STATE OF TENNESSEE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2014

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2014

BILL HASLAM, Governor

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

DEPARTMENT OF FINANCE AND ADMINISTRATION
LARRY B. MARTIN, Commissioner
Division of Accounts
JAN I. SYLVIS, CHIEF OF ACCOUNTS

Front Cover: Tennessee Theater, Knoxville; Ryman Auditorium, Nashville; Sun Studio, Memphis
Photographs obtained from Tennessee Department of Tourist Development,

Tennessee Department of Finance and Administration, Authorization No. 317332, Jan 2015. 100 copies. This public document was promulgated at a cost of $17.15 per copy.

STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

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

LARRY B. MARTIN
COMMISSIONER

December 19, 2014

To the Citizens, Governor, and Legislators of the State of Tennessee:

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the state of Tennessee for the fiscal year ended June 30, 2014. This report is prepared and submitted by the Department of Finance and Administration as part of its responsibility under Tennessee Code Annotated 4-3-1007 to maintain a system of general accounts embracing all the financial transactions of state government.

The CAFR, presented in three sections – Introductory, Financial and Statistical, is the primary means of reporting the state of Tennessee's financial activities. Its objectives are to provide a clear picture of the government as a single, unified entity and to provide traditional fund based statements. The CAFR consists of management's representations concerning the state of Tennessee's finances, and management assumes full responsibility for the completeness and reliability of the information presented. This report reflects our commitment to you, the citizens of the state, and to the financial community to maintain our financial statements in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board. Information presented in the report is believed to be accurate in all material respects, and all disclosures have been included that are necessary to enable the reader to obtain a thorough understanding of the state's financial activities.

The state's management is responsible for the establishment and maintenance of internal controls which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and financial transactions are properly recorded and adequately documented, and to ensure the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from such control and that the evaluation of those costs and benefits requires estimates and judgments by the state's management.

State statute requires an annual audit by The Office of the Comptroller of the Treasury, Department of Audit. The Department of Audit is considered by federal and state government to be independent auditors. They have examined the accompanying financial statements, and issued an unmodified opinion on the state's basic financial statements. The independent auditor's report is located at the front of the Financial Section of this report.

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

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 complements this letter of transmittal and should be read in conjunction with it.

Profile of the State of Tennessee

The state of Tennessee is rooted in the Watauga Association, a 1772 frontier pact generally regarded as the first constitutional government west of the Appalachians. What is now Tennessee was initially part of North Carolina, and later part of the Southwest Territory. Tennessee was admitted to the Union as the 16th state on June 1, 1796. It was the first state created from territory under the jurisdiction of the United States federal government. Tennessee shares a border with eight states and divides naturally into three "grand divisions", upland, often mountainous, East Tennessee, Middle Tennessee with its foothills and basin, and the low plain of West Tennessee. These geographical divisions correspond to the distinctive political and economic cultures of the state's three regions.

Providing natural beauty, a mild climate, urban conveniences and rural peacefulness, the U.S. Census Bureau, as of 2013, estimates Tennessee's population at 6.5 million, making it the 17^{th} most populous of the 50 United States. In recent years, Tennessee has received an influx of people relocating from California, Florida, and several northern states, for the low cost of living, and the booming healthcare and automobile industries. Metropolitan Nashville is one of the fastest-growing areas in the country due in part to these factors.

State government powers are by state constitution divided into three distinct branches, the legislative, the executive and the judicial. Tennessee's legislative branch of government consists of a bicameral General Assembly with a Senate and House of Representatives. Members of the General Assembly, or Legislature, are elected by popular vote from districts across the state. Legislators are part-time lawmakers who live in their district and know the local issues. The Constitution specifies the size of the legislature, requiring 99 members in the House and prohibiting the Senate membership from exceeding one-third of the House membership. Thus, the Senate has 33 members. The primary function of the General Assembly is lawmaking. The Legislature enacts laws, provides a forum for debate and secures financing for the operation of state government. In the case of the executive branch, the constitution places the "Supreme Executive Power'' of the state with the governor. The governor and his executive branch agencies "execute" or administer laws, mandates and new programs created by the General Assembly by statute. The judicial branch, serves as a check on the powers of both the legislative and executive branches.

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

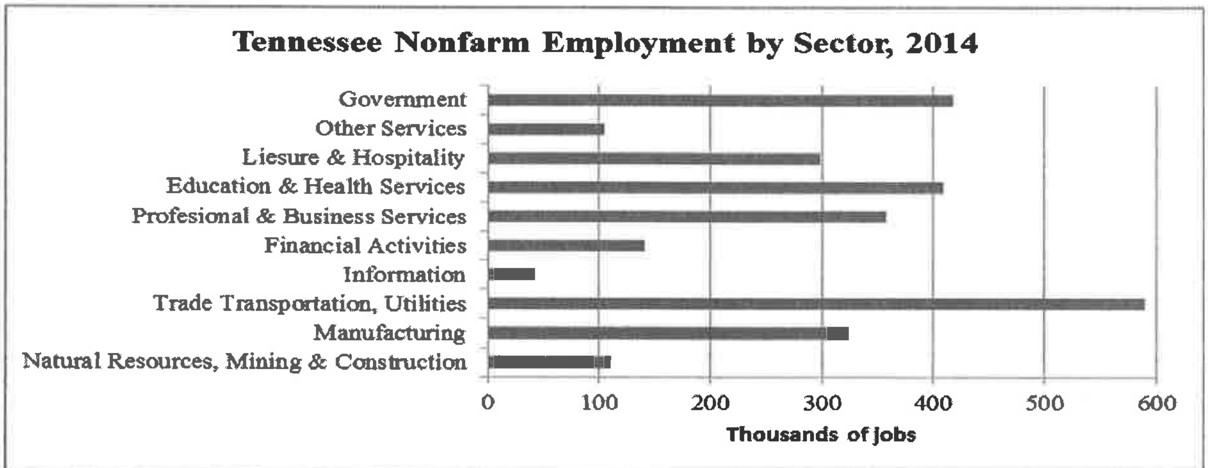
The state and its component units provide a wide range of services and funding to the citizens of Tennessee, including education; health and human services; economic development; environmental and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general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

Tennessee's constitution requires the state to maintain a balanced budget, and state legislation grants the governor the authority and duty to develop and submit to the General Assembly a recommended budget. Preparation of the Governor's annual budget for the state of Tennessee is the responsibility of the Commissioner of Finance and Administration, who is the State Budget Director. Within the Department of Finance and Administration, the Division of Budget is responsible for budget development using the modified accrual basis of accounting. (Annual budgets are adopted for the departments in the general fund and special revenue funds [except Fraud and Economic Crime and Agricultural Promotion Boards], and for the debt service fund.) At the time the budget document is presented to the General Assembly, the appropriation process is initiated. The general appropriations act reflects the General Assembly's approval of the annual budget, and once passed and signed, the budget, in the form of the appropriations act, becomes the state's financial plan for the coming year. Budgetary control is maintained through a formal appropriation and allotment process. Appropriation of funds in Tennessee is a legislative power, not an executive power. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law. Budgetary control is maintained at the program level by the individual departments, acting in conjunction with the Department of Finance and Administration. Additional information regarding the state's budgetary process can be found in the Notes to Required Supplementary information within this report.

Information Useful in Assessing Tennessee's Economic Condition

Local economy

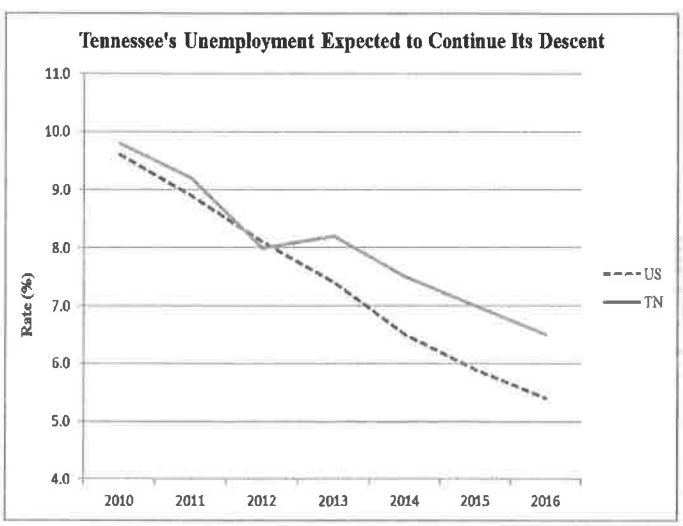
Tennessee is committed to maintaining and improving its reputation as a world-class business location. Simply put, Tennessee is good for business, offering a beneficial labor environment, productive and educated work force, wonderful quality of life and wealth of technology resources. These factors combine to create a business climate that gives companies a winning edge in their long-term growth and profitability. Named 2013 State of the Year by Business Facilities Magazine, a national economic development publication, Tennessee continues to demonstrate that it not only provides a top-notch business environment, but also the ongoing support needed for success.



Source: Center for Business and Economic Research, University of Tennessee, January 2014

While the great recession ended (i.e. bottomed out) in the summer of 2009, lingering effects continue to work their way through Tennessee's economy, as they are in the national economy. Output and income levels in Tennessee were relatively quickly restored in the aftermath of the recession. Employment levels and the unemployment rate, on the other hand, have not returned to where they were before the onset of the recession. Full recovery to prerecession levels of annualized employment is expected to occur in 2015; however the unemployment rate is expected to remain above its prerecession low (4.8 percent state and 4.6 percent national) for several years. Tennessee's overall economic outlook is similar to the national outlook, with moderate-to-slow growth expected for the second half of the year and a continuation of growth through 2015.

The state's fall 2014 economic outlook by The Center for Business and Economic Research, University of Tennessee projects the following:



- Nonfarm employment is expected to advance 1.8 percent this year and 1.6 percent next year.
- Manufacturing employment should increase by 0.9 percent this year and 0.5 percent in 2015.
- The state unemployment rate will average 7.2 percent in 2014 and 2015, and then fall to 6.6 percent in 2016.
- Nominal personal income is projected to rise by 3.5 percent in 2014 and 4.4 percent in 2015.
- Taxable sales will grow by 3.1 percent this year and 3.4 percent next year.

With a near-term outlook for the national and state economies that is as bright as it has been since the end of the recession, and Tennessee's commitment to economic growth, full post-recession recovery is definitely in sight. A noteworthy example is that middle Tennessee has actually been adding jobs and growing at a rate faster than the national economy for the past year or so. Nashville's economy ranks as one of the fastest-growing in the country, and has been called the "It" city and "on fire", sparked by a booming cultural scene, world-class health care, rising universities, and a great location.

Long-term financial planning and relevant financial policies

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

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

  Tennessee's commitment to conservative and prudent debt management is widely recognized by the nation's leading debt-rating agencies. Current ratings on the state's general obligation long-term debt are: Fitch AAA, Standard and Poor's AA+, and Moody's Investor Service Aaa.

- The maximum principal amount of bonds that Tennessee can issue after July 1, 2013, is based on a debt service coverage test that first calculates the amount necessary to pay the maximum annual debt service in the then current or any future fiscal year on all outstanding bonds and bonds proposed to be issued (the debt service amount). This amount is then compared with the amount of total state tax revenue (as defined in state legislation) that was allocated to the general fund, debt service fund and highway fund for the immediately preceding fiscal year (the total tax revenue amount). If the debt service amount is not greater than ten percent (10%) of the total tax revenue amount, then bonds may be issued. If the debt service amount is six percent (6%) or more of the total tax revenue amount, a debt capacity study is to be conducted on an annual basis until the debt service amount drops below six percent (6%) of the total tax revenue amount.

- The state constitution requires, for current operations, that expenditures for any fiscal year not exceed the state's revenues and reserves, including the proceeds of any debt obligation, for that year. In addition, the Constitution forbids the expenditure of any debt obligation for a purpose other than the purpose for which it was authorized. Under state law, the term of bonds authorized and issued cannot exceed the expected life of the projects being financed. The state is authorized to issue general obligation tax revenue anticipation notes in anticipation of tax revenues in the then current fiscal year of the state. The state constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year.

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

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

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

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

- With rising and potentially uncontrollable pension cost a significant concern, in 2013 Tennessee joined a long list of states that enacted pension reform measures. For employees hired after June 30, 2014, Tennessee replaced the traditional defined benefit where financial risk was borne entirely by the employer. For these employees, the defined benefit plan was replaced with a combination of a defined benefit plan and a defined contribution plan. This new hybrid plan includes greater controls over employer costs and unfunded liabilities. Accordingly, a bifurcated pension plan is now in place. A defined benefit legacy plan will remain in force for employees hired before July 1, 2014.

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

Major initiatives

Tennessee is continuing its priorities and progress in 2014 in the areas of attracting and growing Tennessee jobs, the importance of a customer-focused, efficient and effective state government, improving public safety, and making significant progress in education.

- Currently leading the way nationwide in K-12 education reform, Tennessee is continuing that momentum and has expanded its focus to include post-secondary education through a pair of innovative initiatives: Drive to 55 and the Tennessee Promise. Drive to 55 is a strategic initiative to have the best trained workforce in America. Within the next five years, over half of jobs in Tennessee will require postsecondary credentials beyond a high school degree. Accordingly, this initiative aims to bring the percentage of Tennesseans with college degrees or certifications to 55 percent by the year 2025. Strategies to be employed by Drive to 55 include better preparing students to reduce the need for remedial courses, increasing dual enrollment and dual credit, improving mentoring, reducing the financial barriers to education, and enhancing programs to increase graduation rates.

  Beginning in 2015, the Tennessee Promise, the signature component of the Drive to 55 push, ensures that high school graduates can attend two years at a community college or technical college absolutely free of tuition and fees. Tennessee is the only state in the country making this promise. It makes a clear statement to Tennessee families that education beyond high school is a priority. The Tennessee Promise is not funded through taxpayer dollars. Excess lottery reserve funds are being used to create an endowment to strategically redirect existing resources and to keep the program sustainable over time.

- During 2013 and 2014 state office space was reduced by about one million square feet, and for the first time in recent history, there is a statewide inventory of all state properties. In addition, a comprehensive plan to maintain and manage state assets has been developed. Besides saving money, these changes have created better working conditions for state employees with efficient, well-lit and functional office space.

- Agencies across state government came together in the summer of 2014 to produce Prescription for Success: Statewide Strategies to Prevent and Treat the Prescription Drug Abuse Epidemic in Tennessee, a comprehensive multi-faceted strategic plan to combat the prescription drug abuse problem in Tennessee. The plan has three major components: a description of the prescription drug problem in Tennessee, information about how the problem is currently being addressed, and a plan for the future that includes specific, measurable goals that will help determine if the lives of individuals and families in Tennessee are being improved as a result of the efforts.

  The plan does not obligate the Administration or the General Assembly to any additional funding requests to fulfill this plan's purpose. Funding requests related to the initiatives will be determined through the normal General Assembly budgeting process.

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, 2013. This was the thirty-fourth year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The state also received GFOA's Distinguished Budget Presentation Award for its Annual Budget beginning July 1, 2013. Prepared by the Department of Finance and Administration's Division of Budget, this was the twenty second time the state's budget publications have received this award by meeting program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This CAFR is an example of state leadership's continuing commitment to maintaining the highest standards of accountability in financial reporting. We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency, each component unit, and the dedicated staff within the Department of Finance and Administration, Division of Accounts.

Respectfully submitted,

Larry B. Martin

Larry B. Martin
Commissioner

Jan I. Sylvis

Jan I. Sylvis
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2014

- General Assembly
  - Speaker of The House Beth Harwell
  - Speaker of The Senate Ron Ramsey
  - Secretary of State Tre Hargett
  - Comptroller of the Treasury Justin P. Wilson
  - State Treasurer David H. Lillard, Jr.
- Governor Bill Haslam
  - Department of Agriculture Julius Johnson
  - Department of Children's Services James M. Henry
  - Department of Commerce and Insurance Julie Mix McPeak
  - Department of Correction Derrick D. Schofield
  - Department of Economic and Community Development Bill Hagerty
  - Department of Education Kevin Huffman
  - Department of Environment and Conservation Robert Martineau
  - Department of Finance and Administration Larry B. Martin
  - Department of Financial Institutions Greg Gonzales
  - Department of General Services Bob Oglesby
  - Department of Health John J. Dreyzehner
  - Department of' Human Resources Rebecca Hunter
  - Department of Human Services Dr. Raquel Hatter
  - Department of Intellectual & Developmental Disabilities Debra K. Payne
  - Department of Labor And Workforce Development Burns Phillips
  - Depart. Of Mental Health & Substance Abuse Services E. Douglas Varney
  - Department of Military Max Haston
  - Department of Revenue Richard H. Roberts
  - Department of Safety and Homeland Security Bill Gibbons
  - Department of Tourist Development Susan Whitaker
  - Department of Transportation John Schroer
  - Department of Veterans Affairs Many-Bears Grinder
  - Agencies, Boards, Commissions, and Councils
- Supreme Court Chief Justice Gary R. Wade
  - Attorney General Robert E. Cooper, Jr.
  - Court of Appeals
  - Court of Criminal Appeals
    - Chancery Courts
    - Probate Courts
    - Circuit Courts
    - Criminal Courts

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

FINANCIAL SECTION

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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2014, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4, the State of Tennessee implemented Governmental Accounting Standards Board Statement 67, *Financial Reporting for Pension Plans*, during the year ended June 30, 2014. Our opinion is not modified with respect to this matter.

As discussed in Note 5, the financial statements of the Tennessee Consolidated Retirement System, pension trust funds, include investments valued at $3.4 billion (7.88 percent of pension and other employee benefit trust funds net position), and the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $454.9 million (6.37 percent of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 19, 2014, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Tennessee's internal control over financial reporting and compliance.

Debora V. Loveless

Deborah V. Loveless, CPA
Director
December 19, 2014

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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, 2014. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-8 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Position–The assets and deferred outflows of the state exceeded its liabilities at June 30, 2014, by $31.7 billion (net position). Of this amount, $3.6 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $26.9 billion represents *net investment in capital assets*.

  Changes in Net Position–The state's net position increased by $533.8 million. This increase was largely the result of an increase in capital assets.

  Component units–Component units reported total net position of $7.1 billion, an increase of $351 million.

- **Fund Level:**

  At June 30, 2014, the state's governmental funds reported combined ending fund balances of $4.4 billion, a decrease of $224.9 million (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately $3.1 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, $456 million of this amount is set aside in a revenue fluctuation account (rainy day fund).

- **Long-Term Debt:**

  The state's total debt decreased by $66.952 million during the fiscal year to total $2.321 billion. This change primarily results from the state's decision to not issue any 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 s*tatement of net position and the statement of activities* (on pages 27 and 28-29) provide information about the activities of the state as a whole (government-wide statements) and present a longer-term view of the state's finances. Fund financial statements start on page 32. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the state's operations in more detail than the government-wide statements by providing information about the state's most significant funds. The remaining statements provide financial information about activities for which the state acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the state as a whole begins on page 17. One of the most important questions asked about the state's finances is, "Is the state as a whole better off or worse off as a result of the year's activities?" The *statement of net position* and the *statement of activities* report information about the state as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferred outflows/inflows using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the state's major funds begins on page 20. The fund financial statements begin on page 32 and provide detailed information about the most significant funds–not the state as a whole. Some funds are required to be established by state law and by bond covenants. However, the state establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The state's two kinds of funds–governmental and proprietary–use different accounting approaches.

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

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

Notes to the financial statements. Notes to the financial statements are also included and provide essential information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units. The notes to the financial statements can be found on pages 47-122.

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the state, assets and deferred outflows of resources exceeded liabilities by $31.7 billion as of June 30, 2014.

