operating activities			(1,624)	(4,846)
<b>Cash flows from noncapital financing activities</b>				
Operating grants received				
Transfers in				
Transfers out	\$ (1,283)	\$ (5,651)		
Payments to component units	(25)			
Subsidy to borrowers	(4)			
Net cash from (used for) noncapital financing activities	(1,312)	(5,651)		
<b>Cash flows from investing activities</b>				
Loans issued and other disbursements to borrowers				
Collection of loan principal		2,482		
Interest received	3	69	243	33
Net cash from (used for) investing activities	3	2,551	243	33
Net increase (decrease) in cash and cash equivalents	(1,309)	(3,100)	(1,381)	(4,813)
Cash and cash equivalents, July 1	1,309	20,506	131,773	17,349
Cash and cash equivalents, June 30	-	17,406	130,392	12,536
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 3	\$ 69	\$ (1,357)	\$ (3,977)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(3)	(45)		
Charges for services		(24)		
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			(66)	(309)
Increase (decrease) in accounts payable			(201)	(560)
Total adjustments	(3)	(69)	(267)	(869)
Net cash provided by (used for) operating activities	-	-	(1,624)	(4,846)

Drinking Water	Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
		\$ 78	\$ 206	\$ 553,374
	\$ (85)		(22)	(551,626)
\$ (503)		(17)	(1)	(1)
(503)	(85)	61	183	(8,561)
23,580		14,640		38,220
2,178				2,178
				(6,934)
				(25)
				(4)
25,758		14,640		33,435
(28,293)		(14,433)		(42,726)
4,602		221		7,305
1,760	6	75	5	2,194
(21,931)	6	(14,137)	5	(33,227)
3,324	(79)	564	188	(6,606)
37,171	3,171	-	2,430	213,709
\$ 40,495	\$ 3,092	\$ 564	\$ 2,618	\$ 207,103
\$ 1,251	\$ (85)	\$ 134	\$ 181	\$ (3,781)
(1,754)				(1,802)
				(24)
		(73)		(448)
			2	(759)
(1,754)		(73)	2	(3,033)
\$ (503)	\$ (85)	\$ 61	\$ 183	\$ (6,814)

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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.

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, 2011

(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	\$ 113,819	\$ 107,638	\$ 38,564	\$ 892	\$ 94,262	\$ 139,371	\$ 925
Accounts receivable	167		79		352	3,238	1
Due from other funds	1,723						
Due from component units	5	87	3				
Inventories, at cost	1,355		18	85			266
Prepaid expenses							165
<b>Total current assets</b>	<b>117,069</b>	<b>107,725</b>	<b>38,664</b>	<b>977</b>	<b>94,614</b>	<b>142,609</b>	<b>1,357</b>
<b>Noncurrent assets:</b>							
Accounts receivable		10,372					
Due from other funds	237						
Deferred charges					215		
Lease receivable					1,812		
<b>Restricted assets:</b>							
Cash and cash equivalents					986		
<b>Capital assets:</b>							
Land, at cost					62,765		
Structures and improvements, at cost					551,961		
Machinery and equipment, at cost	100,095		154,419	1,613	161		3,319
Less-accumulated depreciation	(70,762)		(100,611)	(1,295)	(247,068)		(1,971)
Construction in progress					2,316		
<b>Total capital assets, net of accumulated depreciation</b>	<b>29,333</b>		<b>53,808</b>	<b>318</b>	<b>370,135</b>		<b>1,348</b>
<b>Total noncurrent assets</b>	<b>29,570</b>	<b>10,372</b>	<b>53,808</b>	<b>318</b>	<b>373,148</b>		<b>1,348</b>
<b>Total assets</b>	<b>146,639</b>	<b>118,097</b>	<b>92,472</b>	<b>1,295</b>	<b>467,762</b>	<b>142,609</b>	<b>2,705</b>
<b>Liabilities</b>							
<b>Current liabilities:</b>							
Accounts payable	9,430	838	4,545	40	6,620	49,707	735
Accrued payroll and related deductions	2,112		101	129			111
Due to other funds	316	51	7	9	19		7
Lease obligations payable					146		
Bonds payable					18,739		
Unearned revenue		8	1,784			39,235	
Other		44,753					
<b>Total current liabilities</b>	<b>11,858</b>	<b>45,650</b>	<b>6,437</b>	<b>178</b>	<b>25,524</b>	<b>88,942</b>	<b>853</b>
<b>Noncurrent liabilities:</b>							
Lease obligations payable					524		
Commercial paper payable					13,020		
Bonds payable, net					191,119		
Other noncurrent liabilities	3,702	58,974	281	451			479
<b>Total noncurrent liabilities</b>	<b>3,702</b>	<b>58,974</b>	<b>281</b>	<b>451</b>	<b>204,663</b>		<b>479</b>
<b>Total liabilities</b>	<b>15,560</b>	<b>104,624</b>	<b>6,718</b>	<b>629</b>	<b>230,187</b>	<b>88,942</b>	<b>1,332</b>
<b>Net assets</b>							
Invested in capital assets, net of related debt	29,333		53,808	318	147,572		1,348
Restricted for capital projects					986		
Unrestricted	101,746	13,473	31,946	348	89,017	53,667	25
<b>Total net assets</b>	<b>\$ 131,079</b>	<b>\$ 13,473</b>	<b>\$ 85,754</b>	<b>\$ 666</b>	<b>\$ 237,575</b>	<b>\$ 53,667</b>	<b>\$ 1,373</b>

<u>Purchasing</u>	<u>Warehousing and Distribution</u>	<u>Division of Accounts</u>	<u>TRICOR</u>	<u>Edison</u>	<u>Total Internal Service Funds</u>
\$ 1,128	\$ 407	\$ 8,132	\$ 9,076	\$ 5,418	\$ 519,632
1	87	2	330		4,257
			41		1,764
	3				98
	318		5,003		7,045
					165
<u>1,129</u>	<u>815</u>	<u>8,134</u>	<u>14,450</u>	<u>5,418</u>	<u>532,961</u>
					10,372
					237
					215
					1,812
					<u>986</u>
			215		62,980
			15,752		567,713
	142	118	12,252	100,641	372,760
	(142)	(84)	(16,126)	(26,679)	(464,738)
					2,316
		34	12,093	73,962	541,031
		34	12,093	73,962	554,653
<u>1,129</u>	<u>815</u>	<u>8,168</u>	<u>26,543</u>	<u>79,380</u>	<u>1,087,614</u>
2	43	173	1,613	1,725	75,471
144	115	382	412	299	3,805
10	8	25	28	42	522
					146
					18,739
					41,027
					44,753
<u>156</u>	<u>166</u>	<u>580</u>	<u>2,053</u>	<u>2,066</u>	<u>184,463</u>
					524
				35,040	48,060
					191,119
<u>397</u>	<u>454</u>	<u>619</u>	<u>1,343</u>	<u>1,335</u>	<u>68,035</u>
<u>397</u>	<u>454</u>	<u>619</u>	<u>1,343</u>	<u>36,375</u>	<u>307,738</u>
<u>553</u>	<u>620</u>	<u>1,199</u>	<u>3,396</u>	<u>38,441</u>	<u>492,201</u>
		34	12,093	38,922	283,428
					986
<u>576</u>	<u>195</u>	<u>6,935</u>	<u>11,054</u>	<u>2,017</u>	<u>310,999</u>
<u>\$ 576</u>	<u>\$ 195</u>	<u>\$ 6,969</u>	<u>\$ 23,147</u>	<u>\$ 40,939</u>	<u>\$ 595,413</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, 2011

(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	\$ 157,446	\$ 47,782	\$ 37,366	\$ 3,828	\$ 133,554		\$ 19,764
Premiums						\$ 669,536	
Other						767	
<b>Total operating revenues</b>	<u>157,446</u>	<u>47,782</u>	<u>37,366</u>	<u>3,828</u>	<u>133,554</u>	<u>670,303</u>	<u>19,764</u>
<b>Operating expenses</b>							
Personal services	29,767		1,623	2,295			1,882
Contractual services	60,562	9,355	7,174	929	78,188	28,191	1,943
Materials and supplies	49,635		17,245	827	2,703		15,946
Rentals and insurance	24		148	150	40,493	360	6
Depreciation and amortization	10,046		11,652	64	12,747		305
Benefits		38,928				635,122	
Other	2,552	3,910	331	2	4,413	10,479	
<b>Total operating expenses</b>	<u>152,586</u>	<u>52,193</u>	<u>38,173</u>	<u>4,267</u>	<u>138,544</u>	<u>674,152</u>	<u>20,082</u>
Operating income (loss)	<u>4,860</u>	<u>(4,411)</u>	<u>(807)</u>	<u>(439)</u>	<u>(4,990)</u>	<u>(3,849)</u>	<u>(318)</u>
<b>Nonoperating revenues (expenses)</b>							
Taxes		2					
Operating grants		1,375					
Insurance claims recoveries	33		505	5	1,223		
Interest income		220			200	246	
Interest expense	(122)				(9,001)		
<b>Total nonoperating revenues (expenses)</b>	<u>(89)</u>	<u>1,597</u>	<u>505</u>	<u>5</u>	<u>(7,578)</u>	<u>246</u>	
Income (loss) before contributions and transfers	4,771	(2,814)	(302)	(434)	(12,568)	(3,603)	(318)
Transfers in	30,000		2,458	300	13,065		
Transfers out	(3,849)						
Change in net assets	30,922	(2,814)	2,156	(134)	497	(3,603)	(318)
Net assets, July 1	100,157	16,287	83,598	800	237,078	57,270	1,691
Net assets, June 30	<u>\$ 131,079</u>	<u>\$ 13,473</u>	<u>\$ 85,754</u>	<u>\$ 666</u>	<u>\$ 237,575</u>	<u>\$ 53,667</u>	<u>\$ 1,373</u>

<u>Purchasing</u>	<u>Warehousing and Distribution</u>	<u>Division of Accounts</u>	<u>TRICOR</u>	<u>Edison</u>	<u>Total Internal Service Funds</u>
\$ 5,020	\$ 5,150	\$ 13,152	\$ 35,936	\$ 26,387	\$ 485,385
					669,536
					767
<u>5,020</u>	<u>5,150</u>	<u>13,152</u>	<u>35,936</u>	<u>26,387</u>	<u>1,155,688</u>
2,294	1,915	5,557	7,732	8,372	61,437
1,616	5,495	3,684	9,071	7,474	213,682
397	1,685	153	14,441	9	103,041
13	4	8	731	543	42,480
	9	23	999	10,100	45,945
					674,050
<u>6</u>	<u>6</u>	<u>8</u>	<u>213</u>	<u>30</u>	<u>21,950</u>
<u>4,326</u>	<u>9,114</u>	<u>9,433</u>	<u>33,187</u>	<u>26,528</u>	<u>1,162,585</u>
<u>694</u>	<u>(3,964)</u>	<u>3,719</u>	<u>2,749</u>	<u>(141)</u>	<u>(6,897)</u>
					2
					1,375
	3,817				5,583
					666
					<u>(9,123)</u>
	<u>3,817</u>				<u>(1,497)</u>
694	(147)	3,719	2,749	(141)	(8,394)
					45,823
					<u>(3,849)</u>
694	(147)	3,719	2,749	(141)	33,580
<u>(118)</u>	<u>342</u>	<u>3,250</u>	<u>20,398</u>	<u>41,080</u>	<u>561,833</u>
<u>\$ 576</u>	<u>\$ 195</u>	<u>\$ 6,969</u>	<u>\$ 23,147</u>	<u>\$ 40,939</u>	<u>\$ 595,413</u>