By far, the largest portion of the state's net position (84.8 percent) reflects its net investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment, construction in progress and software in development), less any related debt and deferred outflows of resources used to acquire those assets that is still outstanding. The state uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and other assets	$ 7,164,197	$ 7,481,380	$ 2,377,111	$ 2,250,689	$ 9,541,308	$ 9,732,069
Capital assets	27,515,983	26,853,825			27,515,983	26,853,825
Total assets	34,680,180	34,335,205	2,377,111	2,250,689	37,057,291	36,585,894
Deferred outflow of resources	63,773	73,266			63,773	73,266
Current and other liabilities	1,809,064	1,909,567	104,682	100,984	1,913,746	2,010,551
Noncurrent liabilities	3,537,596	3,512,866	7,682	7,464	3,545,278	3,520,330
Total liabilities	5,346,660	5,422,433	112,364	108,448	5,459,024	5,530,881
Net position:						
Net investment in capital assets	26,855,523	26,286,881			26,855,523	26,286,881
Restricted	1,242,324	1,193,341			1,242,324	1,193,341
Unrestricted	1,299,446	1,505,816	2,264,747	2,142,241	3,564,193	3,648,057
Total net position	$ 29,397,293	$ 28,986,038	$ 2,264,747	$ 2,142,241	$ 31,662,040	$ 31,128,279

An additional portion of the state's net position (3.9 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position ($3.6 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 position, for the government as a whole, and for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The state's net position increased by $533.8 million during the year ended June 30, 2014. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

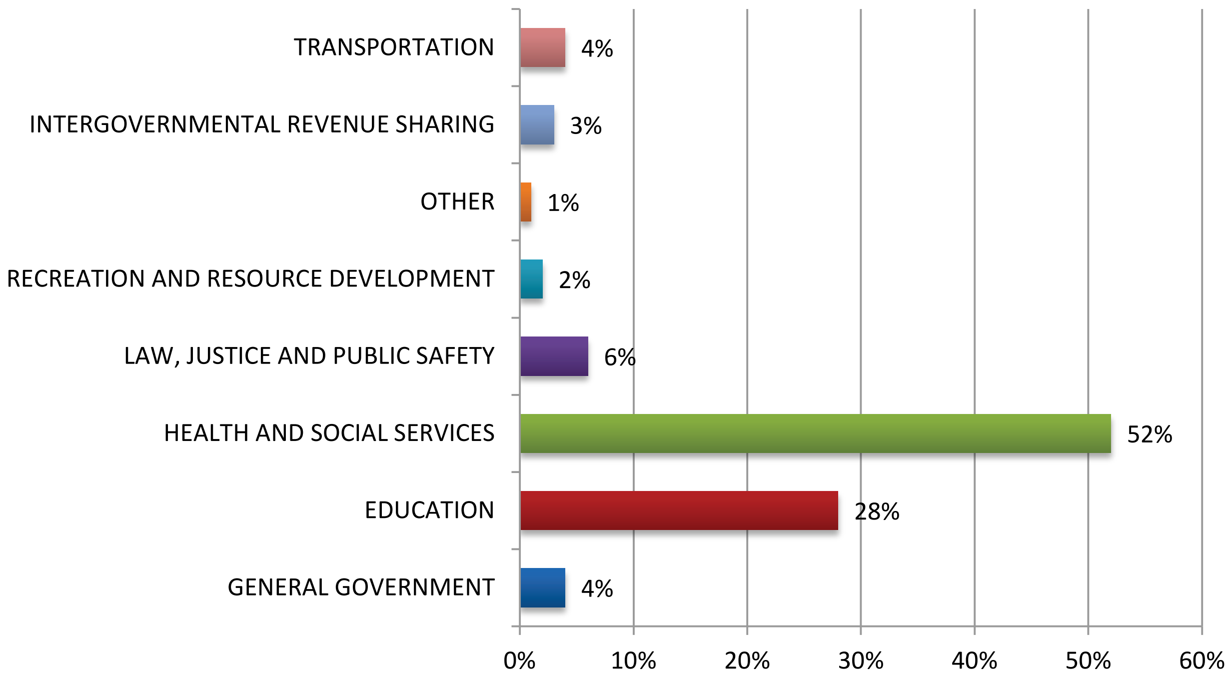
State of Tennessee
Changes in Net Position
For the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 2,125,114	$ 2,069,091	$ 978,079	$ 1,215,071	$ 3,103,193	$ 3,284,162
Operating grants and contributions	11,355,859	11,697,733	134,026	327,928	11,489,885	12,025,661
Capital grants and contributions	762,251	772,061			762,251	772,061
General revenues:						
Sales Taxes	7,276,443	7,018,128			7,276,443	7,018,128
Other taxes	5,432,661	5,605,963			5,432,661	5,605,963
Other	228,217	286,849			228,217	286,849
Total revenues	27,180,545	27,449,825	1,112,105	1,542,999	28,292,650	28,992,824
Expenses:						
General government	959,641	987,369			959,641	987,369
Education	7,383,077	7,083,697			7,383,077	7,083,697
Health and social services	13,912,421	14,078,338			13,912,421	14,078,338
Law, justice and public safety	1,612,248	1,538,217			1,612,248	1,538,217
Recreation and resources development	646,781	554,045			646,781	554,045
Regulation of business and professions	158,644	158,161			158,644	158,161
Transportation	1,126,744	1,101,271			1,126,744	1,101,271
Intergovernmental revenue sharing	897,312	844,628			897,312	844,628
Interest on long-term debt	67,520	71,933			67,520	71,933
Payments to fiduciary funds	827	22,386			827	22,386
Employment security			451,470	743,213	451,470	743,213
Insurance programs			541,205	544,250	541,205	544,250
Loan programs			1,469	1,577	1,469	1,577
Other			76	163	76	163
Total expenses	26,765,215	26,440,045	994,220	1,289,203	27,759,435	27,729,248
Increase in net position before contributions and transfers	415,330	1,009,780	117,885	253,796	533,215	1,263,576
Transfers	(4,622)	(4,256)	4,622	4,256		
Contributions to permanent funds	547	180			547	180
Increase (decrease) in net position	411,255	1,005,704	122,507	258,052	533,762	1,263,756
Net position, July 1	28,986,038	27,980,334	2,142,240	1,884,188	31,128,278	29,864,522
Net position, June 30	$ 29,397,293	$ 28,986,038	$ 2,264,747	$ 2,142,240	$ 31,662,040	$ 31,128,278

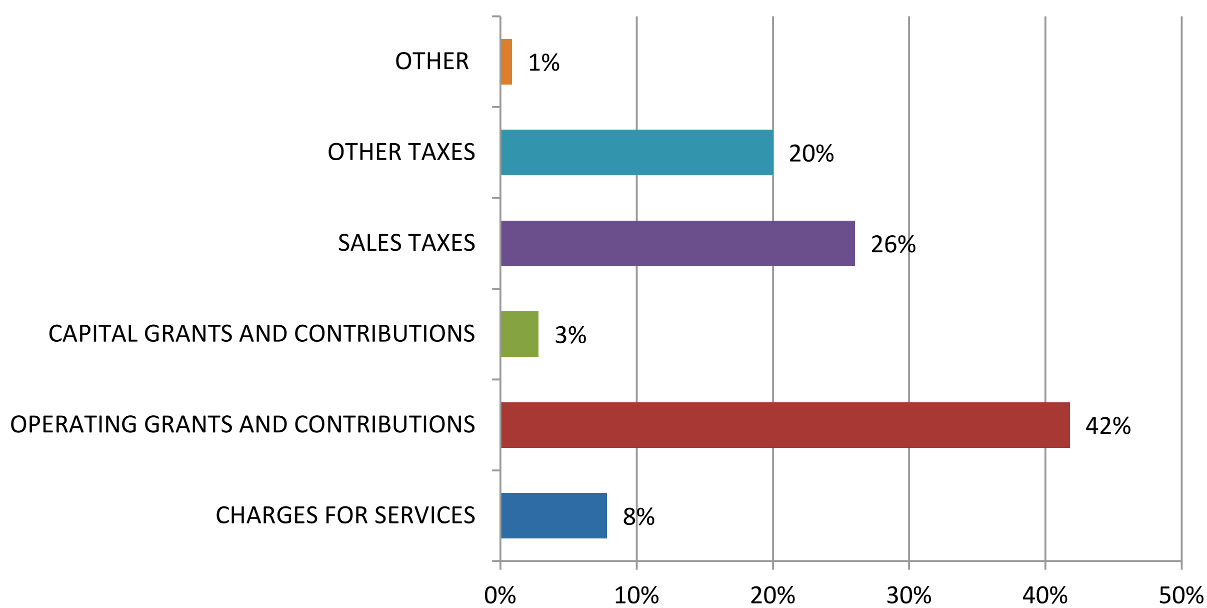
Governmental activities. Net position of the state's governmental activities increased by $411.3 million (1.4 percent). This increase accounts for 77 percent of the total increase in net position of the primary government and is primarily the result of the capitalization of $993.4 million in expenses related to roadways and bridges and not recording depreciation expense for these assets. The effect of capitalization of assets is offset by a net decrease of $443.3 million in the general fund's ending fund balance from the prior year. See page 20 for a discussion of this decrease.

See notes to the financial statements, note 4, on page 57 for an explanation for June 30, 2013 adjustments.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net position of the state's business-type activities increased by $122.51 million (6 percent). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net position of $60.2 million. The Employment Security fund increase is due to a decrease in unemployment benefits paid combined with a smaller decrease in operating grants received. The Sewer Treatment Loan program increase is primarily due to increased operating grants received during the year. The Nonmajor Enterprise funds' activity resulted in a $62.3 million increase in net position which in large part, is attributable to increases in premiums charged to participants' of the Teacher and Local Government Group Insurance funds. Expenses remained relatively unchanged in these two enterprise funds.

THE STATE'S FUNDS

At June 30, 2014, governmental funds reported a decrease in total revenues and in total expenditures. Details are in the following paragraphs. The revenue fluctuation account (rainy day fund) reported as unassigned fund balance has been increased to $456 million or 3 percent of the general fund's expenditures.

The general fund reported a $443 million decrease in fund balance. A decrease in nonfederal revenues of $26.9 million was offset by an increase in transfers in of $24.6 million. Total nonfederal expenditures however, increased by $435 million.

The education fund revenues and transfers increased overall approximately by $425 million (6.2 percent) while expenditures increased by $307 million (4.5 percent). Most of the increase was due to the increase of the state's equitable share of the Basic Education Program (K-12 funding), to provide additional funds for capital outlay and technology upgrades to the local education agencies (LEAs), to provide funding for equipment at technology centers and community colleges, to aid in the implementation of a new outcomes-based funding formula for higher education institutions and the state's share of the salary and group health insurance increases for the LEAs and higher education institutions.

The overall fund balance increased in the education fund by $80.9 million. The majority of this increase is restricted to provide student financial assistance.

The capital project fund had a $4.3 million decrease in fund balance caused mainly by management's decision to issue less long-term debt during the current period resulting in the spending of unspent long-term debt proceeds carried over from the prior period.

The highway fund revenues increased $24.6 million and expenditures decreased $108.6 million. Revenues increased primarily as a result of an increase in federal funds and expenditures decreased because less new projects were started during the fiscal year.

The total plan net position of the pension trust funds were $42.9 billion, an increase of approximately $5.3 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $6.2 billion.

General Fund Budgetary Highlights

Federal revenue collections were significantly below estimated levels due to the timing difference of the actual expenditures and appropriation of multi–year projects in Community Development programs, TennCare and the Department of Environment and Conservation. TennCare also underspent in health information technology grants, CoverKids, Medicare cost sharing and MCO expenditures. Human Services had a decrease in Child Care, Cash Assistance and SNAP caseloads which are significantly funded with federal revenue.

Actual expenditures in the Tenncare program, Labor and Workforce Development, Economic and Community Development and Human Services were significantly less than what was projected in the final budget primarily due to unexpended reserved amounts and multi–year projects that were appropriated in the current year. Unspent allotments were non–lapsing and carried forward into the next fiscal year. In addition, there was a favorable variance between budgeted and actual expenditures for Children in State Custody due to underspending in Family Support Services, Custody Services, and Child and Family Management. Miscellaneous Appropriations were underspent due to various line items not being necessary such as Retired Teachers Insurance, the Homeland Security Emergency Fund, deferred compensation, the Accent Systems project and other operational rate adjustments. Also showing a favorable variance was Environment and Conservation due to available funds in the sewer treatment loan fund which resulted in the need for less funding from the general fund for clean water loans. Corrections expenditures were less than projected due to the local jail population averaging 2,000 less inmates than compared to previous periods.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets at June 30, 2014, of $27.5 billion, net of $1.7 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government

(Expressed in Thousands)

	Governmental Activities	
	2014	2013
Land	$ 2,097,270	$ 2,012,356
Infrastructure	22,630,755	22,235,634
Construction in progress	999,670	819,029
Structures and improvements	2,481,209	2,484,288
Machinery and equipment	965,038	906,311
Software in development	50,325	27,397
Subtotal	29,224,267	28,485,015
Accumulated depreciation	(1,708,284)	(1,631,190)
Total	$ 27,515,983	$ 26,853,825

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

Capital assets, including those under construction, increased from fiscal year 2013 to 2014 by approximately 2.5 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $355.6 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $559.9 million and decreased (projects completed and capitalized) by $366.7 million. Infrastructure right-of-way acreage increased the land classification by $66.7 million. The change in machinery and equipment of $58.7 million resulted primarily from an $18.6 million mobile equipment upgrade for the Department of Transportation, a $5.1 million radio system upgrade for the Department of Correction, and a $6 million upgrade to the Department of Safety and Homeland Security's communication system. During fiscal year 2014, the state had several system projects in the application development stage, resulting in the capitalization of $38.7 million in new software development costs and there were $11.79 million in system projects that were placed in operation and are now classified as equipment.

In accordance with generally accepted accounting principles, the state is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The state is responsible for approximately 14,000 miles of roadway and 8,339 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 124), indicated that bridges were rated at 9 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 2013-2014 fiscal year reflects a $118.3 million decrease from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $22 million for a new Tennessee School for the Deaf building, $61.3 million for projects at correctional facilities and $307.3 million for funding projects at higher education institutions.

Debt Administration

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

Purpose	Unissued June 30, 2014
Highway	$ 904,700
Higher Education	479,906
Environment and Conservation	12,077
Economic and Community Development	96,157
General Government	464,625
Total	$ 1,957,465

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

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

	Governmental Activities	
	June 30, 2014	June 30, 2013
Bonds, net	$ 1,996,458	$ 2,172,630
Commercial Paper	324,366	215,146
Total	$ 2,320,824	$ 2,387,776

The state did not issue any general obligation bonds during the fiscal year. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The state has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The state's bonds are rated AAA, AAA, and AA+ by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to a maximum allowable debt service limitation based on a percentage of tax revenues allocated to the general fund, highway fund and debt service fund. As of June 30, 2014, the state's maximum allowable debt service of $648.934 million was well above the maximum annual debt service of $227.401 million, with a legal debt service margin of $421.533 million.

FACTORS THAT WILL AFFECT THE FUTURE

Governor Haslam's administration continues to focus its priorities to move Tennessee forward to reduce unemployment and improve the quality of life by creating jobs and economic development and improving education and workforce development.

Strategies have been developed and carried out that have resulted in attracting new corporate investment. Noteworthy announced investments include:

- Under Armour, a globally-renowned brand of athletic wear and gear will invest more than $100 million and create 1,500 new jobs.
- General Motors will invest $185 million to make small gas engines at its Spring Hill complex to produce the next-generation Cadillac SRX . Also, two future mid-size vehicles will be built in Spring Hill after a $350 million investment that will create or retain approximately 1,800 jobs.
- Academy Sports + Outdoors, a premier sports, outdoor and lifestyle retailer, will invest $100 million in a new distribution center, creating approximately 700 new jobs.
- SL Tennessee, a South Korean automotive parts manufacturer will invest $80.5 million and create 1,000 new jobs at their manufacturing facility.
- Volkswagen will add an additional manufacturing line for a midsize SUV and create the National Research & Development and Planning Center in an expansion of $600 million, creating 2,000 new jobs.
- MicroPort Orthopedics, an orthopedic implant and instrument manufacturer, will invest $100 million in manufacturing capability and training facilities and create 171 new jobs.
- Fresenius Medical Care, a top producer of dialysis equipment, will invest up to $140 million in locating a manufacturing facility and creating approximately 665 new jobs.
- Mohawk Industries announced that it will build a new ceramic tile production facility, investing $180 million and 320 new jobs.
- Beretta, a global manufacturer of high-quality sporting and military firearms will invest $45 million in a state-of-the-art manufacturing and R&D facility and create 300 new jobs.

Tennessee is forging critical relationships between education and economic development through three programs: Pathways Tennessee, Drive-to-55 and the Tennessee Promise. The Pathways to Prosperity Network is a joint effort between the Pathways to Prosperity Project at Harvard Graduate School of Education, Jobs for the Future, and nine states: Tennessee, California, Georgia, Illinois, Massachusetts, Missouri, New York, North Carolina and Ohio. The group's focus is ensuring that more young people complete high school and attain postsecondary degrees and certifications relevant to the labor market. The Drive-to-55 program is a State initiative to equip 55 percent of Tennesseans with a college degree or certificate by 2025. The program is generating greater private sector awareness, ownership and support for the long-term steps needed in college entry and completion, adult education and training, and identifying and closing skills gaps to better prepare our state for the future. The Tennessee Promise commits to provide two years of community college or a college of applied technology (TCAT) absolutely free of tuition and fees to graduating high school seniors on a continuing basis. Participating students must: graduate from high school; agree to work with a mentor; complete eight hours of community service; and maintain a 2.0 GPA during their two years at a community college or TCAT. After graduating from a community college, if students choose to attend a four-year school, the state's program makes it possible for those students to start as a junior. By getting their first two years free, the cost of a four-year degree would be cut in half. Governor Haslam believes that making education more relevant to today's marketplace is critical to attracting the jobs of the future by providing the workforce the job market demands.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Position
June 30, 2014

(Expressed in Thousands)

	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	$ 4,189,987	$ 835,521	$ 5,025,508	$ 2,223,609
Cash on deposit with fiscal agent		862,554	862,554	
Investments	657,768		657,768	481,608
Receivables, net	1,971,435	169,513	2,140,948	464,618
Internal balances	1,082	(1,082)		
Due from primary government				45,346
Due from component units	109,658	7	109,665	
Inventories, at cost	28,113		28,113	10,148
Prepayments	331		331	18,704
Loans receivable, net	11,921	510,598	522,519	3,689,715
Net investment in capital leases	11,281		11,281	
Fair value of derivatives				616
Other				7,228
Restricted assets:				
Cash and cash equivalents	182,621		182,621	326,596
Investments				1,535,817
Receivables, net				178,721
Capital assets:				
Land, at cost	2,097,270		2,097,270	222,296
Infrastructure	22,630,755		22,630,755	494,807
Structures and improvements, at cost	2,481,209		2,481,209	5,154,279
Machinery and equipment, at cost	965,038		965,038	1,070,725
Less-accumulated depreciation	(1,708,284)		(1,708,284)	(2,872,944)
Construction in progress	999,670		999,670	686,207
Software in development	50,325		50,325	
Total assets	34,680,180	2,377,111	37,057,291	13,738,096
Deferred outflows of resources	63,773		63,773	28,053
Liabilities				
Accounts payable and other current liabilities	1,447,587	77,923	1,525,510	419,558
Due to primary government				109,665
Due to component units	38,905		38,905	
Unearned revenue	297,491	26,759	324,250	180,125
Payable from restricted assets	16,797		16,797	
Due to component units from restricted assets	6,441		6,441	
Other	1,843		1,843	29,080
Noncurrent liabilities:				
Due within one year	281,511		281,511	307,729
Due in more than one year	3,256,085	7,682	3,263,767	5,579,321
Total liabilities	5,346,660	112,364	5,459,024	6,625,478
Deferred inflows of resources				748
Net position				
Net investment in capital assets	26,855,523		26,855,523	3,303,900
Restricted for:				
Student financial assistance	471,512		471,512	
Natural and wildlife resources	81,348		81,348	
Capital projects	157,540		157,540	99,078
Single family bond programs				434,000
Regulatory activities	77,896		77,896	
Other	116,036		116,036	653,374
Permanent:				
Expendable	194,244		194,244	214,412
Nonexpendable	143,748		143,748	954,263
Unrestricted	1,299,446	2,264,747	3,564,193	1,480,896
Total net position	$ 29,397,293	$ 2,264,747	$ 31,662,040	$ 7,139,923

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, 2014

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activities:				
General government	$ 959,641	$ 812,528	$ 61,783	$ 983
Education	7,383,077	73,276	1,667,063	
Health and social services	13,912,421	756,038	9,166,332	
Law, justice and public safety	1,612,248	140,123	125,231	9,449
Recreation and resources development	646,781	145,675	162,722	8,683
Regulation of business and professions	158,644	165,611	686	
Transportation	1,126,744	31,863	172,042	743,136
Intergovernmental revenue sharing	897,312			
Interest	67,520			
Payments to fiduciary fund	827			
Total governmental activities	26,765,215	2,125,114	11,355,859	762,251
Business-type activities:				
Employment security	451,470	370,752	119,686	
Insurance programs	541,205	598,209	144	
Loan programs	1,469	8,897	14,194	
Other	76	221	2	
Total business-type activities	994,220	978,079	134,026	
Total primary government	$ 27,759,435	$ 3,103,193	$ 11,489,885	$ 762,251
Component units:				
Higher education institutions	$ 4,529,626	$ 1,635,319	$ 1,629,704	$ 229,819
Loan programs	789,531	218,870	459,493	
Lottery program	1,323,406	1,323,307	43	
Other	72,312	54,738	3,280	11,953
Total component units	$ 6,714,875	$ 3,232,234	$ 2,092,520	$ 241,772

General revenues:
Taxes:
Sales and use
Fuel
Business
Other
Payments from primary government
Grants and contributions not restricted to specific programs
Unrestricted investment earnings
Miscellaneous
Contributions to permanent funds
Transfers

Total general revenues, contributions, and transfers

Change in net position
Net position, July 1

Net position, June 30

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (84,347)		$ (84,347)	
(5,642,738)		(5,642,738)	
(3,990,051)		(3,990,051)	
(1,337,445)		(1,337,445)	
(329,701)		(329,701)	
7,653		7,653	
(179,703)		(179,703)	
(897,312)		(897,312)	
(67,520)		(67,520)	
(827)		(827)	
(12,521,991)		(12,521,991)	
	$ 38,968	38,968	
	57,148	57,148	
	21,622	21,622	
	147	147	
	117,885	117,885	
(12,521,991)	117,885	(12,404,106)	
			$ (1,034,784)
			(111,168)
			(56)
			(2,341)
			(1,148,349)
7,276,443		7,276,443	
843,164		843,164	
3,948,253		3,948,253	
641,244		641,244	
			1,249,909
			158,525
7,079		7,079	29,457
221,138		221,138	3,803
547		547	57,686
(4,622)	4,622		
12,933,246	4,622	12,937,868	1,499,380
411,255	122,507	533,762	351,031
28,986,038	2,142,240	31,128,278	6,788,892
$ 29,397,293	$ 2,264,747	$ 31,662,040	$ 7,139,923

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

Education Fund—The education fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education. Funding for these programs is accomplished primarily from the dedicated sales and services taxes and federal monies received from the U. S. Department of Education.

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

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

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

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2014

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
Assets				
Cash and cash equivalents	$ 1,904,079	$ 1,348	$ 450,379	$ 550,325
Investments		373,254		
Receivables, net	1,133,144	574,819	211,292	9,111
Due from other funds	300,396	258		1,085
Due from component units	349	94,670		13,657
Inventories, at cost	12,514	60	9,196	
Prepayments	1,806			
Loans receivable, net	30		1,509	
Net investment in capital leases	259			
Restricted assets:				
Cash and cash equivalents				182,621
Total assets	$ 3,352,577	$ 1,044,409	$ 672,376	$ 756,799
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable and accruals	$ 953,303	$ 133,393	$ 163,036	$ 32,368
Due to other funds	10,966	297,678	1,439	1,238
Due to component units	18,232	11,166	2,080	4,711
Payable from restricted assets				16,797
Due to component units from restricted assets				6,441
Unearned revenue	245,407	2,229	3,167	
Other				1,843
Total liabilities	1,227,908	444,466	169,722	63,398
Deferred inflows of resources	47,512	55,658	22,277	
Fund balances:				
Nonspendable				
Inventories	12,514	60	9,196	
Long term portion of accounts receivable	8,561			
Permanent fund corpus				
Restricted	68,331	504,623	3,310	157,540
Committed	281,969	9,411	279,862	
Assigned	1,138,496	30,191	188,009	535,861
Unassigned	567,286			
Total fund balances	2,077,157	544,285	480,377	693,401
Total liabilities, deferred inflows of resources and fund balances	$ 3,352,577	$ 1,044,409	$ 672,376	$ 756,799

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

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

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

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

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

Net position of governmental activities

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 361,349	$ 3,267,480
284,514	657,768
25,441	1,953,807
	301,739
972	109,648
	21,770
	1,806
10,382	11,921
	259
	182,621
$ 682,658	$ 6,508,819
$ 53,320	$ 1,335,420
462	311,783
2,370	38,559
	16,797
	6,441
14	250,817
	1,843
56,166	1,961,660
11,058	136,505
	21,770
	8,561
143,748	143,748
358,877	1,092,681
107,025	678,267
5,784	1,898,341
	567,286
615,434	4,410,654
$ 682,658	
	27,048,486
	136,543
	904,062
	(3,102,452)
	$ 29,397,293

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
Revenues				
Taxes:				
Sales	$ 2,989,699	$ 4,191,034	$ 53,798	
Fuel	12,761		702,149	
Business	3,470,160	269,151	6,033	
Other	606,153	133		
Licenses, fines, fees, and permits	320,689	1,516	220,418	
Investment income	11,536	15,556		
Federal	9,464,501	1,213,709	1,022,817	$ 6,402
Departmental services	1,697,844	77,542	46,963	160,291
Other	210,267	384,402	6,605	3,046
Total revenues	18,783,610	6,153,043	2,058,783	169,739
Expenditures				
Current:				
General government	524,323			
Education		7,175,054		
Health and social services	14,493,610			
Law, justice and public safety	1,549,238			
Recreation and resources development	529,527			
Regulation of business and professions	92,545			
Transportation			1,753,581	
Intergovernmental revenue sharing	606,979		290,333	
Debt service:				
Principal				1,400
Interest				
Debt issuance costs				
Capital outlay				491,077
Total expenditures	17,796,222	7,175,054	2,043,914	492,477
Excess (deficiency) of revenues over (under) expenditures	987,388	(1,022,011)	14,869	(322,738)
Other financing sources (uses)				
Commercial paper issued				91,281
Insurance claims recoveries	1,328			
Proceeds from pledge of future revenues	472			
Transfers in	98,234	1,102,900	126,200	227,357
Transfers out	(1,530,770)		(1,886)	(229)
Total other financing sources (uses)	(1,430,736)	1,102,900	124,314	318,409
Net change in fund balances	(443,348)	80,889	139,183	(4,329)
Fund balances, July 1	2,520,505	463,396	341,194	697,730
Fund balances, June 30	$ 2,077,157	$ 544,285	$ 480,377	$ 693,401

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

	Nonmajor Governmental Funds	Total Governmental Funds
	$ 51,634	$ 7,286,165
	128,254	843,164
	248,395	3,993,739
	33,340	639,626
	184,535	727,158
	40,025	67,117
	43,449	11,750,878
	11,694	1,994,334
	16	604,336
	741,342	27,906,517
	29,484	553,807
	7,390	7,182,444
		14,493,610
	5,790	1,555,028
	181,999	711,526
	72,693	165,238
		1,753,581
		897,312
	141,243	142,643
	75,155	75,155
	1,452	1,452
		491,077
	515,206	28,022,873
	226,136	(116,356)
		91,281
	7	1,335
		472
	7,089	1,561,780
	(230,538)	(1,763,423)
	(223,442)	(108,555)
	2,694	(224,911)
	612,740	4,635,565
	$ 615,434	$ 4,410,654

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	(224,911)
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.		697,452
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		(171,859)
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		51,362
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.		(40,357)
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.		99,568
Changes in net position of governmental activities	$	411,255

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

State of Tennessee
Statement of Net Position
Proprietary Funds
June 30, 2014

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
Assets	**Sewer Treatment Loan**	**Employment Security**	**Nonmajor Enterprise Funds**	**Total**	**Governmental Activities- Internal Service Funds**
Current assets:					
Cash and cash equivalents	$ 502,846		$ 332,675	$ 835,521	$ 922,507
Cash on deposit with fiscal agent		$ 862,554		862,554	
Receivables:					
Accounts receivable		165,004	4,509	169,513	7,455
Loans receivable	21,044		13,134	34,178	
Due from other funds		363		363	493
Due from component units		7		7	10
Inventories, at cost					6,343
Prepayments					322
Total current assets	523,890	1,027,928	350,318	1,902,136	937,130
Noncurrent assets:					
Accounts receivable					10,055
Due from other funds					1,376
Loans receivable	341,481		134,939	476,420	
Net investment in capital leases					10,982
Capital assets:					
Land, at cost					60,357
Structures and improvements, at cost					545,901
Machinery and equipment, at cost					374,395
Less-accumulated depreciation					(513,276)
Construction in progress					119
Total capital assets, net of accumulated depreciation					467,496
Total noncurrent assets	341,481		134,939	476,420	489,909
Total assets	865,371	1,027,928	485,257	2,378,556	1,427,039
Deferred outflows of resources					7,993
Liabilities					
Current liabilities:					
Accounts payable and accruals	5	43,595	34,323	77,923	83,050
Due to other funds		1,445		1,445	1,134
Due to component units					346
Lease obligations payable					407
Bonds payable					15,957
Unearned revenue		26,669	90	26,759	46,674
Other					33,594
Total current liabilities	5	71,709	34,413	106,127	181,162
Noncurrent liabilities:					
Lease obligations payable					8,728
Commercial paper payable					59,930
Bonds payable, net					160,406
Other noncurrent liabilities	5,358		2,324	7,682	120,744
Total noncurrent liabilities	5,358		2,324	7,682	349,808
Total liabilities	5,363	71,709	36,737	113,809	530,970
Net position					
Net investment in capital assets					230,061
Restricted for capital projects					17,997
Unrestricted	860,008	956,219	448,520	2,264,747	656,004
Total net position	$ 860,008	$ 956,219	$ 448,520	$ 2,264,747	$ 904,062

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

State of Tennessee
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Operating revenues					
Charges for services	$ 6,855		$ 3,666	$ 10,521	$ 515,226
Investment income	436		96	532	
Premiums		$ 370,752	596,806	967,558	727,928
Other					600
Total operating revenues	7,291	370,752	600,568	978,611	1,243,754
Operating expenses					
Personal services					80,545
Contractual services	1,189		32,025	33,214	333,289
Materials and supplies					81,617
Rentals and insurance					49,225
Depreciation and amortization					48,038
Benefits		451,470	504,571	956,041	730,448
Other			4,965	4,965	9,926
Total operating expenses	1,189	451,470	541,561	994,220	1,333,088
Operating income (loss)	6,102	(80,718)	59,007	(15,609)	(89,334)
Nonoperating revenues (expenses)					
Taxes					3
Operating grants	12,572	100,492	6,187	119,251	(641)
Insurance claims recoveries					219
Gain on sale of capital assets					9,154
Grant expense					(9,003)
Interest income		19,194	155	19,349	488
Interest expense					(8,456)
Other	(3,942)		(1,164)	(5,106)	
Total nonoperating revenues (expenses)	8,630	119,686	5,178	133,494	(8,236)
Income (loss) before contributions and transfers	14,732	38,968	64,185	117,885	(97,570)
Capital contributions					983
Transfers in	6,465		1,811	8,276	196,194
Transfers out			(3,654)	(3,654)	(39)
Change in net position	21,197	38,968	62,342	122,507	99,568
Net position, July 1	838,811	917,251	386,178	2,142,240	804,494
Net position, June 30	$ 860,008	$ 956,219	$ 448,520	$ 2,264,747	$ 904,062

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, 2014

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Cash flows from operating activities					
Receipts from customers and users		$ 425,489	$ 607,490	$ 1,032,979	$ 390,056
Receipts from interfund services provided		3,115		3,115	885,758
Payments to suppliers			(549,843)	(549,843)	(1,119,194)
Payments to employees			(2)	(2)	(79,823)
Payments for unemployment benefits		(475,245)		(475,245)	
Payments for interfund services used	$ (1,189)		(4,654)	(5,843)	(69,020)
Net cash from (used for) operating activities	(1,189)	(46,641)	52,991	5,161	7,777
Cash flows from noncapital financing activities					
Operating grants received	12,573	109,566	6,187	128,326	
Negative cash balance implicitly financed		1,445		1,445	
Negative cash balance implicitly repaid					23
Transfers in	6,465		1,811	8,276	195,581
Transfers out			(3,654)	(3,654)	
Tax revenues received					3
Net cash from (used for) noncapital financing activities	19,038	111,011	4,344	134,393	195,607
Cash flows from capital and related financing activities					
Purchase of capital assets					(29,180)
Commercial paper proceeds					23,718
Proceeds from sale of capital assets					21,414
Insurance claims recoveries					219
Principal payments					(23,802)
Interest paid					(7,974)
Capital contributions					5,421
Net cash from (used for) capital and related financing activities					(10,184)
Cash flows from investing activities					
Loans issued and other disbursements to borrowers	(37,200)		(9,238)	(46,438)	
Collection of loan principal	43,501		18,324	61,825	
Interest received	7,296	19,194	2,250	28,740	488
Net cash from (used for) investing activities	13,597	19,194	11,336	44,127	488
Net increase (decrease) in cash and cash equivalents	31,446	83,564	68,671	183,681	193,688
Cash and cash equivalents, July 1	471,400	778,990	264,004	1,514,394	728,819
Cash and cash equivalents, June 30	$ 502,846	$ 862,554	$ 332,675	$ 1,698,075	$ 922,507

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 6,102	$ (80,718)	$ 59,007	$ (15,609)	$ (89,334)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					48,038
Loss on disposal of capital assets					2,923
Investment income			(2,108)	(2,108)	
Interest income	(7,291)			(7,291)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		35,488	21	35,509	(481)
(Increase) decrease in due from other funds		35		35	(1,633)
(Increase) decrease in due from component units		1		1	(10)
(Increase) decrease in inventories					(1,005)
(Increase) decrease in prepaids					(182)
Increase (decrease) in accounts payable		(12,726)	(3,783)	(16,509)	53,982
Increase (decrease) in due to other funds					(6,233)
Increase (decrease) in due to component units					(88)
Increase (decrease) in unearned revenue		11,279	(146)	11,133	1,800
Total adjustments	(7,291)	34,077	(6,016)	20,770	97,111
Net cash provided by (used for) operating activities	$ (1,189)	$ (46,641)	$ 52,991	$ 5,161	$ 7,777
Noncash investing, capital and financing activities					
Capital contributions					$ 1,175
Capital asset disposed of by transfer to component units					(9,003)
Capital asset disposed of by transfer to highway fund					(39)
Assets acquired through capital lease					8,969
Total noncash investing, capital and financing activities					$ 1,102

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

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

State of Tennessee
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 280,673	$ 397,314	$ 58,209	$ 482,470
Cash collateral on loaned securities	3,611,069			
Receivables:				
Accounts				1,442
Taxes			114	394,928
Interest and dividends	147,337	2,824	236	
Due from sale of investments	337,462			
Derivative instruments	566,525			
Due from other governments	60,059			
Real estate income	1,777			
Investments sold			3	
Other	27,653		98	
Total receivables	1,140,813	2,824	451	396,370
Due from other funds	10,485			24
Due from component units	9,719			
Investments, at fair value:				
Short-term securities	137,164	1,168,551		
Government bonds	8,482,728	199,963	7	
Corporate bonds	5,711,842		1,400	
Corporate stocks	24,715,744			
Mutual funds			101,509	
Derivative instruments	3,292			
Strategic lending	321,608			
Private equities	779,280			
Real estate	2,278,482			
Total investments	42,430,140	1,368,514	102,916	
Capital assets, at cost				
Software in development	17,978			
Machinery and equipment	12,040			
Accumulated depreciation	(1,677)			
Total assets	47,511,240	1,768,652	161,576	878,864
Liabilities				
Accounts payable and accruals	426,182		16,880	748,506
Due to other funds			118	
Derivative instruments	567,634			
Securities lending collateral	3,611,069			
Amounts held in custody for others				130,358
Total liabilities	4,604,885		16,998	878,864
Net position				
Restricted for:				
Pensions	42,905,157			
Employees' flexible benefits	1,198			
Individuals, organizations and other governments			144,578	
Amounts held in trust for:				
Pool participants		1,768,652		
Total net position	$ 42,906,355	$ 1,768,652	$ 144,578	$ -

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

State of Tennessee
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 277,078		
Employers	1,034,694		
Federal			$ 5,259
Private			9,360
State			827
Other			6,135
Total contributions	1,311,772		21,581
Investment income:			
Net increase in fair value of investments	5,123,250		8,898
Interest	468,346	$ 3,616	2,591
Dividends	497,074		
Real estate income	108,072		
Securities lending income	6,283		
Total investment income	6,203,025	3,616	11,489
Less: Investment expenses	42,191		
Securities lending expense	934		
Administrative fee		968	
Net investment income	6,159,900	2,648	11,489
Capital share transactions:			
Shares sold		2,812,956	
Less: Shares redeemed		3,341,687	
Net capital share transactions		(528,731)	
Total additions	7,471,672	(526,083)	33,070
Deductions			
Annuity benefits	2,056,978		
Death benefits	3,912		
Other	6,310		30,503
Refunds	54,046		2,692
Administrative expenses	10,157		6,125
Total deductions	2,131,403		39,320
Change in net position restricted for:			
Pensions	5,340,252		
Employees' flexible benefits	17		
Individuals, organizations and other governments		(526,083)	(6,250)
Net position, July 1	37,566,086	2,294,735	150,828
Net position, June 30	$ 42,906,355	$ 1,768,652	$ 144,578

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, 2014
INDEX FOR THE NOTES

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

A. **Financial reporting entity**

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

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for administering federal and state student financial assistance programs. The majority of the board is either appointed by the governor or are state officials. TSAC's budget is approved by the state.

2. The Tennessee Community Services Agency (TCSA) (Governmental Fund Type) provides coordination of funds and programs for the care of the citizens of the state. The board of the agency is appointed by the governor and the plan of operation and budget must be approved by the state.

3. The Tennessee Housing Development Agency (THDA) (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The board of the agency consists of state officials, appointees of the governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the state.

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

5. The Tennessee Board of Regents (TBR) (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven 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 (UT) (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the state. The Board is appointed by the governor and the state provides a substantial amount of the funding.

7. The Tennessee Local Development Authority (TLDA) (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the board consists of state officials. Any deficiency in the statutory reserve will be included in the governor's recommended budget submitted to the General Assembly for consideration.

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

9. The Federal Family Education Loan Program (Proprietary Fund Type) is administered by TSAC, the state's designated federal guaranty agency. As part of the program, TSAC guarantees loans made by lending institutions to students attending postsecondary schools as authorized by Title IV of the Higher Education Act of 1965.

10. The Tennessee State School Bond Authority (TSSBA) (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the state in conjunction with a federal government program. The board of the Authority consists primarily of state officials. The state can also impose its will on the Authority.

11. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the boll weevil. The majority of the board is appointed by the Commissioner of the Department of Agriculture. The state can also impose its will on the organization.

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

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

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

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

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

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

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

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

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

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The state reports the following major governmental funds:

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

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

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

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

The state reports the following major proprietary funds:

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

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

Additionally, the state reports the following fund types:

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

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 *College Savings Plans*, that accounts for two separate education savings programs, Baccalaureate Education and TNStars, created under Section 529 of the Internal Revenue Code. *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.

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

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

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

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

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

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

1. Deposits and investments—The state's cash and cash equivalents includes demand accounts, petty cash and monies in cash management pools. The liquidity of the cash management pools is sufficient to cover any withdrawal request by a participant. This classification also includes short-term investments with a maturity date within three months of the date acquired by the state. These short-term investments, which are not part of the State Cash Pool, are stated at fair value. 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 Office for Information Resources, Postal Services, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2014, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain

payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted assets—Proceeds of the state's general obligation bonds and commercial paper program that remain unspent at year end are classified as restricted cash on the statement of net position. The commercial paper program provides short-term financing for the state's capital projects.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, and Tennessee Local Development Authority – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments. The Tennessee Board of Regents and the University of Tennessee report restricted cash, investments, and receivables for those that come with certain restrictions from donors, lenders, or grantors.

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

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

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

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

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

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

6. Deferred outflows/inflows—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The primary government only has one item, deferred charge on refunding of debt, that qualifies for reporting in this category. The state reported in the governmental

activities column of the government-wide statement of net position, $63.7 million as deferred outflows of resources for this purpose.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. The state has only one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($93.5 million), federal grants ($28.1 million), and other sources ($14.9 million) as deferred inflows of resources.

7. 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.

8. Long-term liabilities—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount. Bond issuance costs are expensed as incurred.

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

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

   Restricted net position consists of net position in which constraints are placed on the use of net position either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.2 billion restricted by the primary government, $605.4 million was by enabling legislation.

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

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

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

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

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

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

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

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

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

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $3,102.452 million difference are as follows (expressed in thousands):

Bonds payable	$ 1,656,651
Plus: premium on bonds issued (to be amortized as interest expense)	163,443
Deferred outflows of resources for bond refundings (to be amortized as interest expense)	(55,780)
Commercial paper payable	264,436
Accrued interest payable	21,585
Capital leases payable	12,663
Claims and judgments	111,734
Compensated absences	245,234
Other postemployment benefits	561,931
Pollution remediation	44,111
Other long-term liabilities and accounts payable	76,444
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$ 3,102,452

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net positions of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $697.452 million difference are as follows (expressed in thousands):

Capital outlay	$ 787,008
Depreciation expense	(89,556)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 697,452

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positions. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this ($51.362) million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of commercial paper	$ 91,281
Debt reduced:	
General obligation debt	(141,243)
Commercial paper redeemed	(1,400)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ (51,362)

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 $40.357 million difference are as follows (expressed in thousands):

Compensated absences	$ 11,033
Claims and judgments	(6,109)
Accrued interest	(1,619)
Capital lease	(790)
Other postemployment benefits	58,147
Pollution remediation	3,010
Pledged tax credits	(30,244)
Amortization of other charges	40
Loss on disposal of capital assets	12,871
Amortization of bond premiums	(14,101)
Amortization of deferred outflows of resources	8,119
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 40,357

NOTE 3 – **Deficit fund equity**

The risk management fund, an internal service fund, has a total net position deficit of $17.280 million. This deficit was caused by a higher claims award actuarial liability than expected. Additional billings to state agencies will be made over a reasonable period of time to address this deficit.

NOTE 4 – **Accounting changes**

Prior period adjustments

Primary government

- Governmental activities—$8.036 million, a net increase in net position, is a correction of an error resulting from the misstatement of revenues in the previous year in the general fund.

- Governmental activities—approximately $39.570 million, a net decrease in net position, is a correction of an error resulting from the misstatement of expenditures relating to construction in progress for infrastructure in the previous years.

- Governmental activities—approximately $39.489 million, a net increase in net position, is a correction of an error resulting from the misstatement of expenditures related to other post-employment benefits (of this amount, $715 thousand is related to the internal service funds).

- Business-type activities—$7.316 million, net increase in net position, is a correction of an error resulting from the misstatement of revenues and expenditures in the previous year in the employment security fund (an enterprise fund).

Component units

- Institutions of the Tennessee Board of Regents recorded prior period adjustments for a net increase to net position of $9.577 million for various misstatements in capital assets, revenues and expenses.

- Tennessee State School Bond Authority recorded a prior period adjustment for a net decrease to net position in the amount of $856 thousand due to the overstatement of receivables and revenues in the previous year.

- Tennessee Student Assistance Corporation recorded a prior period adjustment for a net decrease to net position in the amount of $3.243 million for the misstatement of interest receivable and allowance for doubtful accounts for loan forgiveness programs.

Fiduciary funds

- The pension trust fund applied a change in accounting principle. During the 2014 fiscal year, the Tennessee General Assembly passed legislation which clarified that assets accumulated on behalf of teachers of Local Education Agencies (LEAs) shall be for the exclusive benefit of teachers, and assets accumulated on behalf of state employees shall be for the exclusive benefit of state employees. Pursuant to this clarification relative to the legal separation of assets for these two groups of employees, the teachers group, previously reported by the TCRS in the State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP), is now reported under a separate cost-sharing multiple-employer Teacher Legacy Pension Plan (TLPP). The state employees are reported, along with employees of political subdivisions (previously reported as Political Subdivision Pension Plan (PSPP)), within the Public Employee Retirement Plan (PERP), an agent multiple-employer pension plan. The net position of the SETHEEPP at June 30, 2013, of $30.484 billion was separated into two groups, with the amount attributed to the TLPP being $18.657 billion, and the amount attributed to the PERP being $11.827 billion. The PSPP amount was $7.080 billion. The beginning balance of each of the plans has been adjusted for this reclassification.

- The local government investment pool recorded a prior period adjustment of $44.979 million to correct an overstatement of cash at June 30, 2013.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2014, (expressed in thousands):

	6/30/2013 Net Position As Reported	Adjustments to Net Position	6/30/2013 Net Position As Restated
Government-wide statements:			
Primary government			
Governmental activities	$ 28,978,083	$ 7,955	$ 28,986,038
Business-type activities	2,134,924	7,316	2,142,240
Total primary government	$ 31,113,007	$ 15,271	$ 31,128,278
Component units	$ 6,783,414	$ 5,478	$ 6,788,892
Total component units	$ 6,783,414	$ 5,478	$ 6,788,892
Fiduciary funds statements:			
Public employee retirement plan	$ 7,080,898	$ 11,827,471	$ 18,908,369
Teacher legacy pension plan	30,484,007	(11,827,471)	18,656,536
Total pension trust fund	$ 37,564,905	$ -	$ 37,564,905
Local government investment pool	$ 2,339,714	$ (44,979)	$ 2,294,735
Total investment trust fund	$ 2,339,714	$ (44,979)	$ 2,294,735

During the fiscal year ended June 30, 2014, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASBS 67, *Financial Reporting for Pension Plans*, replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50 *Pension Disclosures*, as they related to pension plans that are administered through trusts or equivalent arrangements. This statement requires changes in the presentation of the financial statements, notes to the financial statements and required supplementary information for the pension plans. GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions−an amendment of GASBS No. 27*, effective for fiscal year 2015. The effect of the implementation of this standard on the state's financial statements has not been determined.