State of Tennessee  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2011

(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	\$ 1,237	\$ 12,291	\$ 595	\$ 31	\$ 2,949	\$ 308,131	\$ 127
Receipts from interfund services provided	157,465	35,404	37,382	3,800	130,630	395,156	19,637
Payments to suppliers	(107,091)	(47,812)	(15,731)	(1,278)	(114,902)	(698,016)	(15,188)
Payments to employees	(29,317)		(1,556)	(2,245)			(1,799)
Payments for interfund services used	(11,084)	(6,968)	(7,051)	(635)	(6,601)	(10,479)	(1,942)
Net cash from (used for) operating activities	<u>11,210</u>	<u>(7,085)</u>	<u>13,639</u>	<u>(327)</u>	<u>12,076</u>	<u>(5,208)</u>	<u>835</u>
<b>Cash flows from noncapital financing activities</b>							
Negative cash balance implicitly repaid							
Transfers in	30,000		2,458	300	13,065		
Transfers out	(3,849)						
Tax revenues received		2					
Net cash from (used for) noncapital financing activities	<u>26,151</u>	<u>2</u>	<u>2,458</u>	<u>300</u>	<u>13,065</u>		
<b>Cash flows from capital and related financing activities</b>							
<b>financing activities</b>							
Purchase of capital assets	(14,557)		(10,560)	(38)	(3,997)		(752)
Bond and commercial paper proceeds					47,347		
Proceeds from sale of capital assets			761		185		
Insurance claims recoveries	33		505	5	1,223		
Bond issuance cost					(14)		
Principal payments					(46,922)		
Interest paid	(122)				(9,402)		
Net cash from (used for) capital and related financing activities	<u>(14,646)</u>		<u>(9,294)</u>	<u>(33)</u>	<u>(11,580)</u>		<u>(752)</u>
<b>Cash flows from investing activities</b>							
Interest received		220			200	246	
Net cash from (used for) investing activities		<u>220</u>			<u>200</u>	<u>246</u>	
Net increase (decrease) in cash and cash equivalents	22,715	(6,863)	6,803	(60)	13,761	(4,962)	83
Cash and cash equivalents, July 1	91,104	114,501	31,761	952	81,487	144,333	842
Cash and cash equivalents, June 30	<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>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>							
Operating income (loss)	\$ 4,860	\$ (4,411)	\$ (807)	\$ (439)	\$ (4,990)	\$ (3,849)	\$ (318)
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	10,046		11,652	64	12,748		305
Loss on disposal of capital assets	2,497		331		4,384		
Bond issuance cost					29		
Capital lease executory costs paid					28		
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(58)		88	2	5	86	
(Increase) decrease in due from other funds	1,318				19		
(Increase) decrease in due from component units	(5)	(87)		1			
(Increase) decrease in inventories	(182)		1	2			9
(Increase) decrease in prepaid expenses							51
Increase (decrease) in accounts payable	(7,462)	(2,638)	1,849	42	(165)	(999)	787
Increase (decrease) in due to other funds	196	51	1	1	18		1
Increase (decrease) in unearned revenue			524			(446)	
Total adjustments	<u>6,350</u>	<u>(2,674)</u>	<u>14,446</u>	<u>112</u>	<u>17,066</u>	<u>(1,359)</u>	<u>1,153</u>
Net cash provided by (used for) operating activities	<u>\$ 11,210</u>	<u>\$ (7,085)</u>	<u>\$ 13,639</u>	<u>\$ (327)</u>	<u>\$ 12,076</u>	<u>\$ (5,208)</u>	<u>\$ 835</u>

Purchasing	Warehousing and Distribution	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
\$ 148	\$ 1,873	\$ 418	\$ 8,469	\$ 97	\$ 336,366
4,872	3,298	12,734	27,619	26,291	854,288
(434)	(5,924)	(1,357)	(24,312)	(1,312)	(1,033,357)
(2,232)	(1,859)	(5,503)	(7,706)	(8,658)	(60,875)
(1,590)	(1,253)	(2,336)	(1,444)	(5,729)	(57,112)
<u>764</u>	<u>(3,865)</u>	<u>3,956</u>	<u>2,626</u>	<u>10,689</u>	<u>39,310</u>
	(54)				(54)
					45,823
					(3,849)
					<u>2</u>
	<u>(54)</u>				<u>41,922</u>
			(259)	(2,555)	(32,718)
					47,347
	3,817				946
				(8,679)	5,583
					(14)
					(55,601)
					(9,524)
	<u>3,817</u>		<u>(259)</u>	<u>(11,234)</u>	<u>(43,981)</u>
					<u>666</u>
					<u>666</u>
764	(102)	3,956	2,367	(545)	37,917
<u>364</u>	<u>509</u>	<u>4,176</u>	<u>6,709</u>	<u>5,963</u>	<u>482,701</u>
\$ <u>1,128</u>	\$ <u>407</u>	\$ <u>8,132</u>	\$ <u>9,076</u>	\$ <u>5,418</u>	\$ <u>520,618</u>
\$ <u>694</u>	\$ <u>(3,964)</u>	\$ <u>3,719</u>	\$ <u>2,749</u>	\$ <u>(141)</u>	\$ <u>(6,897)</u>
		23	999	10,100	45,937
	9		15		7,236
					29
					28
	20		195		338
			(41)		1,296
	2				(89)
	(12)		(1,073)		(1,255)
					51
68	81	212	(221)	688	(7,758)
2		2	4	42	318
	(1)		(1)		76
<u>70</u>	<u>99</u>	<u>237</u>	<u>(123)</u>	<u>10,830</u>	<u>46,207</u>
\$ <u>764</u>	\$ <u>(3,865)</u>	\$ <u>3,956</u>	\$ <u>2,626</u>	\$ <u>10,689</u>	\$ <u>39,310</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, 2009. As of that date there were 214,950 active members and 110,875 retired members representing a 1.05% and 12.87% increase, respectively, since the previous actuarial valuation in 2007.

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, 2011

(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	\$ 340,115	\$ 74,019	\$ 414,134	\$ 1,226	\$ 415,360
Receivables:					
Member contributions	19,570	5,266	24,836		24,836
Employer contributions	36,514	20,793	57,307		57,307
Accrued interest	84,099	18,302	102,401		102,401
Accrued dividends	39,371	8,569	47,940		47,940
Derivative instruments	319,386	69,508	388,894		388,894
Real estate income	50	11	61		61
Investments sold	732,599	159,437	892,036		892,036
Total receivables	1,231,589	281,886	1,513,475		1,513,475
Due from other funds	9,398		9,398	296	9,694
Due from component units	8,063		8,063	5	8,068
Investments, at fair value:					
Government bonds	7,135,403	1,552,887	8,688,290		8,688,290
Corporate bonds	4,554,482	991,198	5,545,680		5,545,680
Corporate stocks	14,640,474	3,186,225	17,826,699		17,826,699
Derivative instruments	9	2	11		11
Private equities	61,296	13,340	74,636		74,636
Real estate	891,538	194,026	1,085,564		1,085,564
Total investments	27,283,202	5,937,678	33,220,880		33,220,880
Capital assets, at cost					
Intangible asset	1,558	339	1,897		1,897
Total assets	28,873,925	6,293,922	35,167,847	1,527	35,169,374
<b>Liabilities</b>					
Accounts payable and accruals	916,325	200,058	1,116,383	52	1,116,435
Derivative instruments	318,780	69,376	388,156		388,156
Total liabilities	1,235,105	269,434	1,504,539	52	1,504,591
<b>Net assets</b>					
Held in trust for:					
Pension benefits	27,638,820	6,024,488	33,663,308		33,663,308
Employees' flexible benefits				1,475	1,475
Total net assets	\$ 27,638,820	\$ 6,024,488	\$ 33,663,308	\$ 1,475	\$ 33,664,783

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, 2011

(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	\$ 192,467	\$ 67,920	\$ 260,387	\$ 8,555	\$ 268,942
Employers	721,759	273,781	995,540		995,540
Total contributions	<u>914,226</u>	<u>341,701</u>	<u>1,255,927</u>	<u>8,555</u>	<u>1,264,482</u>
Investment income:					
Net increase in fair value of investments	3,785,947	811,706	4,597,653		4,597,653
Interest	462,425	99,143	561,568		561,568
Dividends	277,650	59,528	337,178		337,178
Real estate income	53,168	11,399	64,567		64,567
Total investment income	<u>4,579,190</u>	<u>981,776</u>	<u>5,560,966</u>		<u>5,560,966</u>
Less: Investment expenses	<u>26,453</u>	<u>5,760</u>	<u>32,213</u>		<u>32,213</u>
Net investment income	<u>4,552,737</u>	<u>976,016</u>	<u>5,528,753</u>		<u>5,528,753</u>
Total additions	<u>5,466,963</u>	<u>1,317,717</u>	<u>6,784,680</u>	<u>8,555</u>	<u>6,793,235</u>
<b>Deductions</b>					
Annuity benefits:					
Retirement benefits	1,155,148	201,828	1,356,976		1,356,976
Cost of living	256,137	34,259	290,396		290,396
Death benefits	4,054	1,444	5,498		5,498
Other benefits				8,129	8,129
Refunds	18,957	16,583	35,540		35,540
Administrative expenses	3,525	3,632	7,157		7,157
Total deductions	<u>1,437,821</u>	<u>257,746</u>	<u>1,695,567</u>	<u>8,129</u>	<u>1,703,696</u>
Change in net assets held in trust for:					
Pension benefits	4,029,142	1,059,971	5,089,113		5,089,113
Employees' flexible benefits				426	426
Net assets, July 1	<u>23,609,678</u>	<u>4,964,517</u>	<u>28,574,195</u>	<u>1,049</u>	<u>28,575,244</u>
Net assets, June 30	<u>\$ 27,638,820</u>	<u>\$ 6,024,488</u>	<u>\$ 33,663,308</u>	<u>\$ 1,475</u>	<u>\$ 33,664,783</u>

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Private-Purpose Trust Funds  
June 30, 2011