GASBS 69, *Government Combinations and Disposals of Government Operations,* establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of operations. The implementation of this standard did not have an impact on the financial statements.

GASBS 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* establishes accounting and financial reporting standards for situations where a state or local government, extends or receives a nonexchange financial guarantee. The implementation of this standard did not have an impact on the financial statements.

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

A. **Deposits and investments**

Primary Government

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

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in 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 College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); the 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.

Effective July 1, the state began offering a longer range product for participants in the SPIF who were wanting a higher return on their investment and who did not need access to their money immediately. The Intermediate Term Investment Fund, an investment trust fund, was created July 1, 2013. Also, the Insurance Receivership Fund, a private-purpose trust fund, was created in fiscal year 2014.

As of June 30, 2014, the state's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Credit Quality Rating	TCRS	COE	SPIF	College Savings Plans
AAA	$ 906,618	$ 6,163	$ 1,658,775	
AA	548,236	12,479	749,757	
A	1,079,470	15,938		
BBB	2,917,707	17,130		
BB	295,057	516		
B	49,484			
CCC	110,157			
CC	1,576			
D	45,704			
NR	3,155,001	40,580	1,705,696	$ 11,450
A1 (Commercial paper)			599,977	
	9,109,010	92,806	4,714,205	11,450
Government agencies and obligations	5,323,742	72,544	2,213,470	
Total debt investments	14,432,752	165,350	6,927,675	11,450
Non Fixed Income Assets				
Equity	24,715,744	172,886		
Equity fund				50,557
Fixed mutual fund				33,384
Preferred stock	96,060			
Real estate	2,278,482			
Private equities	1,100,887			
Derivatives (not rated)	3,292			
Lehman escrow	2,906			
Certificate of deposit classified as short term			349,825	
Short-term investment fund at custodian	16,301			
Less: cash equivalents	(216,284)		(1,449,334)	
Total investments	$ 42,430,140	$ 338,236	$ 5,828,166	$ 95,391

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

Lottery for Education	Intermediate Term Investment Fund	Insurance Receiverships Fund	Total
$ 4,887		$ 958	$ 2,577,401
84,394	$ 43,326		1,438,192
77,242			1,172,650
34,132			2,968,969
			295,573
			49,484
			110,157
			1,576
			45,704
34,859	156,637		5,104,223
			599,977
235,514	199,963	958	14,363,906
59,489			7,669,245
295,003	199,963	958	22,033,151
			24,888,630
			50,557
			33,384
			96,060
			2,278,482
			1,100,887
			3,292
			2,906
			349,825
24,528			40,829
			(1,665,618)
$ 319,531	$ 199,963	$ 958	$ 49,212,385

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, 2014, 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 position 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, 2014, 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 College Savings Plans investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased. The policy further states that index funds may be utilized as an alternative to selecting individual securities.

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

The ITIF's investment policy requires that 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 designated 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 investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper. Repurchase agreements must be done with primary dealers in government securities which have executed a master repurchase agreement with the state.

The Insurance Receiverships Fund has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical ratings.

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, College Savings Plans, Lottery for Education Fund, or other state funds in any one issuer.

As of June 30, 2014, the combined SPIF, TCRS, COE Trust, Intermediate Term Investment Fund, College Savings Plans, 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):

Issuer Organization	Fair Value	Percentage
Federal National Mortgage Association	$ 3,263,150	6.49

As of June 30, 2014, SPIF, COE Trust, Lottery for Education Trust, and Intermediate Term Investment Fund separately held investments in certain organizations representing five percent (5%) or more of its total investments, excluding those organizations whose issues are explicitly guaranteed by the United

States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

The State Pooled Investment Fund (SPIF)

Issuer Organization	Fair Value	Percentage
Federal Home Loan Mortgage Bank	$ 1,278,947	18.46
Federal National Mortgage Association	1,255,719	18.12
Federal Farm Credit Bank	828,835	11.96
Federal Home Loan Mortgage Corporation	500,732	7.23

The Chairs of Excellence Trust (COE)

Issuer Organization	Fair Value	Percentage
Federal National Mortgage Association	$ 25,169	7.44
Federal Home Loan Mortgage Corporation	17,805	5.26

The Lottery for Education Fund

Issuer Organization	Fair Value	Percentage
Federal Home Loan Bank	$ 26,043	8.15
Federal National Mortgage Association	62,337	19.51

The Intermediate Term Investment Fund (ITIF)

Issuer Organization	Fair Value	Percentage
Federal Home Loan Mortgage Bank	$ 67,701	33.86
Federal National Mortgage Association	16,555	8.28
Federal Farm Credit Bank	42,634	21.32
Federal Home Loan Mortgage Corporation	62,849	31.43
Federal Agricultural Mortgage Corporation	10,224	5.11

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. 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 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 365 days at June 30, 2014. Interest rates on certificates of deposit held at June

30, 2014, ranged from 0.10 percent to 0.30 percent. The days to maturity on U.S. Government Agencies ranged from 28 to 397 days at June 30, 2014. Interest rates on U.S. Government Agencies held at June 30, 2014 ranged from 0.04 percent to 2.63 percent. The days to maturity on commercial paper ranged from 1 to 44 days at June 30, 2014. Interest rates on commercial paper held at June 30, 2014, ranged from 0.03 percent to 0.12 percent.

As of June 30, 2014, the combined SPIF portfolio 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	$ 4,114,227	4.3
U.S. Government Treasuries	2,213,470	3.9
Commercial paper	599,977	0.7

For ITIF, the days to maturity on U.S. Government Agencies ranged from 1 to 51 months at June 30, 2014. Interest rates on U.S. Government Agencies held at June 30, 2014, ranged from 0.13 percent to 2.50 percent.

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

As of June 30, 2014, the Intermediate Term Investment Fund had the following weighted average maturities (expressed in thousands):

INTERMEDIATE TERM INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Government Agencies	$ 199,963	2.1

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 duration within a range around that index. 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 mortgages, which may result from a decline in interest rates.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2014	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 245,508	7.24
Government Bonds	2,049,684	12.97
Government Inflation Indexed	2,480,124	8.23
Government Mortgage-Backed	3,495,299	4.15
Government Asset-Backed	51,791	2.48
Municipal Bonds	156,846	9.94
Corporate Fixed Income		
Collateralized Mortgage Obligations	127,912	2.04
Commercial Mortgage Backed	429,665	1.82
Asset Backed Securities	670,436	1.39
Corporate Bonds	4,388,339	8.64
Short Term		
Commercial Paper	149,989	0.08
Short Term Bills and Notes	187,160	0.23
Total Debt Investments	$ 14,432,753	

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, 2014	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 22,526	4.39
U.S. TIPS	38,145	8.06
U.S. Agencies	8,711	3.68
Government Mortgage-Backed	44,735	4.30
Government Asset-Backed	2,654	5.69
Municipal Bonds	7,784	5.51
Corporate Fixed Income		
Corporate Mortgage-Backed	1,991	1.88
Corporate Bonds	37,023	6.46
Corporate Asset-Backed	1,779	2.43
Total Debt Investments	$ 165,348	

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 scholarship objectives.

LOTTERY FOR EDUCATION
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2014	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 53,520	2.50
Government Bonds	52,262	6.31
Government Mortgage-Backed	34,859	6.27
Government Asset-Backed	7,227	4.43
Municipal Bonds	2,893	8.42
Corporate Fixed Income		
Commercial Mortgage-Backed	6,027	6.16
Corporate Bonds	138,215	5.23
Total Debt Investments	$ 295,003	

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

COLLEGE SAVINGS PLANS
DEBT INVESTMENTS
(expressed in thousands)

Fund Name Blended	Fair Value as of June 30, 2014	Effective Duration (Years)
Vanguard Wellington Fund Admiral Shares	$ 3,631	6.26
DFA Enhanced U.S. Large Company Portfolio Institutional Class	3,212	1.53
Vanguard LifeStrategy Conservative Growth Fund	2,185	5.85
Vanguard LifeStrategy Income Fund	1,488	5.85
Fixed Income		
Vanguard Total Bond Market Signal Shares	658	5.70
Vanguard Intermediate-Term Investment-Grade Fund Admiral	124	5.24
DFA Inflation-Protected Securities Portfolio Institutional Class	103	7.79
Vanguard Intermediate-Term Treasury Admiral Shares	49	5.15
Total Debt Investments	$ 11,450	

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 25 percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2014, was as follows (expressed in thousands):

Currency	Total Fair Value	Equity	Cash
Australian Dollar	$ 283,539	$ 283,448	$ 91
British Pound Sterling	1,095,088	1,085,973	9,115
Canadian Dollar	1,919,373	1,919,233	140
Danish Krone	127,596	127,571	25
Euro Currency	1,519,998	1,500,315	19,683
Hong Kong Dollar	179,740	177,918	1,822
Japanese Yen	1,287,069	1,274,238	12,831
New Israeli Shekel	6,513	6,513	
New Zealand Dollar	6,131	6,131	
Norwegian Krone	78,057	78,007	50
Singapore Dollar	74,181	74,009	172
Swedish Krona	136,993	136,993	
Swiss Franc	457,132	455,376	1,756
Total	$ 7,171,410	$ 7,125,725	$ 45,685

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 percent of its foreign currency exposure into US dollars. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The 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 statement date. As of June 30, 2014, 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, 2014, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2014			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts						
		$ (200)		$ (200)	23,203	EUR
		(909)		(909)	14,101,216	JPY
	Investment Income	$ (1,109)	Derivative Instruments Payable	$ (1,109)		
Future Contracts	Investment Income	$ 6,481	Derivative Instruments Receivable	$ 3,381	$ 930,356	
TBA Mortgage-Backed Securities	Investment Income	$ 3,292	Derivative Instruments Payable	$ 3,292	$ 399,932	

6. Custodial Credit Risk

Custodial Credit Risk—Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2014, the TCRS had uninsured and uncollateralized cash deposits of $45,684,593 in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

The Insurance Receivership fund does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2014, the Insurance Receivership fund had uninsured and uncollateralized cash deposits of $1,017,383 at First Tennessee.

7. Securities Lending

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

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

At June 30, 2014 the TCRS had the following securities on loan and received the cash/non cash collateral (expressed in thousands) as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non Cash Collateral Received
Fixed	$ 1,580,956	$ 1,623,591
Equity	1,935,288	1,987,478
Total	$ 3,516,244	$ 3,611,069

Component Units

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

1. University of Tennessee

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

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2014, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating US Treasury/ Agency	Aaa	Aa1	Aa2
U.S. Treasuries	$ 3,443	$ 3,443			
U.S. Agencies	8,957		$ 8,957		
U.S. Agencies (in pool)	411,737		411,737		
Corporate Bonds	14,543				$ 486
Municipal Bonds	3,549			$ 637	678
Mutual Funds – Bonds	103,989		2,023		57,250
Mortgages and Notes	15				
Money Market Mutual Fund	5,265				
Total	$ 551,498	$ 3,443	$ 422,717	$ 637	$ 58,414

(Continued) Rated Debt Instruments	Credit Quality Rating Aa3	A1	A2	A3	Baa1
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)					
Corporate Bonds	$ 379	$ 1,209	$ 1,480	$ 2,352	$ 4,291
Municipal Bonds	1,100				
Mutual Funds – Bonds			1,433		
Mortgages and Notes					
Money Market Mutual Fund					
Total	$ 1,479	$ 1,209	$ 2,913	$ 2,352	$ 4,291

(Continued) Rated Debt Instruments	Credit Quality Rating Baa2	Baa3	Ba1	Ba2	Ba3
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)					
Corporate Bonds	$ 3,652	$ 164	$ 530		
Municipal Bonds					
Mutual Funds – Bonds	46			$ 19,053	$ 3,754
Mortgages and Notes					
Money Market Mutual Fund					
Total	$ 3,698	$ 164	$ 530	$ 19,053	$ 3,754

(Continued) Rated Debt Instruments	Credit Quality Rating B1	B2	Unrated
U.S. Treasuries			
U.S. Agencies			
U.S. Agencies (in pool)			
Corporate Bonds			
Municipal Bonds			$ 1,134
Mutual Funds – Bonds	$ 106	$ 34	20,290
Mortgages and Notes			15
Money Market Mutual Fund			5,265
Total	$ 106	$ 34	$ 26,704

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2014, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
Investments					
U.S. Treasuries	$ 3,443		$ 2,268	$ 1,175	
U.S. Agencies	8,957		6,183	1,686	$ 1,088
U.S. Agencies (in pool)	411,737		92,695	220,730	98,312
Corporate Bonds	14,543	$ 3,221	8,478	2,629	215
Municipal Bonds	3,549	527	2,149	723	150
Mortgages and Notes	15	15			
Bond Mutual Funds	103,989	2,017	127	65,386	36,459
	$ 546,233	$ 5,780	$ 111,900	$ 292,329	$ 136,224

University foundations' investments in the amount of $132.915 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 five limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2014, the estimated fair value of these assets is $454.947 million and total capital contributions, less returns of capital, equal $343.701 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents System

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2014, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating: U.S. Treasury[1]/ Agency	AAA	AA	A	BBB
U.S. Treasuries	$ 56,385	$ 56,385				
U. S. Agencies	72,720	2,039	$ 20	$ 70,557		
Commercial Paper	2,000				$ 2,000	
Corporate Bonds	16,150		322	3,402	9,113	$ 3,286
Mutual Funds—Bonds	29,739		10,066	2,441	2,867	2,335
Mortgage Backed Securities	7,151		138	7,013		
Collateralized Mortgage Obligation	1,151		698	452		
Money Market Mutual Fund	5,041					
Total Debt Instruments	$ 190,337	$ 58,424	$ 11,244	$ 83,865	$ 13,980	$ 5,621

(Continued)

Rated Debt Instruments	Credit Quality Rating: BB	B	CCC	CC	C	Not Rated
U.S. Treasuries						
U. S. Agencies						$ 104
Commercial Paper						
Corporate Bonds	$ 1					26
Mutual Funds—Bonds	1,244	$ 50	$ 38	$ 7	$ 1	10,690
Mortgage Backed Securities						
Collateralized Mortgage Obligation						1
Money Market Mutual Fund						5,041
Total Debt Instruments	$ 1,245	$ 50	$ 38	$ 7	$ 1	$ 15,862

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

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2014, 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[2]
U.S. Treasuries	$ 56,385	$ 7,575	$ 45,628	$ 3,182	
U.S. Agencies	72,720	16,139	53,809	2,470	$ 302
Commercial Paper	2,000	2,000			
Corporate Bonds	16,150	4,066	11,019	1,065	
Mutual Funds—Bonds	29,739	1,144	7,084	5,739	15,772
Mortgage Backed Securities	7,151	240	1,233	2,217	3,461
Collateralized Mortgage Obligation	1,151		72	1,041	38
Total Debt Investments	$ 185,296	$ 31,164	$ 118,845	$ 15,714	$ 19,573

2. Includes investments with no maturity date.

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 $279.632 million.

3. Tennessee Housing Development Agency (THDA)

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

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

Credit Risk

The Agency's investments as of June 30, 2014, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	Credit Quality Rating AA+	A-1	AA-2	Not Rated
U.S. Agency Coupon	$ 156,546		$ 140,991		4,868	$ 10,687
U.S. Treasury Coupon	81,459	$ 81,459				
U.S. Treasury Discount	185,126			$ 160,127		24,999
Total Debt Instruments	$ 423,131	$ 81,459	$ 140,991	$ 160,127	4,868	$ 35,686

Concentration of Credit Risk

At June 30, 2014, more than 5 percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 222,527	52.59
Federal National Mortgage Association	81,964	19.37

Interest Rate Risk

As of June 30, 2014, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 156,546	2.713
U.S. Treasury Coupon	81,459	3.010
U.S. Agency Discount	185,126	0.033
Total	$ 423,131	

B. **Receivables**

Receivables at June 30, 2014, for the state's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Due From Other Governments	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:							
General	$ 170,848	$ 788,170	$ 301,125	$ 8,218	$ 1,268,361	$ (135,099)	$ 1,133,262
Education	389	522,862	96,732	3,147	623,130	(48,311)	574,819
Highway	225	66,149	128,811	16,117	211,302	(10)	211,292
Capital projects	13		9,098		9,111		9,111
Nonmajor governmental funds	525	12,952	10,623	1,990	26,090	(649)	25,441
Internal service funds	6,734		10,249	954	17,937	(427)	17,510
Total-governmental activities	$ 178,734	$ 1,390,133	$ 556,638	$ 30,426	$ 2,155,931	$ (184,496)	$ 1,971,435
Amounts not expected to be collected within one year		$ 123,121	$ 10,055				$ 133,176
Business-type activities:							
Employment security	$ 180,048	$ 89,726	$ 731		$ 270,505	$ (105,501)	$ 165,004
Nonmajor enterprise funds	4,634		32		4,666	(157)	4,509
Total-business-type activities	$ 184,682	$ 89,726	$ 763		$ 275,171	$ (105,658)	$ 169,513

C. **Capital assets**

Capital asset activity for the year ended June 30, 2014, was as follows (expressed in thousands):

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,012,356	$ 88,524	$ (3,610)	$ 2,097,270
Infrastructure	22,275,204	366,718	(11,167)	22,630,755
Construction in progress	779,460	610,165	(389,955)	999,670
Software in development	27,397	40,340	(17,412)	50,325
Capital assets, being depreciated:				
Structures and improvements	2,484,288	33,777	(36,856)	2,481,209
Machinery and equipment	906,311	107,877	(49,150)	965,038
Total capital assets	28,485,016	1,247,401	(508,150)	29,224,267
Less accumulated depreciation for:				
Structures and improvements	(1,044,277)	(54,529)	23,709	(1,075,097)
Machinery and equipment	(586,913)	(83,071)	36,797	(633,187)
Total accumulated depreciation	(1,631,190)	(137,600)	60,506	(1,708,284)
Governmental activities capital assets, net	$ 26,853,826	$ 1,109,801	$ (447,644)	$ 27,515,983

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

Governmental activities:	
General government	$ 4,090
Education	1,229
Health and social services	17,177
Law, justice and public safety	34,344
Recreation and resource development	13,343
Regulation of business and professions	707
Transportation	18,666
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	48,044
Total depreciation expense – governmental activities	$ 137,600

Highway construction commitments — At June 30, 2014, the Department of Transportation had contractual commitments of approximately $677.1 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($595.7 million) and general obligation bond proceeds ($81.4 million).

Discretely presented component units

Capital asset activity for the year ended June 30, 2014, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Art and collections	$ 10,232	$ 670		$ 10,902
Land	194,693	12,298	$ (1,101)	205,890
Construction in progress	778,975	399,615	(492,383)	686,207
Capital assets, being depreciated:				
Infrastructure	459,321	34,676	(291)	493,706
Structures and improvements	4,568,128	495,771	(49,763)	5,014,136
Machinery and equipment	1,010,371	76,221	(59,909)	1,026,683
Total capital assets	7,021,720	1,019,251	(603,447)	7,437,524
Less accumulated depreciation for:				
Infrastructure	(214,408)	(21,059)	351	(235,116)
Structures and improvements	(1,820,410)	(126,800)	32,785	(1,914,425)
Machinery and equipment	(636,771)	(85,473)	55,840	(666,404)
Total accumulated depreciation	(2,671,589)	(233,332)	88,976	(2,815,945)
Total capital assets, net	$ 4,350,131	$ 785,919	$ (514,471)	$ 4,621,579

The University of Tennessee foundations, and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2014, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Art and collections	$ 640
Land	16,406
Total capital assets, not being depreciated	17,046
Capital assets, being depreciated:	
Infrastructure	1,101
Structures and improvements	140,143
Machinery and equipment	32,500
Total capital assets being depreciated	173,744
Less: total accumulated depreciation	(56,999)
Total capital assets, being depreciated, net	116,745
Total capital assets, net	$ 133,791

D. Interfund balances

1. Interfund balances at June 30, 2014, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

DUE FROM

		General	Education	Highway	Employment Security	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Fiduciary Funds	Total
	General		$ 297,192	$ 166	$ 1,445	$ 1,238	$ 127	$ 110	$ 118	$ 300,396
D	Education	$ 258								258
U	Employment									
E	security	363								363
	Capital projects	10		396			39	640		1,085
T	Internal service									
O	funds	1,854						15		1,869
	Fiduciary funds	8,481	486	877			296	369		10,509
	Total	$ 10,966	$ 297,678	$ 1,439	$ 1,445	$ 1,238	$ 462	$ 1,134	$ 118	$ 314,480

Of the $297.2 million due to the general fund from the education fund, $297.1 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund.

2. COMPONENT UNITS PAYABLES

Component units accounts payable to the primary government at June 30, 2014, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

		Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
	PRIMARY GOVERNMENT:						
P	General			$ 224	$ 39	$ 86	$ 349
A	Education		$ 94,670				94,670
Y	Capital projects			8,764	87	4,806	13,657
A	Employment security					7	7
B	Nonmajor governmental						
L	funds				972		972
E	Internal service funds			7	3		10
	Fiduciary funds	$ 72		5,088	4,534	25	9,719
T							
O	Total	$ 72	$ 94,670	$ 14,083	$ 5,635	$ 4,924	$ 119,384

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2014, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

RECEIVABLE TO

	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
COMPONENT UNITS:							
Tennessee Board of Regents	$ 7,976	$ 5,166	$ 636	$ 380	$ 983	$ 46	$ 15,187
University of Tennessee	9,041	6,000	1,444	10,772	1,387	300	28,944
Nonmajor component units	1,215						1,215
Total	$ 18,232	$ 11,166	$ 2,080	$ 11,152	$ 2,370	$ 346	$ 45,346

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2014, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds
General		$ 1,102,900		$ 216,074	$ 6,860
Highway	$ 1,886				
Capital projects					229
Nonmajor governmental funds	92,694		$ 126,200	11,283	
Nonmajor enterprise funds	3,654				
Totals	$ 98,234	$ 1,102,900	$ 126,200	$ 227,357	$ 7,089

(Continued)

Transfers In

Transfers Out	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General	$ 6,465	$ 1,811	$ 195,833	$ 827	$ 1,530,770
Highway					1,886
Capital projects					229
Nonmajor governmental funds			361		230,538
Nonmajor enterprise funds					3,654
Totals	$ 6,465	$ 1,811	$ 196,194	$ 827	$ 1,767,077

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, 2014, the general fund transferred $1.5 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $1.1 billion to subsidize the activities of the education fund, $216 million for capital outlay expenditures, $171 million to provide appropriations to internal service funds, $21.4 million for payments for interfund services used, $15.7 million to provide appropriations to finance various programs in other funds, and $3.8 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $126.2 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The nonmajor special revenue funds transferred $9.2 million to the general fund for the purpose of funding the requirements of state government operations. The transfer is considered inconsistent with the activities of those funds making the transfer. The transfer was made in accordance with budgetary authority granted by the Legislature.