(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	\$ 1,189	\$ 2,213	\$ 15,515	\$ 27,402	\$ 2,347	\$ 48,666
Receivables:						
Taxes					37	37
Interest and dividends	810					810
Other	<u>60</u>					<u>60</u>
Total receivables	<u>870</u>				<u>37</u>	<u>907</u>
Investments, at fair value:						
Mutual funds	<u>99,285</u>					<u>99,285</u>
Total investments	<u>99,285</u>					<u>99,285</u>
Total assets	<u>101,344</u>	<u>2,213</u>	<u>15,515</u>	<u>27,402</u>	<u>2,384</u>	<u>148,858</u>
<b>Liabilities</b>						
Accounts payable and accruals	<u>821</u>	<u>185</u>				<u>1,006</u>
Total liabilities	<u>821</u>	<u>185</u>				<u>1,006</u>
<b>Net assets</b>						
Held in trust for:						
Individuals, organizations and other governments	<u>\$ 100,523</u>	<u>\$ 2,028</u>	<u>\$ 15,515</u>	<u>\$ 27,402</u>	<u>\$ 2,384</u>	<u>\$ 147,852</u>

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Private-Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2011

(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>Additions</b>						
Contributions:						
Federal		\$ 5,814	\$ 4,000			\$ 9,814
Private	\$ 1,474			\$ 48,364	\$ 408	50,246
State	14,750					14,750
Other		2,109			310	2,419
Total contributions	<u>16,224</u>	<u>7,923</u>	<u>4,000</u>	<u>48,364</u>	<u>718</u>	<u>77,229</u>
Investment income:						
Net increase in fair value of investments	11,945					11,945
Interest	<u>2,771</u>	<u>7</u>	<u>30</u>	<u>49</u>	<u>8</u>	<u>2,865</u>
Total investment income	<u>14,716</u>	<u>7</u>	<u>30</u>	<u>49</u>	<u>8</u>	<u>14,810</u>
Total additions	<u>30,940</u>	<u>7,930</u>	<u>4,030</u>	<u>48,413</u>	<u>726</u>	<u>92,039</u>
<b>Deductions</b>						
Payments made under trust agreements	8,631	3,907		26,489	431	39,458
Refunds	1,815	2,057				3,872
Administrative expenses	<u>473</u>	<u>1,532</u>		<u>3,845</u>		<u>5,850</u>
Total deductions	<u>10,919</u>	<u>7,496</u>		<u>30,334</u>	<u>431</u>	<u>49,180</u>
Change in net assets held in trust for:						
Individuals, organizations and other governments	20,021	434	4,030	18,079	295	42,859
Net assets, July 1	<u>80,502</u>	<u>1,594</u>	<u>11,485</u>	<u>9,323</u>	<u>2,089</u>	<u>104,993</u>
Net assets, June 30	<u>\$ 100,523</u>	<u>\$ 2,028</u>	<u>\$ 15,515</u>	<u>\$ 27,402</u>	<u>\$ 2,384</u>	<u>\$ 147,852</u>

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2011

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 288,052	\$ 114,782	\$ 17,264	\$ 420,098
Receivables:				
Accounts			1,461	1,461
Taxes	371,806			371,806
Total assets	659,858	114,782	18,725	793,365
<b>Liabilities</b>				
Accounts payable and accruals	659,858	10,482	17,664	688,004
Amounts held in custody for others		104,300	1,061	105,361
Total liabilities	\$ 659,858	\$ 114,782	\$ 18,725	\$ 793,365

State of Tennessee  
Combining Statement of Changes in Assets and Liabilities  
All Agency Funds  
For the Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

<u>Local Government Fund</u>	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<u>Assets</u>				
Cash and cash equivalents	\$ 285,334	\$ 3,521,773	\$ 3,519,055	\$ 288,052
Accounts receivable	366,726	436,768	431,688	371,806
Total assets	652,060	3,958,541	3,950,743	659,858
<u>Liabilities</u>				
Accounts payable and accruals	652,060	4,309,857	4,302,059	659,858
Total liabilities	\$ 652,060	\$ 4,309,857	\$ 4,302,059	\$ 659,858
<u>Contingent Revenue Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 115,862	\$ 2,504,807	\$ 2,505,887	\$ 114,782
Accounts receivable	16	978	994	
Total assets	115,878	2,505,785	2,506,881	114,782
<u>Liabilities</u>				
Accounts payable and accruals	14,767	317,219	321,504	10,482
Amount held in custody for others	101,111	717,060	713,871	104,300
Total liabilities	\$ 115,878	\$ 1,034,279	\$ 1,035,375	\$ 114,782
<u>Retiree Health Plans</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 21,074	\$ 248,268	\$ 252,078	\$ 17,264
Accounts receivable	1,188	8,811	8,538	1,461
Total assets	22,262	257,079	260,616	18,725
<u>Liabilities</u>				
Accounts payable	15,434	27,237	25,007	17,664
Amount held in custody for others	6,828	249,479	255,246	1,061
Total liabilities	\$ 22,262	\$ 276,716	\$ 280,253	\$ 18,725
<u>Totals - All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 422,270	\$ 6,274,848	\$ 6,277,020	\$ 420,098
Accounts receivable	367,930	446,557	441,220	373,267
Total assets	790,200	6,721,405	6,718,240	793,365
<u>Liabilities</u>				
Accounts payable and accruals	682,261	4,654,313	4,648,570	688,004
Amount held in custody for others	107,939	966,539	969,117	105,361
Total liabilities	\$ 790,200	\$ 5,620,852	\$ 5,617,687	\$ 793,365

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# COMPONENT UNITS

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Tennessee Student Assistance Corporation—This fund is used to account for the guaranteed loans program administered by Tennessee Student Assistance Corporation (TSAC).

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.

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, 2011

(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	\$ 3,691	\$ 373	\$ 203,071	\$ 66,413	\$ 1,006,287	\$ 933,120
Investments			38,857		500,281	796,711
Investments with fiscal agent						
Receivables, net	10,059	799	51,411	53,510	168,661	316,674
Due from primary government		1,121			6,460	11,569
Inventories, at cost					4,962	7,332
Prepayments		15		7,043	7,861	355
Loans receivable			2,122,403			
Deferred charges and other			12,327		3,366	8,326
Deferred outflow - derivatives						
Restricted assets:						
Cash and cash equivalents			107,502	1		
Investments			196,928	2,310		
Receivables, net			2,261			
Capital assets:						
Land, at cost					108,052	72,743
Infrastructure					286,301	75,912
Structures and improvements, at cost				400	2,192,742	2,000,934
Machinery and equipment, at cost		759	517	4,769	468,889	562,641
Less accumulated depreciation		(660)	(360)	(4,149)	(1,269,155)	(1,118,353)
Construction in progress					264,538	256,716
<b>Total assets</b>	<b>13,750</b>	<b>2,407</b>	<b>2,734,917</b>	<b>130,297</b>	<b>3,749,245</b>	<b>3,924,680</b>
<b>Liabilities</b>						
Accounts payable and accruals	2,869	1,033	61,511	44,042	123,895	105,926
Due to primary government	15	136	71	81,925	4,618	34,866
Deferred revenue	228		1,662	931	71,373	115,444
Fair value of derivatives						
Other					27,675	12,677
Noncurrent liabilities:						
Due within one year	114	102	87,290	548	38,766	73,528
Due in more than one year	445	249	2,064,427	2,850	713,357	771,094
<b>Total liabilities</b>	<b>3,671</b>	<b>1,520</b>	<b>2,214,961</b>	<b>130,296</b>	<b>979,684</b>	<b>1,113,535</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt		99	157	1,020	1,481,330	1,237,400
Restricted for:						
Debt service					7,862	537
Capital projects					17,970	84,171
Single family bond programs			504,874			
Other	1,536		12,713	1	170,990	347,143
Permanent and endowment:						
Expendable					10,746	122,265
Nonexpendable					285,608	527,734
Unrestricted	8,543	788	2,212	(1,020)	795,055	491,895
<b>Total net assets</b>	<b>\$ 10,079</b>	<b>\$ 887</b>	<b>\$ 519,956</b>	<b>\$ 1</b>	<b>\$ 2,769,561</b>	<b>\$ 2,811,145</b>

Proprietary Fund Types					
Local Development Authority	Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
\$ 14,478	\$ 8,578	\$ 41,611	\$ 1,167	\$ 45,332	\$ 2,324,121
			1,002		1,336,851
		14			14
	3,163	11,660	7	12	615,956
	962				20,112
	114				12,408
	60				15,334
8,959		1,277,650			3,409,012
121	36	35,197	2,164		61,537
		1,317			1,317
1,611	2,789	276,203			388,106
		64,148			263,386
					2,261
	406				181,201
	1,691				363,904
	30,205				4,224,281
	5,103				1,042,678
	(10,229)				(2,402,906)
	6				521,260
<u>25,169</u>	<u>42,884</u>	<u>1,707,800</u>	<u>4,340</u>	<u>45,344</u>	<u>12,380,833</u>
179	1,351	31,502	57	3,017	375,382
	89				121,720
		16,553		5	206,196
		1,316			1,316
	172				40,524
1,225	827	63,555			265,955
7,361	5,389	1,587,043			5,152,215
<u>8,765</u>	<u>7,828</u>	<u>1,699,969</u>	<u>57</u>	<u>3,022</u>	<u>6,163,308</u>
	21,526				2,741,532
	294				8,693
					102,141
	3,882				504,874
					536,265
					133,011
					813,342
<u>16,404</u>	<u>9,354</u>	<u>7,831</u>	<u>4,283</u>	<u>42,322</u>	<u>1,377,667</u>
<u>\$ 16,404</u>	<u>\$ 35,056</u>	<u>\$ 7,831</u>	<u>\$ 4,283</u>	<u>\$ 42,322</u>	<u>\$ 6,217,525</u>

State of Tennessee  
Combining Statement of Activities  
Component Units  
For the Year Ended June 30, 2011