The facilities revolving fund, an internal service fund, transferred $38.7 thousand to the full accrual ledger for the book value of a building. This transfer caused the total transfers-in to not match total transfers-out on the fund level statements.

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
2015	$ 11,378
2016	5,444
2017	4,087
2018	3,326
2019	1,433
2020-2021	1,462
Total minimum payments required	$ 27,130

Expenditures for rent under leases for the year ended June 30, 2014, amounted to $63.9 million.

Capital lease obligations – The state leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 15 years. The effective interest rates for these leases range from 4.48 percent to 32.12 percent. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 350
Buildings	$ 40,079	
Less: accumulated depreciation	4,933	35,146
		$ 35,496

At June 30, 2014, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2015	$ 3,443
2016	3,431
2017	3,491
2018	3,543
2019	3,595
2020-2024	18,786
2025-2029	15,791
Total	52,080
Less - interest	17,622
Less - executory costs	12,660
Present value of net minimum lease payments	$ 21,798

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 this cost of this building.

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

Minimum future lease payments to be received as of June 30, 2014 (expressed in thousands):

Year Ended June 30	Total
2015	$ 980
2016	705
2017	689
2018	673
2019	657
2020-2024	2,479
2025-2029	1,877
2030-2033	1,344
Total minimum future lease payments	$ 9,404
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 9,404
Less: executory costs	(1,193)
Plus: unamortized loss on leases	4,023
Net investment in direct financing lease	$ 12,234

H. **Long-term liabilities**

1. General obligation bonds – Bonds Payable at June 30, 2014, are shown below (expressed in thousands):

Governmental activities:	Amount
General obligation bonds, .94% to 5.59%, due in generally decreasing amounts of principal and interest from $126.207 million in 2015 to $7.105 million in 2033	$ 973,416
General obligation refunding bonds, 1999 Series A, 4.75% to 5%, principal and interest due in amount of $5.398 million in 2015	5,145
General obligation refunding bonds, 2004 Series C, 5% to 5.25%, principal and interest due in amounts from $31.584 million in 2015 to $11.388 million in 2018	74,710
General obligation refunding bonds, 2005 Series A, 5.25%, principal and interest due in amounts from $15.081 million in 2015 to $17.950 million in 2017	46,695
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $11.051 million in 2015 to $7.544 million in 2022	82,010
General obligation refunding bonds, 2009 Series D, 2.83% to 5.59%, principal and interest due in amounts from $3.818 million in 2015 to $3.889 million in 2029	40,034
General obligation refunding bonds, 2010 Series B, 3% to 4%, principal and interest due in amounts from $1.223 million in 2015 to $7.375 million in 2024	37,135
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $9.564 million in 2015 to $187.775 thousand in 2026	62,085
General obligation refunding bonds, 2011 Series C, .94% to 3.53%, principal and interest due in amounts from $2.633 million in 2015 to $1.175 million in 2024	18,455
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $19.598 million in 2015 to $7.334 million in 2028	449,070
General obligation refunding bonds, 2012 Series C, .55% to 1.60%, principal and interest due in amounts from $1.242 million in 2015 to $7.021 million in 2020	29,195
Total bonds outstanding	1,817,950
Plus unamortized bond premium	178,508
Total bonds payable	$ 1,996,458

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, 2014, $461.675 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2014, is shown below (expressed in thousands).

	Commercial paper
General obligation commercial paper, interest rates ranging from .09% to .16% for tax exempt and .14% to .20% for taxable, varying maturities	$ 324,366

In March 2000, the state instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of $100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed $350 million.

The state has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on July 1, 2016. At June 30, 2014, $324.366 million of commercial paper was outstanding ($298.367 million tax exempt and $25.999 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Pledged Revenues/Collateralized Borrowing

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

The total amount of proceeds received and remaining to be repaid through the use of the aforementioned tax credits is $74,647,454.59 as of June 30, 2014. For the current year, gross premium tax revenue totaled $727,943,303.73 and credits of $30,244,466.00 were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $597 million per year over the last five years.

General obligation bonds and commercial paper constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state; and a charge and lien upon all fees, taxes and other revenues and funds allocated to the state's general fund, debt service fund and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. The charge and lien on fees, taxes and other revenues in favor of the bonds is subject to a specific pledge of "Special Taxes" in favor of state general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of the annual proceeds of a tax of five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon upon petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the state; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the state. The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter, or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013, this pledge of "Special Taxes" will expire. Annual debt service for the current year and the total available pledged revenues were $243.099 million and $987.468 million respectively. For fiscal year 2014, 63.32 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds issued prior to July 1, 2013.

4. Debt service requirements to maturity – Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2015	$ 152,025	$ 75,376	$ 227,401
2016	146,270	68,738	215,008
2017	140,415	62,385	202,800
2018	131,720	55,828	187,548
2019	122,425	50,238	172,663
2020-2024	554,600	175,815	730,415
2025-2029	442,405	74,540	516,945
2030-2033	128,090	8,111	136,201
	$ 1,817,950	$ 571,031	$ 2,388,981

5. General obligation bonds authorized and unissued – A summary of general obligation bonds authorized and unissued at June 30, 2014, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 2013	Authorized	Canceled	Unissued June 30, 2014
Highway	$ 984,000	$ 83,500	$ 162,800	$ 904,700
Higher Education	452,288	28,400	782	479,906
Environment & Conservation	12,077			12,077
Economic & Community Development	43,757	52,400		96,157
General government	474,106	3,300	12,781	464,625
Totals	$ 1,966,228	$ 167,600	$ 176,363	$ 1,957,465

6. Changes in long-term liabilities – A summary of changes in long-term obligations for the year ended June 30, 2014, follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,387,776	$ 115,000	$ (181,952)	$ 2,320,824	$ 152,025
Capital leases	13,790	8,969	(961)	21,798	1,199
Compensated absences	241,266	158,689	(147,254)	252,701	90,581
Claims and judgments	154,562	92,826	(48,732)	198,656	33,594
Pollution remediation	100,598	13,969	(14,833)	99,734	4,112
Other postemployment benefits	510,455	58,780		569,235	
Other long-term liabilities	104,419	473	(30,244)	74,648	
Governmental activities Long-term obligations	$ 3,512,866	$ 448,706	$ (423,976)	$ 3,537,596	$ 281,511
Business-type activities					
Deposits payable	$ 7,464	$ 659	$ (441)	$ 7,682	
Business-type activities Long-term obligations	$ 7,464	$ 659	$ (441)	$ 7,682	

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 the Highway Fund (special revenue fund), Risk Management (internal service fund) and the general fund. Typically, the general fund, special revenue funds, and internal service funds liquidate OPEB obligations. Typically, pollution remediation is liquidated from the general fund and highway fund.

I. **Payables**

Payables as of June 30, 2014, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 653,678	$ 69,117		$ 93,867	$ 145,122	$ 961,784
Education	27,994	4,393		89,159	12,333	133,879
Highway	79,672	7,136		77,105		163,913
Capital projects	32,368					32,368
Nonmajor governmental funds	13,397	2,275	$ 21,602	37,774	153	75,201
Internal service funds	74,474	2,963	3,005			80,442
Total—governmental activities	$ 881,583	$ 85,884	$ 24,607	$ 297,905	$ 157,608	$ 1,447,587
Business-type activities:						
Employment security	$ 14			$ 34,381	$ 9,200	$ 43,595
Sewer treatment loan			$ 5			5
Nonmajor enterprise funds	34,321		2			34,323
Total—business-type activities	$ 34,335		$ 7	$ 34,381	$ 9,200	$ 77,923

J. **Governmental fund balances**

Balances as of June 30, 2014, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General fund			
General operations:			
Legislature			$ 44,532
Constitutional offices	$ 4,562	$ 16,471	29,848
Administrative services		23,520	308,870
Childrens services			9,619
Public health	20,938	92,921	349,018
Human services		47,963	29,432
Business and industry development	10,020	2,193	290,693
Judicial	19,386	13,024	2,417
Natural resources	1,220	15,383	3,810
Public safety		21,085	40,664
Agriculture		1,601	18,908
Employment and business regulation	12,060	44,424	3,537
Other	145	3,384	7,148
Total general fund	$ 68,331	$ 281,969	$ 1,138,496
Education fund			
After school program	$ 27,442		
Lottery for education	422,542		
Energy efficient school initiative	4,679		
State endowment	48,970		
Other	990	$ 9,411	$ 30,191
Total education fund	$ 504,623	$ 9,411	$ 30,191
Highway fund			
State matching	$ 3,310		
Railway, aeronautics, and waterway program		$ 188,328	
State aid		90,116	
Future highway projects			$ 178,175
Railroad inspection		1,418	
Other			9,834
Total highway fund	$ 3,310	$ 279,862	$ 188,009
Capital projects fund	$ 157,540		$ 535,861
Total capital projects fund	$ 157,540		$ 535,861
Nonmajor governmental funds			
Debt service			$ 5,784
Chairs of excellence	$ 194,196		
Criminal injuries		$ 7,944	
Wildlife resources	45,220	15,253	
Underground storage tanks	46,660	876	
Enhanced emergency 911	65,836	3,253	
Environmental protection		25,993	
Solid and hazardous waste	48	14,665	
Parks acquisition		22,630	
Other	6,917	16,411	
Total nonmajor governmental funds	$ 358,877	$ 107,025	$ 5,784

Budget stabilization accounts

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

(a) General fund's Reserve for Revenue Fluctuations

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

The lesser of:

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

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The general fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $456 million as of June 30, 2014.

(b) Education fund's General Shortfall Reserve Account

In accordance with *Tennessee Code Annotated*, 4-51-111, the state transferred one hundred million dollars ($100,000,000) from the Lottery for Education Account to the General Shortfall Reserve Account. The resources of this account may be used when the net lottery proceeds are not sufficient to meet the amount appropriated for educational programs and other purposes consistent with Article XI, Section 5 of the Constitution of Tennessee. In the event this account is drawn upon in any fiscal year, the account shall be brought back to its prior level in subsequent fiscal years. In addition to the one hundred million dollars mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below one hundred million dollars ($100,000,000). As of June 30, 2014, this account has a balance of $100 million and is reported as restricted fund balance in the education fund.

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, 2014 (expressed in thousands):

Condensed Statement of Net Position
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,364,512	$ 144,151	$ 1,393,505	$ 1,027,680	$ 561,866	$ 5,491,714
Due from primary government			15,187	28,944	1,215	45,346
Due from other component units					1,404,532	1,404,532
Restricted assets	199,341	6,156	441,445	1,226,663	167,529	2,041,134
Capital assets, net	626	924	2,502,309	2,214,725	36,786	4,755,370
Total assets	2,564,479	151,231	4,352,446	4,498,012	2,171,928	13,738,096
Deferred outflows	1,250		2,851	5,911	18,041	28,053
Liabilities						
Accounts payable and other current liabilities	44,045	48,551	219,964	268,887	28,069	609,516
Due to primary government	72	94,670	14,083	5,635	4,924	119,384
Due to other component units			708,343	696,189		1,404,532
Long-term liabilities	1,994,684	7,989	191,895	345,243	1,952,235	4,492,046
Total liabilities	2,038,801	151,210	1,134,285	1,315,954	1,985,228	6,625,478
Deferred inflows			132		616	748
Net position						
Net investment in capital assets	626	924	1,803,666	1,468,055	30,629	3,303,900
Restricted	449,905	21	635,415	1,244,468	25,318	2,355,127
Unrestricted	76,397	(924)	781,799	475,446	148,178	1,480,896
Total net position	$ 526,928	$ 21	$ 3,220,880	$ 3,187,969	$ 204,125	$ 7,139,923

Condensed Statement of Activities
Component Units

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units:				
Housing Development Agency	$ 422,834	$ 121,135	$ 302,126	
Tennessee Education Lottery	1,323,406	1,323,307	43	
Board of Regents	2,473,515	974,218	696,108	$ 143,583
University of Tennessee	2,056,111	661,101	933,596	86,236
Nonmajor component units	439,009	152,473	160,647	11,953
Total	$ 6,714,875	$ 3,232,234	$ 2,092,520	$ 241,772

General revenues:
Payments from primary government
Unrestricted grants and contributions
Unrestricted investment earnings
Miscellaneous
Total general revenues
Contributions to permanent funds
Change in net position
Net position – July 1
Net position – June 30

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

State appropriations from the education fund in the amount of $685.2 million were made to the TBR and $485.4 million to the UT.

Capital project expenditures in the amount of $198 million were made for the TBR and $52 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 $66 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $323 million for the state’s Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Position					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 427					$ 427
	$ (56)				(56)
		$ (659,606)			(659,606)
			$ (375,178)		(375,178)
				$ (113,936)	(113,936)
427	(56)	(659,606)	(375,178)	(113,936)	(1,148,349)
		683,554	487,077	79,278	1,249,909
		146,941	2,234	9,350	158,525
34	70	4,691	24,556	106	29,457
		3,803			3,803
34	70	838,989	513,867	88,734	1,441,694
		13,752	43,934		57,686
461	14	193,135	182,623	(25,202)	351,031
526,467	7	3,027,745	3,005,346	229,327	6,788,892
$ 526,928	$ 21	$ 3,220,880	$ 3,187,969	$ 204,125	$ 7,139,923

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, 2014, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 27,075	$ 676,351
University of Tennessee	29,360	662,219
Total	$ 56,435	$ 1,338,570

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

Tennessee Housing Development Agency (THDA)

Bonds Payable at June 30, 2014, is shown below (expressed in thousands):

Homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 5.75%, due in amounts of principal and interest ranging from $212.077 million in 2015 to $111.678 million in 2044	$ 1,962,990
Plus unamortized bond premium	21,477
Less unamortized bond discount	(169)
Total bonds payable	$ 1,984,298

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

Bond sales during the year ended June 30, 2014, included the following issues:

November 2013—Residential Finance program bonds of $121.300 million

Current refundings

During the year ended June 30, 2014, bonds were retired at par before maturity in the Homeownership Program in the amount of $217,425,000, in the Housing Finance Program in the amount of $60,775,000, and in the Residential Finance Program in the amount of $15,555,000. The respective carrying values of the bonds were $221,007,463, $61,136,292 and $15,821,689. This resulted in revenue to the Homeownership Program of $3,582,463, to the Housing Finance Program of $361,292, and to the Residential Finance Program of $266,689.

On May 30, 2013, the agency issued $215,905,000 in Residential Finance Program Bonds, Issue 2013-1. On July 1, 2013, the agency used $75,905,000 of these bonds to refund bonds previously issued in the Mortgage Finance Program (this amount consists of $47,985,000 early redemption) and Homeownership Program (this amount consists of $27,920,000 early redemption). The carrying amount of these bonds was $75,905,000. The refunding reduced the agency's debt service by $8,688,786 million over the next 18 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $9,063,606.

On November 19, 2013, the agency issued $121,300,000 in Residential Finance Program Bonds, Issue 2013-2. On January 1, 2014, the agency used $31,300,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $31,300,000 early redemption). The carrying amount of these bonds was $31,300,000. The refunding reduced the agency's debt service by $1,548,956 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,485,956.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2015	$ 139,455	$ 72,622	$ 212,077
2016	56,210	70,196	126,406
2017	57,190	68,863	126,053
2018	56,315	67,338	123,653
2019	54,550	65,707	120,257
2020-2024	249,355	302,779	552,134
2025-2029	278,485	249,077	527,562
2030-2034	256,105	194,321	450,426
2035-2039	343,460	142,690	486,150
2040-2044	471,865	45,677	517,542
	$ 1,962,990	$ 1,279,270	$ 3,242,260

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

Tennessee Local Development Authority (TLDA)

Bonds Payable at June 30, 2014, is shown below (expressed in thousands):

Revenue bonds, 3.5% to 5%, due in generally decreasing amounts of principal and interest from $1.155 million in 2015 to $25 thousand in 2029	$ 5,520
Plus unamortized bond premium	167
Less unamortized bond discount	(13)
Total bonds payable	$ 5,674

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

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2015	$ 910	$ 245	$ 1,155
2016	785	203	988
2017	775	166	941
2018	585	129	714
2019	495	105	600
2020-2024	1,410	296	1,706
2025-2029	560	66	626
	$ 5,520	$ 1,210	$ 6,730

Tennessee State School Bond Authority (TSSBA)

Bonds and Revolving Credit Facility Payable at June 30, 2014, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from $112.358 million in 2015 to $7.267 million in 2044	$ 1,695,470
Plus unamortized bond premium	85,106
Less unamortized bond discount	(18)
Total bonds payable	$ 1,780,558
Revolving credit facility, interest rates ranging from .48% to .66%, varying	$ 157,584

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

On November 21, 2013, the Authority issued the 2013 Series A bonds. The Series A tax-exempt bond proceeds in the amount of $149,130,000 were sold with an original issue premium of $14,036,286. The bond proceeds redeemed $132,991,992 of the Authority's tax-exempt commercial paper and $2,763,930 of the Authority's taxable commercial paper. A portion of a project funded under the 2013 Series A Bonds was being funded with taxable commercial paper. With a change in scope and a review from bond counsel, it was decided that this project could be financed with tax-exempt bonds and was included in the 2013 Series A Bond issuance. The balance of the proceeds were used to pay for construction costs of certain projects and various costs of issuance.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2014, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2015	$ 56,435	$ 55,923	$ 112,358
2016	69,320	53,611	122,931
2017	59,150	51,196	110,346
2018	63,280	48,767	112,047
2019	62,070	46,120	108,190
2020-2024	329,800	189,573	519,373
2025-2029	661,345	124,966	786,311
2030-2034	186,235	69,291	255,526
2035-2039	133,005	33,368	166,373
2040-2044	74,830	6,973	81,803
	$ 1,695,470	$ 679,788	$ 2,375,258

Revolving credit facility program

The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the revolving credit facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed

$300,000,000. The Revolving Credit Agreement expires March 20, 2017, subject to extension. The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2014, $90,500,000 of tax-exempt revolving credit facility and $67,084,392 of taxable revolving credit facility loans were outstanding.

N. Component units – changes in long-term liabilities

A summary of changes in long-term obligations for the year ended June 30, 2014, follows (expressed in thousands).

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds and loans payable:					
University of Tennessee (UT) loans payable	$ 633,014	$ 234,005	$ (175,440)	$ 691,579	$ 29,360
Tennessee Board of Regents (TBR) loans payable	683,810	175,030	(145,583)	713,257	28,439
Tennessee Housing Development Agency (THDA) bonds payable	2,136,806	277,828	(430,336)	1,984,298	122,690
Nonmajor component units bonds and loans payable	1,897,028	379,109	(326,164)	1,949,973	57,804
Total revenue bonds and loans payable	$ 5,350,658	$ 1,065,972	$ (1,077,523)	$ 5,339,107	$ 238,293
UT compensated absences	82,629	41,596	(42,940)	81,285	42,940
UT other postemployment benefits	87,696	6,423		94,119	
UT due to grantors, unearned revenue and annuities payable	68,967	98,772	(95,728)	72,011	
TBR compensated absences	61,890	39,673	(37,946)	63,617	16,776
TBR other postemployment benefits	95,116	3,283		98,399	
TBR due to grantors, unearned revenue and other	23,932	1,294	(5,178)	20,048	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	2,635	1,787	(973)	3,449	82
THDA compensated absences	1,230		(20)	1,210	587
THDA other postemployment benefits	1,303	110		1,413	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	5,362	1,321	(196)	6,487	352
TELC compensated absences	530	570	(516)	584	584
TELC unearned rent	105	1,156	(343)	918	328
Nonmajor component units compensated absences	1,195	463	(386)	1,272	718
Nonmajor component units other postemployment benefits	906	84		990	
Component units long-term liabilities	$ 5,784,154	$ 1,262,504	$ (1,261,749)	$ 5,784,909	$ 300,660

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 $97.829 million ($2.756 million due within one year).

O. **Endowments – component units**

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2014, net appreciation of $196.174 million is available to be spent, of which $192.109 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, 2014, net appreciation of $18.238 million is available to be spent, of which $17.960 million is restricted to specific purposes.

NOTE 6 – **Other information**

A. **Risk management**

1. Teacher Group Insurance – The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the state. In accordance with *Tennessee Code Annotated* 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2014, included 129 local education agencies and one education cooperative, with 49,921 active teachers and support personnel enrolled in one of three health care options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the limited 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.

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

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 21st Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 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):

	2014	2013
Unpaid claims at beginning of year	$ 30,125	$ 30,109
Incurred claims:		
Provision for insured events of the current year	429,300	432,586
Increase (decrease) in provision for insured events of prior years	(3,680)	(184)
Total Incurred Claims Expenses	425,620	432,402
Payments:		
Claims attributable to insured events of the current year	402,349	402,515
Claims attributable to insured events of prior years	26,430	29,871
Total payments	428,779	432,386
Total unpaid claims at end of the year	$ 26,966	$ 30,125

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, 2014, included 56 counties, 148 municipalities and 140 quasi-governmental organizations, with 12,429 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 federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan.