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component units					
Higher education institutions:					
Board of Regents	\$ 2,336,915	\$ 834,516	\$ 845,368	\$ 64,535	\$ (592,496)
University of Tennessee	<u>1,860,717</u>	<u>585,352</u>	<u>902,291</u>	<u>100,453</u>	<u>(272,621)</u>
Total higher education institutions	<u>4,197,632</u>	<u>1,419,868</u>	<u>1,747,659</u>	<u>164,988</u>	<u>(865,117)</u>
Loan programs:					
Tennessee Student Assistance Corporation	82,288	13,449	19,309		(49,530)
Housing Development Agency	497,163	136,447	361,996		1,280
Local Development Authority	994	1,370	48		424
State School Bond Authority	<u>65,559</u>	<u>57,310</u>	<u>512</u>		<u>(7,737)</u>
Total loan programs	<u>646,004</u>	<u>208,576</u>	<u>381,865</u>		<u>(55,563)</u>
Lottery program	<u>1,106,491</u>	<u>1,106,330</u>	<u>45</u>		<u>(116)</u>
Other programs:					
Tennessee CSA	6,901	4,117	2,801		17
Access Tennessee Insurance Plan	44,689	18,491			(26,198)
Veterans' Homes Board	35,297	37,649	19		2,371
Certified Cotton Growers'	<u>836</u>	<u>572</u>	<u>783</u>		<u>519</u>
Total other programs	<u>87,723</u>	<u>60,829</u>	<u>3,603</u>		<u>(23,291)</u>
Total	<u>\$ 6,037,850</u>	<u>\$ 2,795,603</u>	<u>\$ 2,133,172</u>	<u>\$ 164,988</u>	<u>\$ (944,087)</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				
\$ 768,827	\$ 117,206	\$ 5,542	\$ 4,712	\$ 13,274	\$ 317,065	\$ 2,452,496	\$ 2,769,561
534,686	820	22,901		30,485	316,271	2,494,874	2,811,145
<u>1,303,513</u>	<u>118,026</u>	<u>28,443</u>	<u>4,712</u>	<u>43,759</u>	<u>633,336</u>	<u>4,947,370</u>	<u>5,580,706</u>
50,473		(86)			943	9,136	10,079
25			1,654		1,194	518,762	519,956
	7,524				2,103	14,301	16,404
<u>50,498</u>	<u>7,524</u>	<u>(86)</u>	<u>1,654</u>		<u>(213)</u>	<u>8,044</u>	<u>7,831</u>
		110			(6)	7	1
		1			18	869	887
23,049		88			(3,061)	45,383	42,322
	65				2,436	32,620	35,056
		3			522	3,761	4,283
<u>23,049</u>	<u>65</u>	<u>92</u>			<u>(85)</u>	<u>82,633</u>	<u>82,548</u>
<u>\$ 1,377,060</u>	<u>\$ 125,615</u>	<u>\$ 28,559</u>	<u>\$ 6,366</u>	<u>\$ 43,759</u>	<u>\$ 637,272</u>	<u>\$ 5,580,253</u>	<u>\$ 6,217,525</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, 2011

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
<b>Revenues</b>			
Interest on investments	\$ 711	\$ 1	\$ 712
Federal	11,284		11,284
Departmental services	71,236	6,917	78,153
Other	1		1
Total revenues	83,232	6,918	90,150
<b>Expenditures</b>			
Education	82,198		82,198
Health and social services		7,054	7,054
Total expenditures	82,198	7,054	89,252
Excess (deficiency) of revenues over (under) expenditures	1,034	(136)	898
Fund balances, July 1	9,604	1,275	10,879
Fund balances, June 30	\$ 10,638	\$ 1,139	\$ 11,777
Reconciliation to net assets:			
Fund balances per above	\$ 10,638	\$ 1,139	\$ 11,777
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		99	99
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(559)	(351)	(910)
Net assets on Statement of Net Assets	\$ 10,079	\$ 887	\$ 10,966

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, 2011

(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	\$ 136,447	\$ 1,105,736	\$ 1,049,505	\$ 1,028,439	\$ 1,370
Investment income	6,156		2,961	5,811	48
Other		594	48,607	23,702	
Total operating revenues	<u>142,603</u>	<u>1,106,330</u>	<u>1,101,073</u>	<u>1,057,952</u>	<u>1,418</u>
<b>Operating expenses</b>					
Personal services	15,190	11,755	1,324,471	1,199,193	
Contractual services	2,625	104,938			174
Mortgage service fees	7,601				
Materials and supplies	226		511,696	473,189	
Rentals and insurance	97	1,659			
Interest	88,301				791
Depreciation and amortization	823	740	104,229	104,756	
Lottery prizes		683,505			
Nursing home services					
Scholarships and fellowships			371,591	51,542	
Benefits					
Other	12,343	10,354			29
Total operating expenses	<u>127,206</u>	<u>812,951</u>	<u>2,311,987</u>	<u>1,828,680</u>	<u>994</u>
Operating income (loss)	<u>15,397</u>	<u>293,379</u>	<u>(1,210,914)</u>	<u>(770,728)</u>	<u>424</u>
<b>Nonoperating revenues (expenses)</b>					
Grant income	355,754		631,846	281,624	
Grant expense	(369,957)				
Interest expense			(23,317)	(27,665)	
Interest income		110	62,161	146,439	
Payments from primary government			768,827	534,686	25
Grants and contributions				5,327	
Gifts			4,336	12,951	
Payments to primary government		(293,490)			
Other		(5)	7,809	(4,373)	1,654
Total nonoperating revenues (expenses)	<u>(14,203)</u>	<u>(293,385)</u>	<u>1,451,662</u>	<u>948,989</u>	<u>1,679</u>
Income (loss) before capital grants and contributions	1,194	(6)	240,748	178,261	2,103
Capital payments from primary government			47,143	66,223	
Capital grants and gifts			17,827	34,230	
Additions to permanent endowments			11,347	30,485	
Other				7,072	
Change in net assets	1,194	(6)	317,065	316,271	2,103
Net assets, July 1	<u>518,762</u>	<u>7</u>	<u>2,452,496</u>	<u>2,494,874</u>	<u>14,301</u>
Net assets, June 30	<u>\$ 519,956</u>	<u>\$ 1</u>	<u>\$ 2,769,561</u>	<u>\$ 2,811,145</u>	<u>\$ 16,404</u>

Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
\$ 31,762	\$ 57,310	\$ 572	\$ 18,491	\$ 3,429,632
	512			15,488
<u>41</u>				<u>72,944</u>
<u>31,803</u>	<u>57,822</u>	<u>572</u>	<u>18,491</u>	<u>3,518,064</u>
23,832				2,574,441
	1,356	836	623	110,552
				7,601
				985,111
				1,756
	55,355			144,447
1,277	787			212,612
				683,505
9,921				9,921
				423,133
			43,801	43,801
	8,061		265	31,052
<u>35,030</u>	<u>65,559</u>	<u>836</u>	<u>44,689</u>	<u>5,227,932</u>
<u>(3,227)</u>	<u>(7,737)</u>	<u>(264)</u>	<u>(26,198)</u>	<u>(1,709,868)</u>
5,846	7,524			1,282,594
				(369,957)
(273)				(51,255)
19		3	88	208,820
			23,049	1,326,587
				5,327
				17,352
				(293,490)
<u>6</u>		<u>783</u>		<u>5,874</u>
<u>5,663</u>	<u>7,524</u>	<u>786</u>	<u>23,137</u>	<u>2,131,852</u>
2,436	(213)	522	(3,061)	421,984
				113,366
				52,057
				41,832
				7,072
<u>2,436</u>	<u>(213)</u>	<u>522</u>	<u>(3,061)</u>	<u>636,311</u>
<u>32,620</u>	<u>8,044</u>	<u>3,761</u>	<u>45,383</u>	<u>5,570,248</u>
\$ <u>35,056</u>	\$ <u>7,831</u>	\$ <u>4,283</u>	\$ <u>42,322</u>	\$ <u>6,206,559</u>



State of Tennessee  
Statement of Fiduciary Net Assets  
Component Units  
Tennessee Student Assistance Corporation  
Federal Family Education Loan Trust  
June 30, 2011

(Expressed in Thousands)

<b>Assets</b>	
Cash and cash equivalents	\$ <u>90,984</u>
Receivables:	
Due from other governments	<u>9,407</u>
Total receivables	<u>9,407</u>
Total assets	<u>100,391</u>
<b>Liabilities</b>	
Accounts payable and accruals	<u>12</u>
Total liabilities	<u>12</u>
<b>Net assets</b>	
Held in trust for student loans	\$ <u><u>100,379</u></u>

State of Tennessee  
Statement of Changes in Fiduciary Net Assets  
Component Units  
Tennessee Student Assistance Corporation  
Federal Family Education Loan Trust  
For the Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

<b>Additions</b>	
Federal revenue	\$ 19,988
Interest income	<u>221</u>
Total additions	<u>20,209</u>
<b>Deductions</b>	
Collection costs	19,045
Administrative expenses	<u>4,560</u>
Total deductions	<u>23,605</u>
Change in net assets held in trust	(3,396)
Net assets, July 1	<u>103,775</u>
Net assets, June 30	<u><u>\$ 100,379</u></u>

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# SUPPLEMENTARY SCHEDULES

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State of Tennessee  
Debt Service Requirements to Maturity  
General Obligation Bonds  
June 30, 2011

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
2012	\$ 123,240	\$ 58,775	\$ 182,015	\$ 19,561	\$ 8,244	\$ 27,805
2013	124,076	53,534	177,610	19,752	7,375	27,127
2014	117,981	48,345	166,326	19,203	6,489	25,692
2015	113,454	42,953	156,407	15,628	5,600	21,228
2016	109,234	38,015	147,249	14,461	5,005	19,466
2017	104,807	33,337	138,144	13,454	4,395	17,849
2018	96,670	29,949	126,619	12,398	4,012	16,410
2019	88,593	26,416	115,009	11,029	3,593	14,622
2020	85,584	22,876	108,460	10,624	3,155	13,779
2021	78,361	19,983	98,344	9,797	2,787	12,584
2022	78,171	16,889	95,060	9,774	2,396	12,170
2023	70,261	14,423	84,684	8,898	2,088	10,986
2024	70,025	11,626	81,651	8,888	1,714	10,602
2025	62,117	8,864	70,981	8,578	1,350	9,928
2026	62,219	6,209	68,428	8,553	1,002	9,555
2027	56,663	3,769	60,432	6,697	707	7,404
2028	51,917	1,486	53,403	5,983	451	6,434
2029	45,492	(182)	45,310	4,670	255	4,925
2030	19,221	(33)	19,188	3,096	90	3,186
2031	8,363	(226)	8,137	1,480	46	1,526
<b>TOTALS</b>	<b>\$ 1,566,449</b>	<b>\$ 437,008</b>	<b>\$ 2,003,457</b>	<b>\$ 212,524</b>	<b>\$ 60,754</b>	<b>\$ 273,278</b>

Note 1: General obligation bonds principal is more than that presented in the accompanying financial statements by \$22.099 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 \$2.666 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				
	2007	2008	2009	2010	2011
Enterprise Funds:					
State Loan Program General Obligation Bonds	\$ 2,534	\$ 1,655			
Internal Service Funds:					
General Obligation Commercial Paper	15,541	39,819	\$ 48,715	\$ 70,107	\$ 48,060
Facilities Revolving Fund General Obligation Bonds	152,191	164,545	182,081	196,220	209,858
	167,732	204,364	230,796	266,327	257,918
General Long-Term Debt:					
General Obligation Bonds	963,297	1,010,858	1,356,861	1,492,600	1,544,350
General Obligation Commercial Paper	115,283	200,807	127,593	171,283	166,157
	1,078,580	1,211,665	1,484,454	1,663,883	1,710,507
Totals for Primary Government	\$ 1,248,846	\$ 1,417,684	\$ 1,715,250	\$ 1,930,210	\$ 1,968,425

State of Tennessee  
 Schedule of General Obligation  
 Commercial Paper Outstanding- By Purpose  
 All Fund Types  
 June 30, 2011

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	\$ 188,678
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	25,539
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	\$ 214,217

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

Schedule 4

(Expressed in Thousands)

	June 30				
	2007	2008	2009	2010	2011
Component units:					
Certified Cotton Growers' notes	\$ 16,725	\$ 9,294			
Local Development Authority notes	57,773	56,998	\$ 53,288	\$ 53,919	
Local Development Authority bonds	58,806	55,410	51,888	48,242	\$ 8,586
Tennessee Housing Development Agency bonds	1,812,267	1,952,295	1,972,561	2,316,748	2,140,486
Tennessee Housing Development Agency notes	247,675	88,720	3,250	3,672	3,250
Veterans' Homes Board loan	6,283	6,231	5,953	5,936	5,657
Tennessee State School Bond Authority bonds	604,747	696,340	945,461	1,075,004	1,487,945
Tennessee State School Bond Authority commercial paper	164,195	243,229	174,300	281,782	162,653
University of Tennessee notes	284	260	235	211	184
University of Tennessee bonds	146,471	86,518	85,118	83,644	82,089
Board of Regents notes	250	2,597	2,478	2,222	2,098
Board of Regents bonds			800	700	600
Board of Regents commercial paper		1,668	4,161	6,431	4,363
	<u>\$ 3,115,476</u>	<u>\$ 3,199,560</u>	<u>\$ 3,299,493</u>	<u>\$ 3,878,511</u>	<u>\$ 3,897,911</u>

State of Tennessee  
 Comparative Schedules of Revenues by Source  
 General Fund  
 For the Fiscal Years Ended June 30, 2011 and 2010

Schedule 5

(Expressed in Thousands)

<u>Revenues by Source</u>	For the Year Ended	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Taxes:		
Sales and use	\$ 2,649,385	\$ 2,525,347
Gasoline	9,205	8,892
Motor fuel	2,998	2,921
Gasoline inspection	3,760	3,576
Total fuel taxes	15,963	15,389
Franchise	449,290	504,125
Excise	906,912	664,644
Gross receipts	348,181	347,113
Beer	15,716	14,416
Alcoholic beverage	47,569	45,492
Mixed drink	28,439	27,804
Tobacco	19,628	25,468
Business	121,900	145,758
Insurance companies premium	648,402	538,051
Retaliatory	34,158	9,527
Workers compensation premium	37,572	36,045
Enhanced coverage	349,301	
Medicaid provider	12,258	7,985
Other	2,423	2,151
Total business taxes	3,021,749	2,368,579
Income	184,114	190,325
Privilege	220,484	221,307
Inheritance and estate	111,618	88,867
Other	(457)	(1,318)
Total other taxes	515,759	499,181
Total taxes	6,202,856	5,408,496
Licenses, fines, fees and permits:		
Motor vehicle registration	42,897	41,598
Motor vehicle title registration fees	8,352	7,701
Drivers licenses	24,304	24,613
Arrests, fines and fees	7,219	8,224
Regulatory board fees	126,773	123,657
Other	90,208	80,826
Total licenses, fines, fees and permits	299,753	286,619
Interest on investments	10,012	12,875
Federal - earned by state departments	10,437,678	10,019,856
Departmental services:		
Charges to the public	306,440	315,795
Interdepartmental charges	1,331,904	1,431,735
Charges to cities, counties, etc.	541,422	309,799
Total departmental services	2,179,766	2,057,329
Other	202,975	189,612
Total revenues by source	\$ 19,333,040	\$ 17,974,787

State of Tennessee  
 Comparative Schedules of Expenditures by Function and Department  
 General Fund  
 For the Fiscal Years Ended June 30, 2011 and 2010

Schedule 6

(Expressed in Thousands)

<u>Expenditures by function and department</u>	For the Year Ended	
	June 30, 2011	June 30, 2010
General government:		
Legislative	\$ 36,937	\$ 37,642
Secretary of State	38,521	37,109
Comptroller	79,039	83,063
Treasurer	47,835	46,221
Governor	4,011	3,360
Commissions	75,510	75,099
Finance and Administration	120,194	87,413
Personnel	12,067	11,987
General Services	19,412	17,482
Revenue	105,265	102,397
Miscellaneous Appropriations	206	32,887
Total general government	538,997	534,660
Health and social services:		
Veterans Affairs	4,848	4,600
Labor and Workforce Development	232,262	244,963
TennCare	8,967,960	8,188,421
Mental Health	275,944	295,178
Mental Retardation	803,807	863,965
Health	526,580	507,259
Human Services	3,202,879	3,076,558
Cover Tennessee	202,281	175,666
Children's Services	656,778	660,793
Total health and social services	14,873,339	14,017,403
Law, justice and public safety:		
Judicial	281,756	284,971
Correction	654,609	621,536
Probation and Paroles	86,120	80,590
Military	139,516	91,767
Bureau of Criminal Investigation	63,832	63,228
Safety	169,026	154,081
Total law, justice and public safety	1,394,859	1,296,173
Recreation and resources development:		
Agriculture	73,262	71,392
Tourist Development	17,915	17,492
Environment and Conservation	251,650	218,702
Economic and Community Development	173,184	83,939
Total recreation and resources development	516,011	391,525
Regulation of business and professions:		
Commerce and Insurance	73,025	70,084
Financial Institutions	16,058	14,144
Total regulation of business and professions	89,083	84,228
Intergovernmental revenue sharing	533,237	538,867
Total expenditures by function and department	\$ 17,945,526	\$ 16,862,856



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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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<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>196</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>204</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>206</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>208</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>209</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>211</b>
<b>Index</b> Page references for Securities and Exchange Commission disclosures contained in this report.	<b>216</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,			
	2002	2003	2004	2005
<b>Expenses</b>				
Governmental activities:				
General government	\$ 514,419	\$ 510,674	\$ 546,996	\$ 596,016
Education	4,326,480	4,520,624	4,692,605	5,158,369
Health and social services (5)	8,499,713	9,507,209	10,583,726	11,522,061
Law, justice, and public safety	918,970	968,859	1,032,302	1,090,779
Recreation and resources development (2)	362,068	376,734	479,251	423,342
Regulation of business and professions	59,493	64,109	81,940	113,902
Transportation	683,229	726,476	787,646	698,450
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925
Interest on long-term debt	55,114	50,610	51,819	42,902
Payments to fiduciary fund				
Total governmental activities expenses	<u>16,106,001</u>	<u>17,366,566</u>	<u>18,903,939</u>	<u>20,329,746</u>
Business-type activities:				
Employment security (3)	739,008	767,202	639,993	476,646
Insurance programs	353,534	379,661	416,871	430,568
Loan programs	2,585	2,273	1,737	1,909
Other	1,410	1,802	2,037	2,498
Total business-type activities expenses	<u>1,096,537</u>	<u>1,150,938</u>	<u>1,060,638</u>	<u>911,621</u>
Total primary government expenses	<u>\$ 17,202,538</u>	<u>\$ 18,517,504</u>	<u>\$ 19,964,577</u>	<u>\$ 21,241,367</u>
<b>Program Revenues</b>				
Governmental activities:				
Charges for services:				
General government	\$ 281,379	\$ 273,503	\$ 342,154	\$ 380,679
Education	10,155	15,922	16,966	13,568
Health and social services (1)	282,095	277,184	943,040	1,027,602
Law, justice, and public safety	341,615	336,115	313,386	316,337
Recreation and resources development	110,033	114,618	124,105	140,227
Regulation of business and professions	86,468	95,953	107,355	115,556
Transportation	13,045	13,339	13,636	15,494
Operating grants and contributions (4)	6,454,927	7,452,665	8,095,087	8,777,283
Capital grants and contributions	560,074	568,221	503,539	520,090
Total governmental activities program revenues	<u>8,139,791</u>	<u>9,147,520</u>	<u>10,459,268</u>	<u>11,306,836</u>
Business-type activities:				
Charges for services:				
Employment security	335,723	437,378	523,372	463,385
Insurance programs	338,085	385,384	422,584	462,441
Loan programs	13,449	12,590	12,733	12,878
Other	1,368	1,998	2,111	2,593
Operating grants and contributions (4)	342,469	256,444	208,296	100,536
Total business-type activities program revenues	<u>1,031,094</u>	<u>1,093,794</u>	<u>1,169,096</u>	<u>1,041,833</u>
Total primary government program revenues	<u>\$ 9,170,885</u>	<u>\$ 10,241,314</u>	<u>\$ 11,628,364</u>	<u>\$ 12,348,669</u>
<b>Net (Expense)/Revenue</b>				
Governmental activities	\$ (7,966,210)	\$ (8,219,046)	\$ (8,444,671)	\$ (9,022,910)
Business-type activities	(65,443)	(57,144)	108,458	130,212
Total primary government net expense	<u>\$ (8,031,653)</u>	<u>\$ (8,276,190)</u>	<u>\$ (8,336,213)</u>	<u>\$ (8,892,698)</u>

(continued on next page)

## FOR THE FISCAL YEAR ENDED JUNE 30,

2006	2007	2008	2009	2010	2011
\$ 705,897	\$ 738,897	\$ 837,250	\$ 988,309	\$ 1,078,294	\$ 1,048,423
5,449,613	5,884,841	6,464,564	6,520,569	6,893,801	7,127,705
10,170,957	10,448,373	11,125,967	11,697,900	12,849,335	13,739,733
1,214,957	1,221,175	1,325,500	1,338,869	1,365,134	1,436,045
466,689	485,852	613,902	538,386	499,080	606,317
86,945	129,107	123,391	126,003	132,784	127,887
671,641	835,751	808,591	979,454	1,010,029	911,666
738,349	815,832	842,096	810,063	874,094	825,777
49,460	50,003	51,086	51,977	60,566	63,555
	25,950			19,747	63,114
<u>19,554,508</u>	<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>
452,043	467,327	541,573	1,427,713	2,135,537	1,613,716
471,032	413,483	469,491	514,065	557,371	552,626
1,487	1,473	1,655	1,345	1,406	1,561
2,496	2,595	2,744	2,265	1,385	25
<u>927,058</u>	<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>\$ 20,481,566</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>
\$ 375,640	\$ 524,306	\$ 672,892	\$ 753,066	\$ 778,352	\$ 856,264
26,785	34,819	35,405	35,124	44,813	50,052
692,186	521,508	548,570	615,871	499,694	724,971
374,715	130,885	117,536	122,064	121,201	120,137
138,970	153,048	142,128	142,657	141,278	139,302
124,435	142,805	143,646	151,095	148,788	149,090
15,118	22,542	18,778	15,936	28,322	29,769
8,314,981	8,481,473	8,612,838	9,758,691	12,076,579	12,677,291
615,584	708,384	600,404	592,719	782,188	901,798
<u>10,678,414</u>	<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>
381,600	356,064	413,741	585,668	710,113	754,108
479,515	438,275	480,803	504,130	525,662	547,207
12,970	13,803	15,137	15,684	16,584	17,350
2,803	2,644	2,324	1,543	1,043	206
131,043	116,569	124,576	508,249	1,482,113	1,035,693
<u>1,007,931</u>	<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>\$ 11,686,345</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>
\$ (8,876,094)	\$ (9,916,011)	\$ (11,300,150)	\$ (10,864,307)	\$ (10,161,649)	\$ (10,301,548)
80,873	42,477	21,118	(330,114)	39,816	186,636
<u>\$ (8,795,221)</u>	<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>