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

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 21st Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

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

	2014	2013
Unpaid claims at beginning of year	$ 6,884	$ 6,909
Incurred claims:		
Provision for insured events of the current year	97,731	93,862
Increase (decrease) in provision for insured events of prior years	(531)	(405)
Total incurred claims expenses	97,200	93,457
Payments:		
Claims attributable to insured events of the current year	91,708	87,025
Claims attributable to insured events of prior years	6,344	6,457
Total payments	98,052	93,482
Total unpaid claims at end of the year	$ 6,032	$ 6,884

3. <u>Risk Management</u> – It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice

liability and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300,000 per person and $1 million per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, builder's risk (for construction projects starting prior to July 1, 2012), and crime and fidelity coverage on the state's officials and employees. The contractor is responsible for acquiring builder's risk insurance for all construction projects after June 30, 2012, thus builder's risk is no longer covered by the RMF. For property coverage, the deductible for an individual state agency is the first $25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of $10 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $10 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Agricultural Promotion Boards and the Certified Cotton Growers' Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker's compensation coverage.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $136,844,000 (discounted at one percent) at June 30, 2014 and $89,292,000 (discounted at one percent) at June 30, 2013. The accrued liability for incurred property losses was 5,701,233 at June 30, 2014 and $7,111,133 at June 30, 2013. The changes in the balances of the claims liabilities during fiscal years 2013 and 2014 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2013-2014	$ 96,403	$ 83,017	$ (36,875)	$ 142,545
2012-2013	$ 97,981	$ 30,572	$ (32,150)	$ 96,403

The RMF held $116.3 million in cash at June 30, 2014 and $108.5 million in cash at June 30, 2013 that is designated for payment of these claims.

The RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole.

4. Employee Group Insurance – The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the state with the risk retained by the state, therefore it is accounted for as an Internal Service Fund. In accordance with

Tennessee Code Annotated 8-27-201 all state employees and certain former employees with work related injuries are eligible to participate. Fund members at June 30, 2014, included 62,672 active employees enrolled in one of two options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO).

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

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

	2014	2013
Unpaid claims at beginning of year	$ 41,233	$ 42,719
Incurred claims:		
Provision for insured events of the current year	665,258	629,111
Increase (decrease) in provision for insured events of prior years	1,522	(1,295)
Total incurred claims expenses	666,780	627,816
Payments:		
Claims attributable to insured events of the current year	621,136	587,933
Claims attributable to insured events of prior years	42,627	41,369
Total payments	663,763	629,302
Total unpaid claims at end of the year	$ 44,250	$ 41,233

5. CoverTN – The CoverTN program was established in 2006 to provide an affordable, basic health care option to small businesses and the working uninsured. In accordance with *Tennessee Code Annotated* 56-7-3001, the CoverTN program has served eligible uninsured Tennesseans and their spouses, working for qualifying businesses, or self-employed or work but do not have insurance. Because CoverTN is a limited benefit plan that does not meet the minimum requirements under the Affordable Care Act, the program closed December 31, 2013. At date of closure, enrollment was reported at 14,255 members.

   The CoverTN program provided health care financing based in part upon member premiums, and used traditional insurance components, including co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. Individual shares of the monthly premium range from $37 to $109. Less than one percent of members exhausted the maximum benefit limit of $25,000 in fiscal year 2014. The CoverTN program is subject to a claim run out period with Blue Cross Blue Shield of Tennessee that extends through the final day of the thirteenth month from the closure of the program.

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

	2014	2013
Unpaid claims at beginning of year	$ 1,822	$ 2,281
Incurred claims:		
Provision for insured events of the current year	15,202	26,454
Increase (decrease) in provision for insured events of prior years	134	(296)
Total incurred claims expenses	15,336	26,158
Payments:		
Claims attributable to insured events of the current year	15,232	24,644
Claims attributable to insured events of prior years	1,973	1,973
Total payments	17,205	26,617
Total unpaid claims at end of the year	$ (47)	$ 1,822

6. <u>CoverKids</u> – The CoverKids program was launched in 2007 as part of the federal funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with *Tennessee Code Annotated* 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is place on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 67,998 at June 30, 2014.

   As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 76/24 ratio match. For qualifying families, there are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. To reduce costs, the CoverKids members were transitioned October 1, 2013, from the Blue Cross Blue Shield Provider Network S to the TennCareSelect Provider Network also administered by Blue Cross Blue Shield.

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

	2014	2013
Unpaid claims at beginning of year	$ 12,450	$ 7,447
Incurred claims:		
Provision for insured events of the current year	144,272	173,092
Increase (decrease) in provision for insured events of prior years	(3,237)	1,762
Total incurred claims expenses	141,035	174,854
Payments:		
Claims attributable to insured events of the current year	136,465	160,670
Claims attributable to insured events of prior years	9,181	9,181
Total payments	145,646	169,851
Total unpaid claims at end of the year	$ 7,839	$ 12,450

7. Component unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state's uninsured. In accordance with *Tennessee Code Annotated* 56-7-2901, the target population is Tennessee residents unable to obtain health insurance because of their health conditions. The benefit plans are based on PPO plans with an 80 percent in-network benefit and 60 percent out-of-network benefit and modeled after the state employee plans. Enrollment was closed to new applicants as of October 31, 2013, and then on May 1, 2014, those members not on premium assistance who had incomes above 100 percent of the federal poverty level were dis-enrolled from the program. 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 2014 assessment determination should be made by the AccessTN Board following the end of fiscal year 2014 at the September 16, 2014, board meeting. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

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

	2014	2013
Unpaid claims at beginning of year	$ 2,146	$ 2,371
Incurred claims:		
Provision for insured events of the current year	25,462	33,696
Increase (decrease) in provision for insured events of prior years	(222)	(356)
Total incurred claims expenses	25,240	33,340
Payments:		
Claims attributable to insured events of the current year	24,702	31,591
Claims attributable to insured events of prior years	1,981	1,974
Total payments	26,683	33,565
Total unpaid claims at end of the year	$ 703	$ 2,146

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

C. Jointly governed organizations

The Southern Regional Education Compact has 16 member states. Tennessee paid $13,000 for 2014 membership dues.

The Compact for Education has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2014 membership dues.

The Interstate Mining Compact has 21 member states. Tennessee paid $16,229 for 2014 membership dues.

The Southern States Nuclear Compact has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2014 membership dues.

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

The Interstate Insurance Product Regulation Commission is comprised of 42 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 50 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $17,000 for 2014 membership dues.

The Interstate Compact for Supervision of Adult Offenders is comprised of all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands. Tennessee paid $36,674 for 2014 membership dues.

The Interstate Compact on Educational Opportunities for Military Children has 46 member states. Tennessee paid $14,961 for 2014 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):

	2013	2012
Current assets	$ 386	$ 301
Capital assets, less depreciation	344	355
Total assets	730	656
Total liabilities	266	289
Net position	464	367
Total liabilities and net position	$ 730	$ 656
Revenues	$ 408	$ 338
Expenses	311	297
Excess of revenues over expenses	97	41
Beginning net position	367	326
Ending net position	$ 464	$ 367

E. Other postemployment benefits (OPEB)

Employer

Plan description

The State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy.

Special funding situation

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

Funding policy

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

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

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Annual required contribution	$ 81,207	$ 30,355	$ 11,381	$ 9,207
Interest on the net OPEB obligation	14,301	1,829	2,596	1,693
Adjustment to the ARC	(13,933)	(1,782)	(2,529)	(1,649)
Annual OPEB cost	81,575	30,402	11,448	9,251
Amount of contribution	(44,927)	(17,706)	(6,030)	(5,233)
Increase in net OPEB obligation	36,648	12,696	5,418	4,018
Net OPEB obligation —beginning of year	357,535	45,715	64,891	42,314
Net OPEB obligation —end of year	$ 394,183	$ 58,411	$ 70,309	$ 46,332

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2012	Employee Group	$ 97,124	52%	$ 304,884
6/30/2013	Employee Group	98,253	46%	357,535
6/30/2014	Employee Group	81,575	55%	394,183
6/30/2012	Teacher Group (State Share)	23,725	73%	39,688
6/30/2013	Teacher Group (State Share)	23,974	75%	45,715
6/30/2014	Teacher Group (State Share)	30,402	58%	58,411
6/30/2012	Medicare Supp State	16,381	28%	53,825
6/30/2013	Medicare Supp State	16,607	33%	64,891
6/30/2014	Medicare Supp State	11,448	53%	70,309
6/30/2012	Medicare Supp Teachers	11,941	44%	35,255
6/30/2013	Medicare Supp Teachers	12,117	42%	42,314
6/30/2014	Medicare Supp Teachers	9,251	57%	46,332

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

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 41,433	$ 66
Interest on the net OPEB obligation	7,380	21
Adjustment to the ARC	(7,190)	(21)
Annual OPEB cost	41,623	66
Amount of contribution	(31,787)	(13)
Increase in net OPEB obligation	9,836	53
Net OPEB obligation —beginning of year	184,494	527
Net OPEB obligation —end of year	$ 194,330	$ 580

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2012	Employee Group	$ 49,575	67%	166,667
6/30/2013	Employee Group	50,084	64%	184,494
6/30/2014	Employee Group	41,623	76%	194,330
6/30/2012	Local Government Group	121	26%	464
6/30/2013	Local Government Group	121	48%	527
6/30/2014	Local Government Group	66	20%	580

Funded status and funding progress

The funded status of the plans as of July 1, 2013, was as follows (expressed in thousands):

Primary government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Actuarial valuation date	7/1/2013	7/1/2013	7/1/2013	7/1/2013
Actuarial accrued liability (AAL)	$ 855,642	$ 294,798	$ 154,051	$ 137,717
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	$ 855,642	$ 294,798	$ 154,051	$ 137,717
Actuarial Value of Assets as a % of the AAL	0%	0%	0%	0%
Covered payroll (active plan members)	$ 1,568,285	N/A	N/A	N/A
UAAL as a percentage of covered payroll	55%	N/A	N/A	N/A

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

Component units

	Employee Group Plan	Local Government Group Plan
Actuarial valuation date	7/1/2013	7/1/2013
Actuarial accrued liability (AAL)	$ 369,470	$ 238
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$ 369,470	$ 238
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	$ 1,514,097	$ 22,584
UAAL as a percentage of covered payroll	24%	1%

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

Actuarial methods and assumptions

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

In the July 1, 2013, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent initially for the Employee Group plan and the Local Education Group plan. The rate decreases to 7 percent in fiscal year 2015, and then will reduce by decrements to an ultimate rate of 4.7 percent in fiscal year 2044. All rates include a 2.5 percent inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Plan

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

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

1. Retiree health plan—State plan

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

      All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2014, there were 6,849 retirees and disability participants enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The state insurance committee establishes premiums annually.

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

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

2. Retiree health plan—LEA plan

   a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 129 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, 2014, there were 5,174 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

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

   c. Contributions and reserves—An insurance committee created in accordance with *Tennessee Code Annotated* (TCA) 8-27-302, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as-you-go basis.

3. Retiree health plan—Local plan

   a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 56 counties, 148 municipalities, and 140 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, 2014, there were 115 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

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

   c. Contributions and reserves—An insurance committee created in accordance with *Tennessee Code Annotated* (TCA) 8-27-207, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Local Government Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree health plan—Medicare Supplement

   a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. 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, 2014, there were 28,261 retirees enrolled. The state insurance committee establishes premiums annually.

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

   c. Contributions and reserves—In accordance with *Tennessee Code Annotated* (TCA) 8-27-701, the state insurance committee establishes the contributions to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Employers contribute a fixed amount to retirees' premiums based on years of service; therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. This plan is funded on a pay-as-you-go basis.

5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay-as-you-go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The state covered an average of 558 former employees during fiscal year 2013-2014, and the State Plan paid approximately $6.29 million in benefits to this group.

F. **Pension plans**

1. Tennessee Consolidated Retirement System (TCRS) – TCRS is a defined benefit pension plan covering three large groups of public employees: (1) state employees, including higher education employees, (2) teachers employed by local agencies (LEAs), and (3) employees of political subdivisions. Legislation was enacted in 2014 that clarified the State of Tennessee is responsible for the pension obligations of state employees while LEAs are responsible for pension obligations of teachers. Each participating political subdivision is responsible for the pension obligation of their employees. Accordingly, the State of Tennessee is an agent pension plan in TCRS. LEAs participate in cost sharing plan in TCRS. Each participating political subdivision is an agent plan in TCRS. Assets are held in trust and can be expended only for the purposes of the trust.

   The TCRS issues a publicly available financial report that includes financial statements and required supplementary information. That report is available on the TCRS website at www.treasury.state.tn.us/ or by calling (615) 741-7063.

2. Defined Benefits Plan for State Employees – The departments, agencies, and higher education institutions of the State of Tennessee contribute on behalf of state employees to the TCRS. Benefit provisions are established by state statute in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). Pension benefit provisions are amended by the Tennessee General Assembly. The TCRS provides death, disability, and retirement benefits to plan members and beneficiaries. Members joining the plan after June 30, 1979, are vested with five years of service. Members joining the plan before July 1, 1979, are vested with four years of service. Benefits are determined by a formula using the member's highest five year average salary and years of service. Members joining TCRS before July 1, 2014, are eligible to retire at age 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. Beginning July 1, 2014, new members are enrolled in a retirement plan that consists of a defined benefit (DB) plan and a defined contribution (DC) plan. The new retirement plan is a separate agent plan within TCRS. Members of the retirement plan may retire from the DB plan under the rule of ninety (any combination of age and service that equals ninety) or at age 65 with five years of service. A reduced benefit is available under the rule of eighty or at age 60 with five years of service. Retirees are eligible for cost-of-living adjustments (COLA) 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, and a COLA equal to the CPI will be granted for CPI increases of more than one percent. However, the maximum COLA is capped at three percent each year.

Plan member and employer contributions are recognized in the period of time for which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

State employees joining TCRS before July 1, 2014, are noncontributory. State employees joining TCRS after June 30, 2014, contribute five percent of compensation to the DB plan. The employer contribution requirements are established and may be amended by the Board of Trustees of TCRS. The State of Tennessee is required to contribute at an actuarially determined rate; for employees joining TCRS before July 1, 2014, the current rate is 15.14% of annual covered payroll.

The departments and agencies of the State of Tennessee (Primary Government) contributed $289.648 million to TCRS on behalf of their employees for the year ending June 30, 2014, the amount equals to the required contribution. Similarly, the higher education institutions of the State of Tennessee (Component Units) contributed $120.904 million to TCRS on behalf of their employees for the year ending June 30, 2014, the amount equals to the required contribution.

Annual Pension Cost and Net Pension Obligation−*Primary Government*
(expressed in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 270,690	100%	$ 0
6/30/2013	276,283	100%	0
6/30/2014	289,648	100%	0

Annual Pension Cost and Net Pension Obligation−*Component Units*
(expressed in thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 112,197	100%	$ 0
6/30/2013	116,376	100%	0
6/30/2014	120,904	100%	0

3. <u>Defined contribution plan</u>

Optional Retirement Plan (ORP) – The ORP, 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. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $93.3 million for the year ended June 30, 2014. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The 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.

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

For state employees hired before July 1, 2014, the Section 401(k) and Section 457 plan assets remain the property of the contributing employees, therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2014, contributions totaling $149.9 million were made to the plans.

State employees hired after June 30, 2014, are automatically enrolled to contribute two percent of salary the state's 401(k) plan with the employer contributing an additional five percent to the plan. Employees will vest immediately to both the employee and employer contributions.

G. **Investment pool**

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

The Intermediate Term Investment Fund (ITIF) is an external investment pool sponsored by the State of Tennessee. All funds in the ITIF at June 30, 2014, consist of funds belonging to entities outside of the state's financial reporting entity, and have been included as a separate investment trust fund.

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

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 percent of their principal amounts. At June 30, 2014, TSAC was guarantor of $2.760 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. **Contingencies**

1. <u>Litigation</u>

   The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes which could result in future programmatic costs will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $139 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. Third party lawsuits may also affect future payments. The net effect of potential adjustments, and therefore the amount that Tennessee will actually receive each year from this settlement, remains uncertain.

One of the adjustments built into the agreement, the non-participating manufacturer (NPM) adjustment, can potentially reduce state MSA revenues for years in which participating manufacturers (PM) lose market share to the NPMs because of the MSA, and has been the subject of several years of hearings and review. The PMs and states previously settled NPM adjustments through 2002; however, NPM adjustments for 2003 and subsequent years resulted in PMs withholding of claimed NPM adjustment amounts from MSA payments through 2012. Most of these withholdings were deposited into a disputed payments account. In March 2013, a stipulated partial settlement and award was entered into by several of the original states, including Tennessee, which resolved with finality the settling parties' dispute concerning the 2003 NPM adjustment and certain subsequent years as to limited issues (including protection from any further downward adjustments in their MSA payments based on NPM adjustment disputes for the years 2003 through 2012).

3. Pollution remediation obligations

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

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

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

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

During the fiscal year, the state spent $3.8 million for remediation activities. At June 30, 2014, the state had a pollution remediation obligation of $99.7 million and an estimated potential recovery of $4.3 million from other responsible parties.

4. Federal grants

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

J. Subsequent events

Primary government

Subsequent to June 30, the state issued $25 million in general obligation commercial paper. In July 2014, the state issued 2014 Series A tax-exempt general obligation bonds in the amount of $111 million at a premium of $19.2 million and 2014 Series B tax-exempt general obligation bonds in the amount of $79.1 million at a premium of $16.3 million. 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 portions of 2008 Series A and 2009 Series C.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2014-2 in November 2014 in the amount of $150 million. The agency used mortgage prepayments and foreclosures proceeds to redeem $71.4 million of outstanding bonds in July 2014, $19.6 million in August 2014, $17.9 million in September 2014, $24.2 million in October 2014, $19.5 million in November 2014, and $22.8 million in December 2014.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $10 million in revolving credit facility. In August 2014, TSSBA issued 2014 Series A taxable bonds in the amount of $132.4 million at a discount of $51 thousand and 2014 Series B taxable bonds in the amount of $212.2 million at a premium of $41 million. The 2014 Series A was used to redeem commercial paper, refund 2005 Series A, 2007 Series B, and finance new construction projects. The Series B was used to refund 2006 Series A, 2007 Series A, 2008 Series A, 2008 Series B, 2009 Series A, and finance new construction projects.

REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

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

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

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

For the Period Ended	Maintenance Rating Index
June 30, 2014	88.90
June 30, 2013	88.10
June 30, 2012	88.90

BRIDGES

Measurement Scale
The state maintains information on its 8,339 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

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

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

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2014	84%
June 30, 2012	83%
June 30, 2010	82%

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

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

For the Period Ended June 30	Roadways Estimated	Roadways Actual	Bridges Estimated	Bridges Actual
2014	$ 419,214	$ 511,204	$ 37,945	$ 54,260
2013	391,114	441,582	33,404	42,175
2012	387,204	411,633	36,904	33,332
2011	376,965	482,271	36,904	11,044
2010	259,147	425,681	39,707	44,312
2009	374,003	405,453	40,217	46,815

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

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	Employee Grp	$ 0	$ 977,935	$ 977,935	0%	$ 1,560,085	63%
7/1/2011	Employee Grp	0	1,023,529	1,023,529	0%	1,613,128	63%
7/1/2013	Employee Grp	0	855,642	855,642	0%	1,568,285	55%
7/1/2010	Teacher Grp	0	215,202	215,202	0%	N/A	N/A
7/1/2011	Teacher Grp	0	216,600	216,600	0%	N/A	N/A
7/1/2013	Teacher Grp	0	294,798	294,798	0%	N/A	N/A
7/1/2010	MedSupp- State	0	209,622	209,622	0%	N/A	N/A
7/1/2011	MedSupp- State	0	220,509	220,509	0%	N/A	N/A
7/1/2013	MedSupp- State	0	154,051	154,051	0%	N/A	N/A
7/1/2010	MedSupp- Teacher	0	158,789	158,789	0%	N/A	N/A
7/1/2011	MedSupp- Teacher	0	163,305	163,305	0%	N/A	N/A
7/1/2013	MedSupp- Teacher	0	137,317	137,317	0%	N/A	N/A

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	Employee Grp	$ 0	$ 518,083	$ 518,083	0%	$ 1,362,560	38%
7/1/2011	Employee Grp	0	452,669	452,669	0%	1,445,364	31%
7/1/2013	Employee Grp	0	369,470	369,470	0%	1,514,097	24%
7/1/2010	Local Govt	0	2,166	2,166	0%	21,500	10%
7/1/2011	Local Govt	0	363	363	0%	21,458	2%
7/1/2013	Local Govt	0	238	238	0%	22,584	1%

Pension Schedule of Funding Progress—*Primary Government*
(expressed in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) −Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2009	$ 7,511	$ 8,702	$ 1,191	86%	$ 1,845	65%
2011	8,489	9,614	1,125	88%	1,760	64%
2013	8,695	9,726	1,031	89%	1,752	59%

Pension Schedule of Funding Progress—*Component Units*
(expressed in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) −Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2009	$ 2,792	$ 3,235	$ 443	86%	$ 686	65%
2011	3,241	3,670	429	88%	672	64%
2013	3,662	4,097	435	89%	738	59%

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 eight 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.