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,			
	2002	2003	2004	2005
<b>General Revenues and Other Changes in Net Assets</b>				
Governmental activities:				
Taxes				
Sales and use	\$ 4,656,105	\$ 5,478,642	\$ 5,806,268	\$ 6,099,159
Fuel	787,132	813,554	829,372	846,826
Business	1,696,812	1,981,099	2,099,081	2,311,448
Other	490,958	425,099	526,573	514,938
Grants and contributions not restricted to specific programs	159,511	149,746	152,676	46,807
Unrestricted investment earnings	37,802	11,582	12,079	30,361
Miscellaneous	281,952	230,770	207,653	209,226
Contributions to permanent funds	354	381	351	468
Transfers	(16,819)	(18,881)	(18,829)	(21,062)
Total governmental activities	8,093,807	9,071,992	9,615,224	10,038,171
Business-type activities:				
Transfers	16,819	18,881	18,829	21,062
Total business-type activities	16,819	18,881	18,829	21,062
Total primary government general revenues and other changes in net assets	\$ 8,110,626	\$ 9,090,873	\$ 9,634,053	\$ 10,059,233
<b>Changes in Net Assets</b>				
Governmental activities	\$ 127,597	\$ 852,946	\$ 1,170,553	\$ 1,015,261
Business-type activities	(48,624)	(38,263)	127,287	151,274
Total primary government	\$ 78,973	\$ 814,683	\$ 1,297,840	\$ 1,166,535

- (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,

	2006	2007	2008	2009	2010	2011
\$	6,540,224	\$ 6,819,570	\$ 6,851,481	\$ 6,326,857	\$ 6,170,977	\$ 6,461,461
	851,362	867,520	865,181	817,873	874,511	846,384
	2,507,653	2,799,751	2,913,227	2,671,226	2,944,465	3,536,200
	598,827	734,026	734,029	563,501	504,750	525,192
	81,287	113,940	120,523	42,883	7,245	4,602
	185,466	250,344	275,499	226,907	195,414	217,630
	369	270	239	217	196	180
	(22,783)	(5,028)	(4,110)	(3,541)	(3,608)	(2,134)
	<u>10,742,405</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>22,783</u>	<u>5,028</u>	<u>4,110</u>	<u>3,541</u>	<u>3,608</u>	<u>2,134</u>
	<u>22,783</u>	<u>5,028</u>	<u>4,110</u>	<u>3,541</u>	<u>3,608</u>	<u>2,134</u>
\$	<u>10,765,188</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>
\$	1,866,311	\$ 1,664,382	\$ 455,919	\$ (218,384)	\$ 532,301	\$ 1,287,967
	103,656	47,505	25,228	(326,573)	43,424	188,770
\$	<u>1,969,967</u>	<u>1,711,887</u>	<u>481,147</u>	<u>(544,957)</u>	<u>575,725</u>	<u>1,476,737</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,			
	2002	2003	2004	2005
Governmental activities				
Invested in capital assets, net of related debt	\$ 17,457,541	\$ 18,119,735	\$ 18,691,308	\$ 19,406,978
Restricted	665,673	703,010	843,889	580,840
Unrestricted (1)(2)(3)	69,056	288,523	743,586	1,306,226
Total governmental activities net assets	18,192,270	19,111,268	20,278,783	21,294,044
Business-type activities				
Invested in capital assets, net of related debt				
Restricted	1,239,236	1,181,636	1,288,353	1,389,261
Unrestricted	31,655	50,992	71,562	121,928
Total business-type activities net assets	1,270,891	1,232,628	1,359,915	1,511,189
Primary Government				
Invested in capital assets, net of related debt	17,457,541	18,119,735	18,691,308	19,406,978
Restricted (4)	1,904,909	1,884,646	2,132,242	1,970,101
Unrestricted	100,711	339,515	815,148	1,428,154
Total primary government net assets	\$ 19,463,161	\$ 20,343,896	\$ 21,638,698	\$ 22,805,233

- (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.
- (4) In 2011, the implementation of GASB 54 resulted in the classification of restricted net assets.

## FOR THE FISCAL YEAR ENDED JUNE 30,

2006	2007	2008	2009	2010	2011
\$ 20,204,007	\$ 21,078,481	\$ 21,796,151	\$ 22,575,852	\$ 23,360,007	\$ 24,346,493
725,209	792,542	864,270	965,292	924,902	1,179,519
<u>2,204,315</u>	<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>
23,133,531	24,835,980	25,291,899	25,036,800	25,569,101	26,856,959
		51			
1,459,045	1,472,523	1,479,166	1,160,425	1,235,085	1,420,917
<u>155,800</u>	<u>171,183</u>	<u>189,717</u>	<u>181,936</u>	<u>150,700</u>	<u>153,747</u>
1,614,845	1,643,706	1,668,934	1,342,361	1,385,785	1,574,664
20,204,007	21,078,481	21,796,202	22,575,852	23,360,007	24,346,493
2,184,254	2,265,065	2,343,436	2,125,717	2,159,987	2,600,436
<u>2,360,115</u>	<u>3,136,140</u>	<u>2,821,195</u>	<u>1,677,592</u>	<u>1,434,892</u>	<u>1,484,694</u>
<u>\$ 24,748,376</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>



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,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 19,343
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100,942
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	235,301
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,179,652
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	507,501
Total general fund										<u>\$ 2,042,739</u>
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$ 144,426
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	951,222
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	191,557
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	710,582
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,997,787
Total all other governmental funds										<u>\$ 1,997,787</u>

(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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>										
Taxes	7,631,768	8,608,984	9,272,267	9,819,155	10,488,650	11,249,773	11,333,507	10,376,455	10,445,363	11,422,284
Licenses, fines, fees, and permits	547,594	567,243	590,627	624,694	637,522	660,888	672,486	677,766	675,009	693,702
Interest on investments	36,618	28,429	34,102	46,222	102,075	178,080	127,152	23,964	36,443	45,089
Federal (2)	6,694,648	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
Departmental services	1,607,251	1,716,159	2,071,252	2,360,891	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508
Other	444,450	384,536	488,769	502,074	491,064	537,816	570,634	555,534	519,936	513,919
<b>Total revenues</b>	<b>16,962,329</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>Expenditures</b>										
<b>Current:</b>										
General government	358,523	392,747	400,069	425,243	530,637	555,545	617,056	581,364	558,013	563,195
Education	4,218,637	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
Health and social services	9,250,026	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339
Law, justice, and public safety	914,307	970,042	1,098,819	1,109,819	1,216,756	1,275,402	1,294,717	1,294,717	1,302,252	1,400,825
Recreation and resources development	446,137	442,915	479,243	491,681	544,744	525,885	707,866	599,885	555,717	682,531
Regulation of business and professions	65,040	71,109	88,580	119,620	92,888	134,955	129,688	131,614	139,200	136,644
Transportation	1,311,654	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094	825,777
Debt service:										
Principal	68,304	78,108	80,243	89,474	86,532	81,790	79,107	83,960	101,804	112,234
Interest	54,121	47,964	49,956	43,455	49,319	50,363	51,872	52,110	64,344	68,496
Debt issuance costs	1,282	650	1,945	2,159	1,082	1,173	980	4,362	4,837	4,363
Capital outlay	145,590	132,949	128,167	119,730	253,229	343,712	359,118	472,451	485,937	391,519
<b>Total expenditures</b>	<b>17,520,136</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>
Revenues over (under) expenditures	(557,807)	41,286	698,106	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526
<b>Other Financing Sources (Uses)</b>										
Capital lease										
Bonds and commercial paper issued	168,017	95,195	206,933	52,979	228,409	196,290	340,021	601,664	415,033	307,318
Notes/Commercial paper redeemed	(152,091)	(3,900)	(155,796)	(109,508)	(109,508)	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)
Insurance claim recoveries			6,485		1,670	4,013	2,361	251	26,358	11,132
Premium on bond sale	5,149			355,053	2,485	2,049	2,760	30,147	43,985	43,014
Refunding bonds issued				31,929				91,536	10,670	2,122
Refunding bond premium				(386,261)				(101,707)	(43,985)	(44,816)
Refunding payment to escrow										
Other										
Transfers in (1)	766,097	679,743	661,064	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489
Transfers out (1)	(787,813)	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)
<b>Total other financing sources (uses)</b>	<b>(641)</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>Net Change in Fund Balances</b>	<b>(58,448)</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>Debt Service as a Percentage of Noncapital Expenditures</b>	<b>0.6720%</b>	<b>0.6937%</b>	<b>0.6691%</b>	<b>0.6241%</b>	<b>0.6566%</b>	<b>0.6055%</b>	<b>0.5620%</b>	<b>0.5659%</b>	<b>0.6441%</b>	<b>0.6666%</b>

(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.

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Auto dealers	\$ 8,648	\$ 8,836	\$ 9,430	\$ 9,440	\$ 9,425	\$ 9,388	\$ 9,506	\$ 7,941	\$ 6,729	\$ 7,553
Purchases from manufacturers	3,956	3,652	3,933	4,150	4,804	4,680	4,745	4,497	3,491	3,646
Miscellaneous durable goods	12,359	12,271	12,892	14,183	15,845	17,210	17,442	16,347	13,745	14,512
Eating and drinking places	6,446	6,564	6,914	7,456	7,961	8,465	8,882	8,985	8,853	9,116
Food stores	8,095	7,983	7,851	7,937	8,196	8,419	8,983	9,165	9,401	9,454
Liquor stores	397	408	433	458	495	548	594	636	657	684
Hotels and motels	1,785	1,777	1,821	1,881	2,043	2,219	2,354	2,312	2,036	2,079
Other retail and service	21,400	21,996	23,174	24,240	25,764	27,087	28,486	28,710	27,269	27,774
Miscellaneous nondurable goods	6,310	6,261	6,282	6,564	7,067	7,334	7,805	7,832	7,410	7,719
Transportation, communication	5,136	5,723	6,018	6,411	6,684	7,352	7,690	7,912	7,734	7,044
Total taxable sales	\$ 74,532	\$ 75,471	\$ 78,748	\$ 82,720	\$ 88,284	\$ 92,702	\$ 96,487	\$ 94,337	\$ 87,325	\$ 89,581

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)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	6.00%	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)	N/A	6.00%	6.00%	6.00%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%
Energy fuels used by manufacturers and nurserymen	N/A	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	N/A	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	N/A	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	N/A	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	N/A	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	N/A	3.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding \$100,000 sales price	N/A	3.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cable and wireless TV (between \$15 and \$27.50) and satellite services	N/A	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	N/A	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,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Retail:</b>										
Building materials	\$ 233,385	\$ 271,969	\$ 328,562	\$ 363,952	\$ 405,812	\$ 423,160	\$ 391,271	\$ 333,737	\$ 311,332	\$ 316,016
General merchandise	575,230	654,071	712,426	735,074	767,584	820,549	829,576	810,503	799,387	817,350
Food stores	465,911	478,857	485,947	494,466	508,497	526,981	529,977	520,280	510,104	517,420
Auto dealers and service stations	645,670	751,167	820,454	815,985	817,689	856,109	835,035	672,112	690,797	760,119
Apparel and accessory stores	137,851	160,688	177,017	185,683	194,946	200,131	200,745	191,132	191,110	194,172
Furniture and home furnishings	162,401	189,506	209,525	222,089	238,475	246,569	244,312	215,352	207,398	214,575
Eating and drinking places	379,566	435,505	486,680	518,689	547,547	585,490	605,544	596,893	598,562	615,741
Miscellaneous retail stores	378,101	443,114	491,443	508,694	550,340	580,936	597,649	568,197	560,527	578,884
Total retail	2,978,115	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
<b>Services:</b>										
Hotels and lodging places	102,036	118,247	124,795	131,675	142,333	154,081	160,909	146,253	137,973	144,129
Personal services	41,982	47,623	51,845	49,818	49,375	51,099	51,151	46,564	46,777	46,923
Business services	167,634	189,019	199,677	218,799	234,810	245,387	254,506	239,143	224,044	236,982
Auto repair, services, and parking	137,546	153,418	163,687	159,935	163,710	174,680	173,481	157,972	153,781	160,268
Miscellaneous repair services	19,809	21,914	23,606	24,873	27,100	28,387	28,441	25,321	22,801	23,189
Motion pictures	17,320	20,868	23,244	22,851	22,282	22,178	21,498	21,512	19,803	17,794
Amusement services	41,477	45,116	49,106	50,854	54,629	59,578	59,636	58,225	57,636	60,071
Health services	8,951	9,137	10,818	11,139	11,710	13,123	13,676	14,228	14,305	13,683
Other services	19,002	23,503	26,747	31,025	34,282	34,400	37,740	43,434	36,802	40,752
Total services	555,757	628,845	673,525	700,969	740,231	782,913	801,038	752,652	713,922	743,791
<b>Non-retail, non-services:</b>										
Agriculture, forestry, fishing	4,774	5,133	5,812	5,968	6,920	7,261	7,451	7,381	7,312	7,259
Mining	4,341	4,126	5,286	5,073	5,635	6,302	7,117	6,126	5,933	5,741
Construction	41,851	38,168	42,275	42,640	48,540	54,075	59,119	52,415	44,038	48,503
Manufacturing	209,366	236,163	261,260	289,494	312,570	305,558	299,223	256,995	225,530	241,844
Transportation	5,991	22,856	26,895	36,239	42,825	46,688	53,866	69,930	34,556	38,345
Communications	308,184	361,677	398,105	385,544	442,837	457,116	475,675	477,281	443,576	430,847
Electric, gas, and sanitary services	128,072	149,710	163,358	174,794	194,574	203,789	215,552	236,692	215,020	237,479
Wholesale trade	243,826	280,882	321,014	349,023	418,607	451,777	450,898	393,100	361,217	398,111
Finance, insurance, real estate	11,998	12,376	11,396	11,037	12,899	17,830	17,908	12,981	17,766	14,027
Total non-retail, non-services	958,403	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
County Clerk	82,391	94,705	108,781	112,753	114,767	126,081	125,355	101,136	110,328	120,986
Consumer Use Tax	N/A	104,786	4,647	5,313	7,545	5,071	4,641	5,250	4,322	4,695
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,649)
<b>Grand Total</b>	<b>\$ 4,574,666</b>	<b>\$ 5,324,304</b>	<b>\$ 5,734,408</b>	<b>\$ 5,963,479</b>	<b>\$ 6,378,840</b>	<b>\$ 6,704,386</b>	<b>\$ 6,751,952</b>	<b>\$ 6,280,145</b>	<b>\$ 6,052,737</b>	<b>\$ 6,303,256</b>

Source: Revenue Collections Reports, Tennessee Department of Revenue

Note: N/A means not available.

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental activities debt:</b>										
General obligation bonds	\$ 1,134,881	\$ 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
General obligation bond anticipation notes										
General obligation commercial paper	110,700	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217
Capital leases	483	788	1,008	1,229	3,619	3,943	11,743	10,810	16,301	15,503
Total governmental activities debt	1,246,064	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
<b>Business-type activities debt:</b>										
General obligation bonds	13,924	11,070	8,071	5,232	3,378	2,534	1,655	-	-	-
Total business-type activities debt	13,924	11,070	8,071	5,232	3,378	2,534	1,655	-	-	-
<b>Total primary government debt</b>	<b>\$ 1,259,988</b>	<b>\$ 1,261,189</b>	<b>\$ 1,232,880</b>	<b>\$ 1,219,866</b>	<b>\$ 1,248,387</b>	<b>\$ 1,252,789</b>	<b>\$ 1,429,427</b>	<b>\$ 1,726,060</b>	<b>\$ 1,946,511</b>	<b>\$ 1,983,928</b>

<b>Debt Ratios</b>										
Personal income	\$ 159,173,000	\$ 165,402,000	\$ 174,741,000	\$ 184,637,000	\$ 195,085,000	\$ 205,112,000	\$ 213,124,000	\$ 217,884,000	\$ 224,558,000	N/A
Ratio of total debt to personal income	0.79%	0.76%	0.71%	0.66%	0.64%	0.61%	0.67%	0.79%	0.87%	
Population	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346	N/A
Net general bonded debt per capita	218	216	209	205	206	203	228	270	304	

<b>General Bonded Debt:</b>										
General obligation bonds	\$ 1,148,805	\$ 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
General obligation bond anticipation notes										
General obligation commercial paper	110,700	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217
Assets restricted for debt principal								(14,509)		
Total net bonded debt	\$ 1,259,505	\$ 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

<b>Debt Ratios</b>										
Ratio of net bonded debt to total of pledged revenues	61.03%	65.48%	70.45%	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%	42.45%

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 4H 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 2011		Fiscal Year 2011 Pledged Amount	Pledged amount
	Portion Pledged	All Governmental Fund Types		
Calculation of 2011 pledged revenues:				
Gasoline tax	29.3%	\$ 624,276	\$ 182,913	Legal debt service limit (pledged amount/150%)
Petroleum products fee	100%	63,698	63,698	Less: 2011 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds
Motor vehicle registration fee	50%	243,491	121,746	
Franchise tax	100%	467,290	467,290	
		<u>\$ 1,398,755</u>	<u>\$ 835,646</u>	Legal debt service margin
				<u>\$ 835,646</u>

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 512,464	\$ 550,211	\$ 578,609	\$ 594,778	\$ 628,010	\$ 673,748	\$ 673,070	\$ 525,905	\$ 489,075	\$ 557,098
Total net debt service applicable to limit	142,075	148,079	143,702	155,215	148,033	145,975	145,721	154,803	186,684	203,866
Legal debt service margin	<u>\$ 370,389</u>	<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>
Legal debt service margin as a percentage of the debt limit	72.28%	73.09%	75.16%	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population	5,747	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346
Total personal income	\$ 154,416,000	\$ 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
Per capita personal income	\$ 26,842	\$ 27,434	\$ 28,377	\$ 29,761	\$ 31,127	\$ 32,474	\$ 33,746	\$ 34,995	\$ 35,065	\$ 36,489
Unemployment rate	4.6%	5.2%	5.5%	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%

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	2010			2001		
	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	554,900	1	21.29%	590,200	1	21.95%
Government	429,100	2	16.46%	403,200	3	15.00%
Education and Health Services	373,800	3	14.34%	285,800	5	10.63%
Manufacturing	304,100	4	11.67%	454,200	2	16.90%
Professional and Business Services	299,600	5	11.50%	299,100	4	11.13%
Leisure and Hospitality	259,000	6	9.94%	235,500	6	8.76%
Financial Activities	137,000	7	5.26%	138,500	7	5.15%
Natural Resources, Mining, and Construction	102,400	8	3.93%	125,300	8	4.66%
Other Services	101,700	9	3.90%	101,100	9	3.76%
Information	44,700	10	1.72%	55,400	10	2.06%
<b>Total</b>	<b>2,606,300</b>		<b>100.00%</b>	<b>2,688,300</b>		<b>100.00%</b>
	Calendar Year 2010			Calendar Year 2001		
<b>Total State Employment</b>	<b>2,759,270</b>			<b>2,728,570</b>		

Source: An Economic Report to the Governor of the State of Tennessee January 2011 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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	4,114	4,163	4,254	4,394	4,671	4,964	5,040	4,947	4,866	4,786
Education	955	966	1,014	1,028	1,025	1,070	1,066	1,157	1,193	1,154
Health and social services (1)	18,852	19,144	19,255	20,431	21,246	21,208	20,990	19,704	19,241	17,917
Law, justice and public safety	10,681	10,569	10,691	10,922	10,987	10,843	11,004	10,530	10,629	10,534
Recreation and resources development	3,586	3,689	3,762	3,757	3,846	3,885	3,901	3,698	3,640	3,564
Regulation of business and professions	646	668	680	718	738	776	708	708	717	714
Transportation	4,559	4,528	4,460	4,454	4,448	4,380	4,294	4,167	4,326	3,940
<b>Total</b>	<b>43,393</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>