	2007	2008	2009	2010	2011	2012	2013	2014
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773	18,579	21,146	18,073	12,735
(2) Unallocated expenses	3,520	2,830	2,085	1,195	888	1,277	1,327	940
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	45,418	41,328	36,871	33,239	
(4) Net paid (cumulative) as of:								
End of policy year	6,591	34,095	36,859	45,389	41,378	34,206	30,914	
One year later	9,044	38,791	40,277	45,073	41,319	36,594		
Two years later	9,056	40,010	40,232	45,072	41,215			
Three years later	9,452	40,000	40,234	45,059				
Four years later	9,452	40,000	40,232					
Five years later	9,452	40,000						
Six years later	9,452							
(5) Reestimated net incurred claims and expenses:								
End of policy year	8,922	38,764	39,811	45,418	41,328	36,871	33,239	
One year later	8,975	38,715	40,276	45,066	41,217	36,585		
Two years later	9,051	40,010	40,232	45,066	41,217			
Three years later	9,452	40,000	40,232	45,066				
Four years later	9,452	40,000	40,232					
Five years later	9,452	40,000						
Six years later	9,452							
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	530	1,236	421	(352)	(111)	(286)		

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, 2014

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 7,400,600	$ 7,400,600	$ 7,078,773	$ (321,827)
Licenses, fines, fees, and permits	316,596	316,596	320,689	4,093
Interest on investments	2,010	2,010	11,536	9,526
Federal	10,377,308	10,596,389	9,464,501	(1,131,888)
Departmental services	1,536,663	1,792,149	1,697,844	(94,305)
Other	205,730	205,730	210,267	4,537
Total revenues	19,838,907	20,313,474	18,783,610	(1,529,864)
Expenditures:				
General government				
Legislative	81,589	81,590	38,163	43,427
Secretary of State	56,042	55,825	38,556	17,269
Comptroller	105,154	111,374	97,657	13,717
Treasurer	70,388	72,803	60,441	12,362
Governor	4,980	4,980	4,704	276
Commissions	77,358	78,121	65,363	12,758
Finance and Administration	168,083	165,510	92,174	73,336
General Services	51,791	51,641	25,860	25,781
Revenue	119,880	121,134	101,389	19,745
Other general government	1,492	1,493	16	1,477
Health and social services				
Veterans Affairs	8,033	8,768	7,521	1,247
Labor and Workforce Development	273,895	274,495	167,876	106,619
Mental Health	318,453	323,672	303,267	20,405
Intellectual Disabilities	209,597	215,795	199,812	15,983
Health	598,364	619,094	563,710	55,384
Tenncare	10,720,919	10,912,273	9,639,248	1,273,025
Human Services	3,058,322	3,107,832	2,880,185	227,647
Children in State Custody	669,257	784,371	731,991	52,380
Law, justice and public safety				
Judicial	328,855	331,288	310,185	21,103
Correction	951,671	932,761	878,563	54,198
Probation and Parole	7,587	7,587	7,102	485
Military	96,330	132,909	94,677	38,232
Bureau of Criminal Investigation	81,437	86,159	77,682	8,477
Safety	202,340	203,340	181,029	22,311
Recreation and resource development				
Agriculture	99,980	100,984	78,062	22,922
Tourist Development	28,950	28,950	24,258	4,692
Environment and Conservation	259,750	264,967	200,630	64,337
Economic and Community Development	556,843	616,370	226,577	389,793
Regulation of business and professions				
Commerce and Insurance	94,757	94,526	77,054	17,472
Financial Institutions	19,946	19,946	15,491	4,455
Intergovernmental revenue sharing	606,979	606,979	606,979	
Total expenditures	19,929,022	20,417,537	17,796,222	2,621,315
Excess (deficiency) of revenues over (under) expenditures	(90,115)	(104,063)	987,388	1,091,451
Other financing sources:				
Insurance claims recoveries		1,328	1,328	
Proceeds from pledge of future revenues		472	472	
Transfers in	98,234	98,234	98,234	
Transfers out	(1,529,684)	(1,530,770)	(1,530,770)	
Total other financing sources (uses)	(1,431,450)	(1,430,736)	(1,430,736)	
Net change in fund balance	(1,521,565)	(1,534,799)	(443,348)	1,091,451
Fund balances (budgetary basis), July 1	2,520,505	2,520,505	2,520,505	
Fund balances (budgetary basis), June 30	$ 998,940	$ 985,706	$ 2,077,157	$ 1,091,451

	Education Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 4,473,000	$ 4,473,000	$ 4,460,318	$ (12,682)
Licenses, fines, fees, and permits	1,800	1,800	1,516	(284)
Interest on investments	12,600	12,600	15,556	2,956
Federal	1,280,976	1,314,724	1,213,709	(101,015)
Departmental services	65,614	68,791	77,542	8,751
Other	330,200	330,200	384,402	54,202
Total revenues	6,164,190	6,201,115	6,153,043	(48,072)
Expenditures:				
Education	5,718,480	5,752,605	5,601,228	151,377
Higher education	1,599,796	1,596,520	1,573,826	22,694
Total expenditures	7,318,276	7,349,125	7,175,054	174,071
Excess (deficiency) of revenues over (under) expenditures	(1,154,086)	(1,148,010)	(1,022,011)	125,999
Other financing sources:				
Transfers in	1,102,900	1,102,900	1,102,900	
Total other financing sources	1,102,900	1,102,900	1,102,900	
Net change in fund balance	(51,186)	(45,110)	80,889	125,999
Fund balances (budgetary basis), July 1	463,396	463,396	463,396	
Fund balances (budgetary basis), June 30	$ 412,210	$ 418,286	$ 544,285	$ 125,999

	Highway Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 768,100	$ 768,100	$ 761,980	$ (6,120)
Licenses, fines, fees, and permits	225,790	225,790	220,418	(5,372)
Federal	965,327	3,815,083	1,022,817	(2,792,266)
Departmental services	37,764	111,193	46,963	(64,230)
Other	3,486	3,486	6,605	3,119
Total revenues	2,000,467	4,923,652	2,058,783	(2,864,869)
Expenditures:				
Transportation	2,128,518	5,051,703	1,753,581	3,298,122
Intergovernmental revenue sharing	288,000	288,000	290,333	(2,333)
Total expenditures	2,416,518	5,339,703	2,043,914	3,295,789
Excess (deficiency) of revenues over (under) expenditures	(416,051)	(416,051)	14,869	430,920
Other financing sources (uses):				
Bond authorization	81,000			
Transfers in		126,200	126,200	
Transfers out	(1,886)	(1,886)	(1,886)	
Total other financing sources (uses)	79,114	124,314	124,314	
Net change in fund balance	(336,937)	(291,737)	139,183	430,920
Fund balances (budgetary basis), July 1	341,194	341,194	341,194	
Fund balances (budgetary basis), June 30	$ 4,257	$ 49,457	$ 480,377	$ 430,920

State of Tennessee
Required Supplementary Information
Note to RSI
For the Fiscal Year Ended June 30, 2014

Budgetary process

The law requires the Governor to submit a recommended budget to the General Assembly annually. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the departments in the general fund and the special revenue funds (except Fraud and Economic Crime and Agricultural Promotion Boards), and for the debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state's financial plan for the coming year.

Budgetary control is maintained at the 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.

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $480.4 million fund balance remaining in the highway fund, $471.1 million will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2014. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $23.1 million were required.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2014

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 307,482	$ 1,135	$ 52,732	$ 361,349
Investments			284,514	284,514
Receivables:				
Taxes	6,796	5,495	12	12,303
Due from other governments	10,623			10,623
Interest			1,990	1,990
Other	525			525
Due from component units			972	972
Loans receivable		10,382		10,382
Total assets	$ 325,426	$ 17,012	$ 340,220	$ 682,658
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable and accruals	$ 53,150	$ 170		$ 53,320
Due to other funds	392		$ 70	462
Due to component units	212		2,158	2,370
Unearned revenue	14			14
Total liabilities	53,768	170	2,228	56,166
Deferred inflows of resources		11,058		11,058
Fund balances:				
Nonspendable:				
Permanent fund corpus			143,748	143,748
Restricted	164,633		194,244	358,877
Committed	107,025			107,025
Assigned		5,784		5,784
Total fund balances	271,658	5,784	337,992	615,434
Total liabilities, deferred inflows of resources and fund balances	$ 325,426	$ 17,012	$ 340,220	$ 682,658

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, 2014

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales		$ 51,634		$ 51,634
Fuel	$ 18,254	110,000		128,254
Business	529	247,866		248,395
Other	33,340			33,340
Licenses, fines, fees, and permits	179,184	2,700	$ 2,651	184,535
Investment income	252		39,773	40,025
Federal	43,449			43,449
Departmental services	10,394	1,300		11,694
Other	13		3	16
Total revenues	285,415	413,500	42,427	741,342
Expenditures				
Current:				
General government	29,484			29,484
Education			7,390	7,390
Law, justice and public safety	5,790			5,790
Recreation and resources development	181,975		24	181,999
Regulation of business and professions	72,693			72,693
Debt service:				
Bond principal retirement		141,243		141,243
Bond interest		74,926		74,926
Commercial paper interest		229		229
Debt issuance costs		1,452		1,452
Total expenditures	289,942	217,850	7,414	515,206
Excess (deficiency) of revenues over (under) expenditures	(4,527)	195,650	35,013	226,136
Other financing sources (uses)				
Insurance claims recoveries	7			7
Transfers in	2,852	3,837	400	7,089
Transfers out	(11,655)	(218,883)		(230,538)
Total other financing sources (uses)	(8,796)	(215,046)	400	(223,442)
Net changes in fund balances	(13,323)	(19,396)	35,413	2,694
Fund balances, July 1	284,981	25,180	302,579	612,740
Fund balances, June 30	$ 271,658	$ 5,784	$ 337,992	$ 615,434

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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, 2014

(Expressed in Thousands)

	Debt Service Fund		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes	$ 409,500	$ 409,500	
Licenses, fines, fees, and permits	2,700	2,700	
Other	1,300	1,300	
Total revenues	413,500	413,500	
Expenditures:			
Debt Service	223,441	217,850	$ 5,591
Total expenditures	223,441	217,850	5,591
Excess (deficiency) of revenues over (under) expenditures	190,059	195,650	5,591
Other financing sources (uses):			
Transfers in	3,837	3,837	
Transfers out	(218,883)	(218,883)	
Total other financing sources (uses)	(215,046)	(215,046)	
Net change in fund balance	(24,987)	(19,396)	5,591
Fund balances (budgetary basis), July 1	25,180	25,180	
Fund balances (budgetary basis), June 30	$ 193	$ 5,784	$ 5,591

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2014

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection
Assets					
Cash and cash equivalents	$ 59,436	$ 11,012	$ 9,320	$ 32,712	$ 26,004
Receivables:					
Taxes	1,055	541	1,721		
Due from other governments	4,262	4,937		1	
Other	317		1	59	
Total assets	$ 65,070	$ 16,490	$ 11,042	$ 32,772	$ 26,004
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 4,159	$ 8,489	$ 3,679	$ 31,266	$ 11
Due to other funds	254	57	7		
Due to component units	184				
Unearned revenue					
Total liabilities	4,597	8,546	3,686	31,266	11
Fund balances:					
Restricted	45,220			1,506	
Committed	15,253	7,944	7,356		25,993
Total fund balances	60,473	7,944	7,356	1,506	25,993
Total liabilities and fund balances	$ 65,070	$ 16,490	$ 11,042	$ 32,772	$ 26,004

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
$ 7,531	$ 21,420	$ 2,912	$ 47,342	$ 71,359	$ 929	$ 3,195
	994		1,542	426	59	
57	836		165			
		6				
$ 7,588	$ 23,250	$ 2,918	$ 49,049	$ 71,785	$ 988	$ 3,195
$ 186	$ 620	$ 34	$ 1,489	$ 2,692	$ 10	$ 50
17			24	4	1	
28						
		13				
231	620	47	1,513	2,696	11	50
48		2,871	46,660	65,836		2,492
7,309	22,630		876	3,253	977	653
7,357	22,630	2,871	47,536	69,089	977	3,145
$ 7,588	$ 23,250	$ 2,918	$ 49,049	$ 71,785	$ 988	$ 3,195

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2014

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund
Assets					
Cash and cash equivalents	$ 3,030	$ 543	$ 245	$ 1,229	$ 1,953
Receivables:					
Taxes	458				
Due from other governments					
Other			139		
Total assets	$ 3,488	$ 543	$ 384	$ 1,229	$ 1,953
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 36	$ 38	$ 25	$ 125	
Due to other funds		5		1	
Due to component units					
Unearned revenue					
Total liabilities	36	43	25	126	
Fund balances:					
Restricted					
Committed	3,452	500	359	1,103	$ 1,953
Total fund balances	3,452	500	359	1,103	1,953
Total liabilities and fund balances	$ 3,488	$ 543	$ 384	$ 1,229	$ 1,953

Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 4,420	$ 2,890	$ 307,482
		6,796
365		10,623
3		525
$ 4,788	$ 2,890	$ 325,426
$ 241		$ 53,150
22		392
		212
1		14
264		53,768
		164,633
4,524	$ 2,890	107,025
4,524	2,890	271,658
$ 4,788	$ 2,890	$ 325,426

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection
Revenues					
Taxes:					
Fuel	$ 530				
Business	529				
Other	10,247		$ 6,976		
Licenses, fines, fees, and permits	38,891	$ 8,641	5,340		$ 41,315
Interest on investments	55	9	14	$ 1	25
Federal	26,130	4,937		6,036	
Departmental services	6,749		131		
Other		7			
Total revenues	83,131	13,594	12,461	6,037	41,340
Expenditures					
General government		15,407		6,319	
Law, justice and public safety					
Recreation and resources development	84,397		10,915		38,920
Regulation of business and professions					
Total expenditures	84,397	15,407	10,915	6,319	38,920
Excess (deficiency) of revenues over (under) expenditures	(1,266)	(1,813)	1,546	(282)	2,420
Other financing sources (uses)					
Insurance claims recoveries	7				
Transfers in	1,403			220	229
Transfers out	(361)		(7,662)		(2,100)
Total other financing sources (uses)	1,049		(7,662)	220	(1,871)
Net change in fund balances	(217)	(1,813)	(6,116)	(62)	549
Fund balances, July 1	60,690	9,757	13,472	1,568	25,444
Fund balances, June 30	$ 60,473	$ 7,944	$ 7,356	$ 1,506	$ 25,993

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
			$ 17,724			
	$ 10,247					
$ 252		$ 4,667	2,172	$ 65,152	$ 696	$ 28
7	18	3	43	68		3
1,275	836		2,910			523
3,414	21	16	3			25
		6				
4,948	11,122	4,692	22,852	65,220	696	579
		4,670			540	
6,658	8,259		23,974			74
				72,693		
6,658	8,259	4,670	23,974	72,693	540	74
(1,710)	2,863	22	(1,122)	(7,473)	156	505
1,000						
1,000						
(710)	2,863	22	(1,122)	(7,473)	156	505
8,067	19,767	2,849	48,658	76,562	821	2,640
$ 7,357	$ 22,630	$ 2,871	$ 47,536	$ 69,089	$ 977	$ 3,145

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, 2014

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund
Revenues					
Taxes:					
Fuel					
Business					
Other	$ 4,729		$ 1,141		
Licenses, fines, fees, and permits		$ 1,656		$ 884	$ 3,442
Interest on investments	2			1	2
Federal					
Departmental services		4	6		
Other					
Total revenues	4,731	1,660	1,147	885	3,444
Expenditures					
General government		1,543			
Law, justice and public safety					
Recreation and resources development	3,178		972	1,157	3,471
Regulation of business and professions					
Total expenditures	3,178	1,543	972	1,157	3,471
Excess (deficiency) of revenues over (under) expenditures	1,553	117	175	(272)	(27)
Other financing sources (uses)					
Insurance claims recoveries					
Transfers in					
Transfers out		(1,532)			
Total other financing sources (uses)		(1,532)			
Net change in fund balances	1,553	(1,415)	175	(272)	(27)
Fund balances, July 1	1,899	1,915	184	1,375	1,980
Fund balances, June 30	$ 3,452	$ 500	$ 359	$ 1,103	$ 1,953

Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
		$ 18,254
		529
		33,340
$ 5,314	$ 734	179,184
	1	252
802		43,449
25		10,394
		13
6,141	735	285,415
6,215		29,484
	580	5,790
		181,975
		72,693
6,215	580	289,942
(74)	155	(4,527)
		7
		2,852
		(11,655)
		(8,796)
(74)	155	(13,323)
4,598	2,735	284,981
$ 4,524	$ 2,890	$ 271,658

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, 2014

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 7,697	$ 11,306	$ 3,609
Licenses, fines, fees, and permits	49,271	38,891	(10,380)
Interest on investments		55	55
Federal	26,618	26,130	(488)
Departmental services	1,581	6,749	5,168
Other	9,561		(9,561)
Total revenues	94,728	83,131	(11,597)
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	105,064	84,397	20,667
Commerce and Insurance			
Revenue			
Total expenditures	105,064	84,397	20,667
Excess (deficiency) of revenues over (under) expenditures	(10,336)	(1,266)	9,070
Other financing sources (uses):			
Transfers in	1,410	1,410	
Transfers out	(361)	(361)	
Total other financing sources (uses)	1,049	1,049	
Net change in fund balance	(9,287)	(217)	9,070
Fund balances (budgetary basis), July 1	60,690	60,690	
Fund balances (budgetary basis), June 30	$ 51,403	$ 60,473	$ 9,070

(continued on next page)

	Criminal Injuries Compensation			Solid Waste		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
				$ 6,759	$ 6,976	$ 217
	$ 11,163	$ 8,641	$ (2,522)	5,645	5,340	(305)
		9	9		14	14
	4,930	4,937	7			
				1	131	130
	7	7				
	16,100	13,594	(2,506)	12,405	12,461	56
	16,100	15,407	693			
				12,405	10,915	1,490
	16,100	15,407	693	12,405	10,915	1,490
		(1,813)	(1,813)		1,546	1,546
				(7,662)	(7,662)	
				(7,662)	(7,662)	
		(1,813)	(1,813)	(7,662)	(6,116)	1,546
	9,757	9,757		13,472	13,472	
	$ 9,757	$ 7,944	$ (1,813)	$ 5,810	$ 7,356	$ 1,546

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, 2014

(Expressed in Thousands)

	Help America Vote		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		$ 1	$ 1
Federal	$ 26,500	6,036	(20,464)
Departmental services			
Other			
Total revenues	26,500	6,037	(20,463)
Expenditures:			
Judicial			
Secretary of State	27,720	6,319	21,401
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	27,720	6,319	21,401
Excess (deficiency) of revenues over (under) expenditures	(1,220)	(282)	938
Other financing sources (uses):			
Transfers in	220	220	
Transfers out			
Total other financing sources (uses)	220	220	
Net change in fund balance	(1,000)	(62)	938
Fund balances (budgetary basis), July 1	1,568	1,568	
Fund balances (budgetary basis), June 30	$ 568	$ 1,506	$ 938

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 53,156	$ 41,315	$ (11,841)		$ 252	$ 252
	25	25		7	7
			$ 1,891	1,275	(616)
			3,581	3,414	(167)
			1		(1)
53,156	41,340	(11,816)	5,473	4,948	(525)
53,386	38,920	14,466	11,764	6,658	5,106
53,386	38,920	14,466	11,764	6,658	5,106
(230)	2,420	2,650	(6,291)	(1,710)	4,581
229	229		1,000	1,000	
(2,100)	(2,100)				
(1,871)	(1,871)		1,000	1,000	
(2,101)	549	2,650	(5,291)	(710)	4,581
25,444	25,444		8,067	8,067	
$ 23,343	$ 25,993	$ 2,650	$ 2,776	$ 7,357	$ 4,581

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Parks Acquisition		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes	$ 6,931	$ 10,247	$ 3,316
Licenses, fines, fees, and permits			
Interest on investments		18	18
Federal		836	836
Departmental services		21	21
Other			
Total revenues	6,931	11,122	4,191
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation	10,656	8,259	2,397
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	10,656	8,259	2,397
Excess (deficiency) of revenues over (under) expenditures	(3,725)	2,863	6,588
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(3,725)	2,863	6,588
Fund balances (budgetary basis), July 1	19,767	19,767	
Fund balances (budgetary basis), June 30	$ 16,042	$ 22,630	$ 6,588

(continued on next page)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 18,500	$ 17,724	$ (776)
$ 4,483	$ 4,667	$ 184	4,881	2,172	(2,709)
	3	3		43	43
			1,974	2,910	936
	16	16		3	3
	6	6			
4,483	4,692	209	25,355	22,852	(2,503)
5,136	4,670	466			
			25,355	23,974	1,381
5,136	4,670	466	25,355	23,974	1,381
(653)	22	675		(1,122)	(1,122)
(653)	22	675		(1,122)	(1,122)
2,849	2,849		48,658	48,658	
$ 2,196	$ 2,871	$ 675	$ 48,658	$ 47,536	$ (1,122)

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, 2014

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 63,195	$ 65,152	$ 1,957
Interest on investments		68	68
Federal			
Departmental services			
Other			
Total revenues	63,195	65,220	2,025
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance	75,006	72,693	2,313
Revenue			
Total expenditures	75,006	72,693	2,313
Excess (deficiency) of revenues over (under) expenditures	(11,811)	(7,473)	4,338
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(11,811)	(7,473)	4,338
Fund balances (budgetary basis), July 1	76,562	76,562	
Fund balances (budgetary basis), June 30	$ 64,751	$ 69,089	$ 4,338

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 800	$ 696	$ (104)	$ 500	$ 28	$ (472)
				3	3
				523	523
				25	25
800	696	(104)	500	579	79
800	540	260			
			500	74	426
800	540	260	500	74	426
	156	156		505	505
	156	156		505	505
821	821		2,640	2,640	
$ 821	$ 977	$ 156	$ 2,640	$ 3,145	$ 505

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, 2014

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 3,188	$ 4,729	$ 1,541
Licenses, fines, fees, and permits			
Interest on investments		2	2
Federal			
Departmental services			
Other			
Total revenues	3,188	4,731	1,543
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,588	3,178	410
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	3,588	3,178	410
Excess (deficiency) of revenues over (under) expenditures	(400)	1,553	1,953
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(400)	1,553	1,953
Fund balances (budgetary basis), July 1	1,899	1,899	
Fund balances (budgetary basis), June 30	$ 1,499	$ 3,452	$ 1,953

(continued on next page)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,615	$ 1,656	$ 41	$ 1,897	$ 884	$ (1,013)
				1	1
	4	4			
1,615	1,660	45	1,897	885	(1,012)
			1,897	1,157	740
1,615	1,543	72			
1,615	1,543	72	1,897	1,157	740
	117	117		(272)	(272)
(1,532)	(1,532)				
(1,532)	(1,532)				
(1,532)	(1,415)	117		(272)	(272)
1,915	1,915		1,375	1,375	
$ 383	$ 500	$ 117	$ 1,375	$ 1,103	$ (272)

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, 2014

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 3,039	$ 3,442	$ 403
Interest on investments		2	2
Federal			
Departmental services	120		(120)
Other			
Total revenues	3,159	3,444	285
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,589	3,471	118
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	3,589	3,471	118
Excess (deficiency) of revenues over (under) expenditures	(430)	(27)	403
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(430)	(27)	403
Fund balances (budgetary basis), July 1	1,980	1,980	
Fund balances (budgetary basis), June 30	$ 1,550	$ 1,953	$ 403

Tennessee Regulatory Authority			**Total Nonmajor Special Revenue Funds**		
Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**	**Budget**	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
			$ 43,075	$ 50,982	$ 7,907
$ 6,321	$ 5,314	$ (1,007)	205,966	178,450	(27,516)
				251	251
776	802	26	62,689	43,449	(19,240)
1	25	24	5,284	10,388	5,104
			9,569	13	(9,556)
7,098	6,141	(957)	326,583	283,533	(43,050)
			5,136	4,670	466
			27,720	6,319	21,401
			16,100	15,407	693
7,098	6,215	883	7,098	6,215	883
			800	540	260
			7,177	6,649	528
			115,963	89,957	26,006
			105,064	84,397	20,667
			75,006	72,693	2,313
			1,615	1,543	72
7,098	6,215	883	361,679	288,390	73,289
	(74)	(74)	(35,096)	(4,857)	30,239
			2,859	2,859	
			(11,655)	(11,655)	
			(8,796)	(8,796)	
	(74)	(74)	(43,892)	(13,653)	30,239
4,598	4,598		282,062	282,062	
$ 4,598	$ 4,524	$ (74)	$ 238,170	$ 268,409	$ 30,239

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PERMANENT FUNDS

Chairs of Excellence Fund—This fund was created by the General Assembly in 1986. Its purpose is to endow faculty chairs at the Tennessee Board of Regents and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

Other—This column includes various smaller funds in which legal restrictions require that the principal remain intact and only the earnings may be spent.