Source: Department of Human Resources

(1) In 2005, in the Department of Human Services, a TennCare 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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government	7,587	7,701	7,785	6,689	7,067	7,276	7,392	7,562	7,536	7,621
Motor pool vehicles	62	61	61	108	107	107	107	107	107	109
Buildings	3,233	3,581	3,861	3,634	3,637	3,386	3,528	3,166	3,888	4,061
Machinery and equipment										
Education	5	5	5	5	5	5	5	5	5	5
Number of residential schools	167	223	228	244	219	209	240	242	260	249
Machinery and equipment										
Health and social services										
Buildings	397	391	388	342	340	339	329	320	320	316
Machinery and equipment	1,916	1,973	1,964	2,031	2,142	2,303	2,443	2,462	2,856	2,600
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	19	19	19
Armories	90	90	86	86	86	86	83	83	83	83
Machinery and equipment	1,739	1,882	2,009	2,352	2,532	2,586	3,103	3,156	3,732	4,424
Recreation and resources development										
Acreage of state parks	158,252	158,581	158,723	164,251	164,399	164,537	165,486	173,878	163,032	173,382
Machinery and equipment	1,884	2,093	2,185	2,295	2,476	2,543	2,729	2,736	2,949	2,912
Regulation of business and professions										
Machinery and equipment	59	68	82	93	104	138	147	140	148	146
Transportation										
State highways (in miles)	14,107	14,107	14,289	14,151	14,163	13,835	13,887	13,882	13,871	13,867
Bridges, state and local highways	19,453	19,493	19,621	19,646	19,432	19,515	19,563	19,536	19,595	19,595
Facilities	120	120	120	122	122	122	122	122	122	122
Buildings	629	671	682	710	713	717	708	708	708	754



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

Function	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>General government</b>										
Tax returns processed (1)	2,125,072	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
New corporate charters registered	11,716	11,563	11,826	12,103	11,807	11,726	10,745	11,073	11,724	9,717
Investment return on total portfolio	2.67%	1.64%	1.11%	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%
Residential and commercial property reappraisals completed	475,539	256,916	265,373	1,441,168	554,798	336,050	255,250	511,050	677,720	525,516
<b>Education</b>										
Number of public schools (K-12)	1,646	1,659	1,677	1,693	1,699	1,714	1,718	1,736	1,736	1,736
Enrollment of public schools (K-12)	958,496	973,170	973,626	976,574	991,489	925,898	929,543	930,525	933,703	934,246
Number of high school graduates from public schools	44,622	48,341	50,203	51,436	53,960	54,191	57,486	60,371	62,526	62,526
<b>Health and social services</b>										
TennCare enrollees	1,428,600	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
Food stamp recipients	578,144	692,300	791,695	833,687	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200
Percentage of population (4)	9.99%	11.85%	13.43%	13.98%	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%
Temporary assistance recipients	163,840	68,300	73,158	72,676	70,108	64,684	60,000	60,000	58,000	61,500
Percentage of population (4)	2.83%	1.17%	1.24%	1.22%	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%
Children in state custody (2)	10,259	10,345	10,869	10,467	9,700	9,048	8,149	7,202	7,336	7,870
Percentage of population (4)	0.18%	0.18%	0.18%	0.18%	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%
Mental health institutes average daily census	941	958	960	888	845	808	780	688	575	538
<b>Law, justice and public safety</b>										
Correctional institutions average daily census	17,372	18,170	19,117	19,141	19,119	26,573	26,998	27,325	27,164	27,782
Department of Safety citations issued	415,030	388,356	423,305	453,650	472,465	403,363	380,586	358,104	347,571	301,394
Drivers licenses issued	1,281,106	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
<b>Recreation and resources development</b>										
Hunting/fishing licenses and boats registered	722,949	718,307	723,305	733,554	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935	547,660
Wetland acres acquired	4,798	74,831	6,369	782	3,308 (est.)	891	3,602	2,327	79	559
Number of visitors to state parks	28,821,110	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
Air pollution monitoring sites	99	92	91	86	87	86	78	89	93	32
<b>Regulation of business and professions</b>										
Fire safety inspections	12,574		41,402		18,418	34,976	39,518	34,241	37,920	34,539
Consumer affairs written complaints	4,660		4,747		5,528	5,420	5,797	5,481	6,240	5,818
<b>Transportation</b>										
Lane miles resurfaced (3)	3,483	2,194	2,238	2,188	1,632	2,408	1,968	2,893	2,261	2,317
HELP program services provided	150,086	123,809	137,615	148,805	154,362	128,006	130,062	108,460	112,438	116,865

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							
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)
2002	\$ 438,956	\$ 406,146	21	\$ 18,628	2002	\$ 120,196	\$ 99,786	-	\$ 3,777
2003	413,632	409,612	-	24,804	2003	127,638	102,139	-	6,334
2004	417,191	406,033	75	24,508	2004	140,957	100,602	-	6,291
2005	448,955	430,412	66	25,317	2005	151,536	106,393	-	5,609
2006	484,786	440,014	56	23,896	2006	166,652	108,395	-	4,993
2007	532,582	471,730	45	26,652	2007	177,082	116,006	-	6,013
2008	565,963	510,261	35	33,177	2008	188,462	123,719	-	6,280
2009	599,973	476,333	35	43,577	2009	195,365	114,524	-	8,914
2010	648,298	493,304	12	43,998	2010	214,426	122,480	-	8,914
2011	685,003	548,787	-	51,079	2011	237,768	133,514	-	8,839

Austin Peay State University		Middle Tennessee State University							
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2002	\$ 38,957	\$ 30,484	48	\$ 649	2002	\$ 98,031	\$ 77,990	-	\$ 5,472
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	-	6,455
2007	56,119	34,977	-	2,253	2007	158,641	94,005	-	7,875
2008	57,821	36,371	-	2,581	2008	168,872	100,859	-	8,011
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	-	14,928
2011	78,214	36,102	-	3,531	2011	223,096	100,110	-	-

East 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)
2002	\$ 72,774	\$ 77,965	261	\$ 1,916	2002	\$ 45,119	\$ 35,067	-	\$ 2,193
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

(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		Jackson State Community College		Cleveland State Community College			
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2002	\$ 41,311	\$ 40,392	-	639	2002	\$ 3,762	\$ 5,979	-	-
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	20,616	-	3,104	2011	9,988	7,985	-	-

Chatanooga State Technical 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)
2002	\$ 13,947	\$ 21,233	70	73	2002	\$ 6,773	\$ 10,477	-	-
2003	15,034	21,108	60	73	2003	7,173	10,768	-	-
2004	17,297	20,802	65	73	2004	8,290	10,610	-	-
2005	18,216	21,977	-	73	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	23,074	-	489	2008	11,512	13,147	-	166
2009	26,466	23,937	-	489	2009	12,583	13,264	-	166
2010	29,512	24,926	-	489	2010	14,749	11,710	-	166
2011	34,021	26,901	-	284	2011	15,739	13,193	-	-

(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)

Motlow State Community College		Nashville State Technical Community College		Northeast State Technical Community College		Pelissippi State Technical Community College		Southwest Tennessee Community College	
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2002	\$ 5,225	\$ 8,514	-	-	2002	\$ 8,254	\$ 12,525	-	-
2003	5,660	8,893	-	-	2003	13,519	13,099	-	-
2004	6,369	8,747	-	-	2004	12,202	12,730	-	\$ -
2005	7,022	9,343	-	-	2005	13,955	13,449	-	-
2006	7,678	9,434	-	-	2006	15,615	14,045	-	-
2007	8,661	10,290	-	171	2007	15,828	15,185	-	-
2008	9,780	10,951	-	170	2008	17,657	16,370	-	-
2009	11,148	12,890	-	170	2009	19,900	15,619	-	-
2010	13,121	9,143	-	170	2010	24,984	14,585	-	-
2011	13,983	11,023	-	-	2011	30,011	16,451	-	-

Roane State Community College		Northeast State Technical 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)
2002	\$ 8,589	\$ 15,771	-	-	2002	\$ 6,599	\$ 9,737	-	-
2003	9,332	15,779	-	-	2003	7,283	10,543	-	-
2004	10,964	15,518	-	-	2004	8,910	10,391	-	-
2005	11,823	16,470	-	-	2005	9,883	10,958	-	-
2006	12,528	16,660	-	-	2006	10,505	11,147	-	-
2007	13,510	17,892	-	-	2007	11,731	12,256	-	-
2008	14,478	18,976	-	330	2008	12,086	13,199	-	\$ -
2009	15,366	18,104	-	323	2009	13,534	12,678	-	-
2010	18,411	20,103	-	323	2010	16,728	13,247	-	-
2011	20,532	19,098	-	153	2011	19,302	13,291	-	-

(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)
2002	\$ 9,600	\$ 15,689	-	-	2002	9,381	15,595	-	-
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	-	17	2006	12,740	16,860	-	-
2007	14,974	17,995	-	140	2007	14,097	18,249	-	204
2008	16,565	19,245	-	139	2008	15,810	19,429	-	289
2009	17,802	18,851	-	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

Source: Comptroller of the Treasury,  
Division of Bond Finance

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, 2011

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	\$ 228	\$ 8,396	\$ 25,538	\$ 3,480	\$ 5,000
University of Tennessee- Chattanooga	300	6,718	20,252	2,950	5,300
University of Tennessee- Martin	380	6,718	19,128	2,320	4,250
Austin Peay State University	274	6,690	20,928	2,643	5,526
East Tennessee State University	180	6,529	20,767	2,940	4,398
Middle Tennessee State University	408	7,018	21,406	3,050	4,363
Tennessee State University	178	6,346	19,498	2,978	3,255
Tennessee Technological University	58	6,698	21,008	4,764	3,176
University of Memphis	192	7,696	23,146	4,150	4,180
Chattanooga State Technical Community College		3,567	13,671		
Cleveland State Community College		3,521	13,625		
Columbia State Community College		3,523	13,627		
Dyersburg State Community College		3,533	13,637		
Jackson State Community College		3,529	13,633		
Motlow State Community College		3,528	13,632		
Nashville State Technical Community College		3,477	13,581		
Northeast State Technical Community College		3,533	13,637		
Pellissippi State Technical Community College	30	3,569	13,673		
Roane State Community College		3,537	13,641		
Southwest Tennessee Community College		3,547	13,651		
Volunteer State Community College		3,519	13,623		
Walters State Community College		3,531	13,635		

Source: Comptroller of the Treasury,  
Division of Bond Finance

STATE OF TENNESSEE  
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS  
JUNE 30, 2011

Schedule 17

<u>Institution</u>	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	\$ 524,169	\$ 47,683	\$ 6	\$ 571,858
Austin Peay State University	37,198	22,827		60,025
East Tennessee State University	113,379	17,831	1,238	132,448
Middle Tennessee State University	155,156	42,111		197,267
Tennessee State University	36,473	2,994		39,467
Tennessee Technological University	37,107	6,188		43,295
University of Memphis	105,355			105,355
Chattanooga State Technical Community College	2,108	1,625		3,733
Cleveland State Community College	404			404
Columbia State Community College	49	1,581		1,630
Nashville State Technical Community College	648			648
Northeast State Technical Community College	349			349
Pellissippi State Technical Community College	1,550			1,550
Roane State Community College	1,231			1,231
Southwest Tennessee Community College	2,937			2,937
Volunteer State Community College	47			47
Walters State Community College	820			820
	<u>\$ 1,018,980</u>	<u>\$ 142,840</u>	<u>\$ 1,244</u>	<u>\$ 1,163,064</u>

Source: Comptroller of the Treasury,  
Division of Bond Finance

## SECURITIES & EXCHANGE COMMISSION DISCLOSURES

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