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2014

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Assets			
Cash and cash equivalents	$ 9,306	$ 43,426	$ 52,732
Investments	284,514		284,514
Receivables:			
Taxes		12	12
Interest	1,990		1,990
Due from component units	972		972
Total assets	$ 296,782	$ 43,438	$ 340,220
Liabilities and fund balances			
Liabilities:			
Due to other funds	$ 70		$ 70
Due to component units	2,158		2,158
Total liabilities	2,228		2,228
Fund balances:			
Nonspendable			
Permanent fund corpus	100,358	43,390	143,748
Restricted	194,196	48	194,244
Total fund balances	294,554	43,438	337,992
Total liabilities and fund balances	$ 296,782	$ 43,438	$ 340,220

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Revenues			
Licenses, fines, fees and permits		$ 2,651	$ 2,651
Investment income	$ 39,735	38	39,773
Other	2	1	3
Total revenues	39,737	2,690	42,427
Expenditures			
Education	7,390		7,390
Recreation and resources development		24	24
Total expenditures	7,390	24	7,414
Excess of revenues over expenditures	32,347	2,666	35,013
Other financing sources (uses)			
Transfers in	400		400
Total other financing sources (uses)	400		400
Net change in fund balances	32,747	2,666	35,413
Fund balances, July 1	261,807	40,772	302,579
Fund balances, June 30	$ 294,554	$ 43,438	$ 337,992

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NONMAJOR ENTERPRISE FUNDS

The Enterprise Funds are used to account for the operations of state agencies that provide goods or services to the general public on a user charge basis. The state's nonmajor enterprise operations are described below.

Energy Loan Program—Created in 1988, this program makes loans to small businesses and local governments to improve energy efficiency.

Teacher Group Insurance—Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of currently employed teachers of political subdivisions of the state who have elected coverage under a group medical plan similar to that offered state employees.

Local Government Group Insurance—Established in July 1991, this fund is used to account for revenues received and claims paid on behalf of active employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on the behalf of state and local governments. This plan is similar to the plan offered to state employees.

Drinking Water Loan—Created in 1998, this fund provides loans to local governments and utility districts for the improvement of drinking water systems. The initial sources of the monies are federal grants and state appropriations.

Grain Indemnity—This program is administered by the Department of Agriculture. Revenues are collected from fees on grain sold by producers. These revenues are to be used to protect commodity producers in the event of the financial failure of a commodity dealer or warehouseman.

Energy Efficient Schools Initiative—Created to award grants and loans to local school systems for capital outlay projects which meet established energy efficient design and technology guidelines for school facilities.

Client Protection—Created by the Tennessee Supreme Court, this fund provides services to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

State of Tennessee
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2014

(Expressed in Thousands)

Assets	**Energy Loan Program**	**Teacher Group Insurance**	**Local Government Group Insurance**	**Drinking Water**
Current assets:				
Cash and cash equivalents	$ 18,277	$ 186,746	$ 34,794	$ 72,503
Receivables:				
Accounts receivable		3,800	709	
Loans receivable	1,245			5,451
Total current assets	19,522	190,546	35,503	77,954
Noncurrent assets:				
Loans receivable	648			85,037
Total noncurrent assets	648			85,037
Total assets	20,170	190,546	35,503	162,991
Liabilities				
Current liabilities:				
Accounts payable and accruals		28,101	6,220	2
Unearned revenue		56	17	
Total current liabilities		28,157	6,237	2
Noncurrent liabilities:				
Other noncurrent liabilities				2,324
Total noncurrent liabilities				2,324
Total liabilities		28,157	6,237	2,326
Net position				
Unrestricted	20,170	162,389	29,266	160,665
Total net position	$ 20,170	$ 162,389	$ 29,266	$ 160,665

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 4,188	$ 13,817	$ 2,350	$ 332,675
			4,509
	6,438		13,134
4,188	20,255	2,350	350,318
	49,254		134,939
	49,254		134,939
4,188	69,509	2,350	485,257
			34,323
	17		90
	17		34,413
			2,324
			2,324
	17		36,737
4,188	69,492	2,350	448,520
$ 4,188	$ 69,492	$ 2,350	$ 448,520

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services				$ 1,666
Investment income	$ 38			58
Premiums		$ 487,995	$ 108,811	
Total operating revenues	38	487,995	108,811	1,724
Operating expenses				
Contractual services		25,776	5,916	199
Benefits		410,325	94,246	
Other	21	4,055	729	
Total operating expenses	21	440,156	100,891	199
Operating income (loss)	17	47,839	7,920	1,525
Nonoperating revenues (expenses)				
Operating grants	1,132			2,536
Interest income		118	23	
Other				(1,164)
Total nonoperating revenues (expenses)	1,132	118	23	1,372
Income (loss) before transfers	1,149	47,957	7,943	2,897
Transfers in				1,811
Transfers out	(3,654)			
Change in net position	(2,505)	47,957	7,943	4,708
Net position, July 1	22,675	114,432	21,323	155,957
Net position, June 30	$ 20,170	$ 162,389	$ 29,266	$ 160,665

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,403	$ 376	$ 221	$ 3,666
			96
			596,806
1,403	376	221	600,568
	60	74	32,025
			504,571
158		2	4,965
158	60	76	541,561
1,245	316	145	59,007
	2,519		6,187
3	9	2	155
			(1,164)
3	2,528	2	5,178
1,248	2,844	147	64,185
			1,811
			(3,654)
1,248	2,844	147	62,342
2,940	66,648	2,203	386,178
$ 4,188	$ 69,492	$ 2,350	$ 448,520

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Cash flows from operating activities				
Receipts from customers and users		$ 495,103	$ 110,733	
Payments to suppliers		(446,688)	(102,923)	
Payments to employees				
Payments for interfund services used		(3,726)	(669)	$ (199)
Net cash from (used for) operating activities		44,689	7,141	(199)
Cash flows from noncapital financing activities				
Operating grants received	$ 1,132			2,536
Transfers in				1,811
Transfers out	(3,654)			
Net cash from (used for) noncapital financing activities	(2,522)			4,347
Cash flows from investing activities				
Loans issued and other disbursements to borrowers				(6,719)
Collection of loan principal	1,719			10,492
Interest received	38	118	23	1,726
Net cash from (used for) investing activities	1,757	118	23	5,499
Net increase (decrease) in cash and cash equivalents	(765)	44,807	7,164	9,647
Cash and cash equivalents, July 1	19,042	141,939	27,630	62,856
Cash and cash equivalents, June 30	$ 18,277	$ 186,746	$ 34,794	$ 72,503
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ 17	$ 47,839	$ 7,920	$ 1,525
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(38)			(1,724)
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	21	(94)	94	
Increase (decrease) in accounts payable		(2,927)	(856)	
Increase (decrease) in unearned revenue		(129)	(17)	
Total adjustments	(17)	(3,150)	(779)	(1,724)
Net cash provided by (used for) operating activities	$	$ 44,689	$ 7,141	$ (199)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,403	$ 30	$ 221	$ 607,490
(158)		(74)	(549,843)
		(2)	(2)
	(60)		(4,654)
1,245	(30)	145	52,991
	2,519		6,187
			1,811
			(3,654)
	2,519		4,344
	(2,519)		(9,238)
	6,113		18,324
3	340	2	2,250
3	3,934	2	11,336
1,248	6,423	147	68,671
2,940	7,394	2,203	264,004
$ 4,188	$ 13,817	$ 2,350	$ 332,675
$ 1,245	$ 316	$ 145	$ 59,007
	(346)		(2,108)
			21
			(3,783)
			(146)
	(346)		(6,016)
$ 1,245	$ (30)	$ 145	$ 52,991

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INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the operations of state agencies that provide goods or services to other state agencies on a cost-reimbursement basis. The following operations are included in these funds:

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 of office supplies and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

Records Management—A division of the Secretary of State, is responsible for the retention and disposal of official records for state government.

Human Resources—This fund's responsibilities include providing departments with applicants for employment, providing training to state employees, and administering the Sick Leave Bank.

Division of Accounts—A division of the Department of Finance and Administration, is responsible for the centralized accounting function for the state.

TRICOR (Tennessee Rehabilitative Initiative in Correction)—Manages correctional industry, agriculture, food, and service operations. Its purpose is to employ and train inmates and provide products and services to state agencies, local governments, and not for profit organizations.

Edison—Maintained by the Department of Finance and Administration's Enterprise Resource Planning division, is the state's integrated software package for administrative business functions such as financials and accounting, procurement, payroll, benefits, and personnel administration.

State of Tennessee
Combining Statement of Net Position
Internal Service Funds
June 30, 2014

(Expressed in Thousands)

Assets	**Office for Information Resources**	**Risk Management**	**Motor Vehicle Management**	**General Services Printing**	**Facilities Revolving Fund**	**Employee Group Insurance**	**Postal Services**
Current assets:							
Cash and cash equivalents	$ 124,113	$ 116,276	$ 45,270	$ 1,411	$ 301,430	$ 275,157	
Accounts receivable	391	13	12	15	977	5,337	
Due from other funds	493						
Due from component units				4			
Inventories, at cost	911			119			$ 256
Prepayments							322
Total current assets	125,908	116,289	45,282	1,549	302,407	280,494	578
Noncurrent assets:							
Accounts receivable		10,055					
Due from other funds	1,376						
Net investment in capital leases					10,982		
Capital assets:							
Land, at cost					59,396		
Structures and improvements, at cost					528,166		
Machinery and equipment, at cost	95,755		146,195	4,361	147		5,865
Less-accumulated depreciation	(75,038)		(90,806)	(3,810)	(261,663)		(3,454)
Construction in progress					119		
Total capital assets, net of accumulated depreciation	20,717		55,389	551	326,165		2,411
Total noncurrent assets	22,093	10,055	55,389	551	337,147		2,411
Total assets	148,001	126,344	100,671	2,100	639,554	280,494	2,989
Deferred outflows of resources					7,993		
Liabilities							
Current liabilities:							
Accounts payable	9,949	810	3,669	236	9,724	49,412	111
Accrued payroll and related deductions	2,279		97	181			90
Due to other funds	223	7	6	12	610		29
Due to component units	46	254					
Lease obligations payable					407		
Bonds payable					15,957		
Unearned revenue		8			5,000	41,666	
Other		33,594					
Total current liabilities	12,497	34,673	3,772	429	31,698	91,078	230
Noncurrent liabilities:							
Lease obligations payable					8,728		
Commercial paper payable					38,030		
Bonds payable, net					160,406		
Other noncurrent liabilities	4,818	108,951	388	520			642
Total noncurrent liabilities	4,818	108,951	388	520	207,164		642
Total liabilities	17,315	143,624	4,160	949	238,862	91,078	872
Net position							
Net investment in capital assets	20,717		55,389	551	110,630		2,411
Restricted for capital projects					17,997		
Unrestricted	109,969	(17,280)	41,122	600	280,058	189,416	(294)
Total net position	$ 130,686	$ (17,280)	$ 96,511	$ 1,151	$ 408,685	$ 189,416	$ 2,117

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 8,728	$ 686	$ 417	$ 17,791	$ 6,941	$ 10,180	$ 14,107	$ 922,507
1	60			2	646	1	7,455
							493
	6						10
	614				4,443		6,343
							322
8,729	1,366	417	17,791	6,943	15,269	14,108	937,130
							10,055
							1,376
							10,982
					961		60,357
					17,735		545,901
	99		144	147	13,974	107,708	374,395
	(47)		(133)	(116)	(19,122)	(59,087)	(513,276)
							119
	52		11	31	13,548	48,621	467,496
	52		11	31	13,548	48,621	489,909
8,729	1,418	417	17,802	6,974	28,817	62,729	1,427,039
							7,993
15	121	26	107	6	3,152	141	77,479
360	77	7	581	677	512	710	5,571
25	6		50	59	65	42	1,134
			41		5		346
							407
							15,957
							46,674
							33,594
400	204	33	779	742	3,734	893	181,162
							8,728
						21,900	59,930
							160,406
407	465	128	611	987	1,395	1,432	120,744
407	465	128	611	987	1,395	23,332	349,808
807	669	161	1,390	1,729	5,129	24,225	530,970
	52		11	31	13,548	26,721	230,061
							17,997
7,922	697	256	16,401	5,214	10,140	11,783	656,004
$ 7,922	$ 749	$ 256	$ 16,412	$ 5,245	$ 23,688	$ 38,504	$ 904,062

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Operating revenues							
Charges for services	$ 142,461	$ 58,026	$ 42,788	$ 7,077	$ 131,736		$ 18,392
Premiums						$ 727,928	
Other						600	
Total operating revenues	142,461	58,026	42,788	7,077	131,736	728,528	18,392
Operating expenses							
Personal services	30,278		1,534	2,827			1,595
Contractual services	92,063	9,390	6,433	2,216	156,806	37,192	2,535
Materials and supplies	16,400		20,821	1,336	2,291		14,549
Rentals and insurance	36	5,457	4,383	40	38,084		3
Depreciation and amortization	11,038		11,173	106	12,359		540
Benefits		81,821				648,627	
Other	1,633		1,382	5	120	6,305	
Total operating expenses	151,448	96,668	45,726	6,530	209,660	692,124	19,222
Operating income (loss)	(8,987)	(38,642)	(2,938)	547	(77,924)	36,404	(830)
Nonoperating revenues (expenses)							
Taxes		3					
Operating grants		(641)					
Insurance claims recoveries			219				
Gain on sale of capital assets					9,154		
Grant expense					(9,003)		
Interest income		85			205	198	
Interest expense					(8,428)		
Total nonoperating revenues (expenses)		(553)	219		(8,072)	198	
Income (loss) before contributions and transfers	(8,987)	(39,195)	(2,719)	547	(85,996)	36,602	(830)
Capital contributions			944	39			
Transfers in	15,742		4,513	315	170,886		613
Transfers out					(39)		
Change in net position	6,755	(39,195)	2,738	901	84,851	36,602	(217)
Net position, July 1	123,931	21,915	93,773	250	323,834	152,814	2,334
Net position, June 30	$ 130,686	$ (17,280)	$ 96,511	$ 1,151	$ 408,685	$ 189,416	$ 2,117

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 8,378	$ 3,690	$ 797	$ 14,831	$ 12,023	$ 44,477	$ 30,550	$ 515,226
							727,928
							600
8,378	3,690	797	14,831	12,023	44,477	30,550	1,243,754
5,223	1,405	401	10,671	9,763	8,474	8,374	80,545
2,729	1,185	366	2,262	2,423	10,028	7,661	333,289
90	1,016	13	197	49	23,459	1,396	81,617
10	7	1	44	10	875	275	49,225
	17		3	3	1,055	11,744	48,038
							730,448
14	5	1	128	19	302	12	9,926
8,066	3,635	782	13,305	12,267	44,193	29,462	1,333,088
312	55	15	1,526	(244)	284	1,088	(89,334)
							3
							(641)
							219
							9,154
							(9,003)
							488
						(28)	(8,456)
						(28)	(8,236)
312	55	15	1,526	(244)	284	1,060	(97,570)
							983
2,175		150		1,800			196,194
							(39)
2,487	55	165	1,526	1,556	284	1,060	99,568
5,435	694	91	14,886	3,689	23,404	37,444	804,494
$ 7,922	$ 749	$ 256	$ 16,412	$ 5,245	$ 23,688	$ 38,504	$ 904,062

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Cash flows from operating activities							
Receipts from customers and users	$ 2,752	$ 16,215	$ 791	$ 67	$ 5,253	$ 350,758	$ 231
Receipts from interfund services provided	138,049	41,797	42,027	6,995	126,497	411,719	18,161
Payments to suppliers	(98,033)	(43,338)	(27,957)	(2,410)	(176,260)	(713,209)	(15,449)
Payments to employees	(29,894)		(1,513)	(2,775)			(1,561)
Payments for interfund services used	(11,538)	(6,989)	(6,301)	(1,091)	(24,579)	(5,418)	(1,772)
Net cash from (used for) operating activities	1,336	7,685	7,047	786	(69,089)	43,850	(390)
Cash flows from noncapital financing activities							
Negative cash balance implicitly repaid							23
Transfers in	15,742		4,513	315	170,886		
Tax revenues received		3					
Net cash from (used for) noncapital financing activities	15,742	3	4,513	315	170,886		23
Cash flows from capital and related financing activities							
Purchase of capital assets	(7,178)		(14,864)		(20)		(1,683)
Commercial paper proceeds					23,718		
Proceeds from sale of capital assets			2,202		19,212		
Insurance claims recoveries			219				
Principal payments					(19,422)		
Interest paid					(7,946)		
Capital contributions			421		5,000		
Net cash from (used for) capital and related financing activities	(7,178)		(12,022)		20,542		(1,683)
Cash flows from investing activities							
Interest received		85			205	198	
Net cash from (used for) investing activities		85			205	198	
Net increase (decrease) in cash and cash equivalents	9,900	7,773	(462)	1,101	122,544	44,048	(2,050)
Cash and cash equivalents, July 1	114,213	108,503	45,732	310	178,886	231,109	2,050
Cash and cash equivalents, June 30	$ 124,113	$ 116,276	$ 45,270	$ 1,411	$ 301,430	$ 275,157	$
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	$ (8,987)	$ (38,642)	$ (2,938)	$ 547	$ (77,924)	$ 36,404	$ (830)
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	11,038		11,173	106	12,359		540
Loss/(gain) on disposal of capital assets	1,540		1,380				
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(27)	(13)	30	(12)	14	(236)	
(Increase) decrease in due from other funds	(1,633)						
(Increase) decrease in due from component units				(4)			
(Increase) decrease in inventories	51			(51)			(42)
(Increase) decrease in prepaids							(182)
Increase (decrease) in accounts payable	(762)	46,503	(2,598)	197	2,846	5,882	124
Increase (decrease) in due to other funds	93	(7)		3	(6,384)		
Increase (decrease) in due to component units	23	(156)					
Increase (decrease) in unearned revenue						1,800	
Total adjustments	10,323	46,327	9,985	239	8,835	7,446	440
Net cash provided by (used for) operating activities	$ 1,336	$ 7,685	$ 7,047	$ 786	$ (69,089)	$ 43,850	$ (390)
Noncash investing, capital and financing activities							
Capital contributions			$ 523	$ 39			$ 613
Capital asset disposed of by transfer to component units					$ (9,003)		
Capital asset disposed of by transfer to highway fund					(39)		
Assets acquired through capital lease					8,969		
Total noncash investing, capital and financing activities			$ 523	$ 39	$ (73)		$ 613

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 1,804	$ 1,659	$ 16	$ 58	$ 145	$ 10,142	$ 165	$ 390,056
6,573	2,039	781	14,772	11,878	34,085	30,385	885,758
(2,110)	(1,378)	(275)	(1,425)	(691)	(32,147)	(4,512)	(1,119,194)
(5,177)	(1,373)	(379)	(10,704)	(9,590)	(8,728)	(8,129)	(79,823)
(1,155)	(1,033)	(102)	(1,058)	(1,809)	(1,430)	(4,745)	(69,020)
(65)	(86)	41	1,643	(67)	1,922	13,164	7,777
							23
2,175		150		1,800			195,581
							3
2,175		150		1,800			195,607
				(9)	(3,788)	(1,638)	(29,180)
							23,718
							21,414
							219
						(4,380)	(23,802)
						(28)	(7,974)
							5,421
				(9)	(3,788)	(6,046)	(10,184)
							488
							488
2,110	(86)	191	1,643	1,724	(1,866)	7,118	193,688
6,618	772	226	16,148	5,217	12,046	6,989	728,819
$ 8,728	$ 686	$ 417	$ 17,791	$ 6,941	$ 10,180	$ 14,107	$ 922,507
$ 312	$ 55	$ 15	$ 1,526	$ (244)	$ 284	$ 1,088	$ (89,334)
	17		3	3	1,055	11,744	48,038
					3		2,923
(1)	13			1	(249)	(1)	(481)
							(1,633)
	(6)						(10)
	(310)				(653)		(1,005)
							(182)
(380)	144	26	70	154	1,446	330	53,982
4	1		3	19	32	3	(6,233)
			41		4		(88)
							1,800
(377)	(141)	26	117	177	1,638	12,076	97,111
$ (65)	$ (86)	$ 41	$ 1,643	$ (67)	$ 1,922	$ 13,164	$ 7,777
							$ 1,175
							(9,003)
							(39)
							8,969
							$ 1,102

FIDUCIARY FUNDS

The Fiduciary Funds are used to account for assets held by the state in a fiduciary capacity.

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. 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, 2013. As of that date there were 209,964 active members and 127,571 retired members representing a 2.4% decrease and 9.4% increase, respectively, since the previous actuarial valuation in 2011.

Employee Flexible Benefits—Established in January 1988, this fund is used to account for monies contributed by employees under the IRC Section 125 cafeteria plan.

Investment Trust Funds:

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

Intermediate Term Investment Fund—This fund was created for deposits with the state treasurer to be a longer-term option for investment of funds as an alternative to the State Pooled Investment Fund (which includes the Local Government Investment Pool ("LGIP").

Private-Purpose Trust Funds:

College Savings Plans—The Baccalaureate Education System Trust (BEST) was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. 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. As of November 22, 2010, the BEST Board of Trustees voted to stop selling new tuition units in the prepaid plan. In September 2012, the State of Tennessee introduced the Tennessee Stars College Savings 529 Program. This program offers parents and other relatives a low cost way to save for children's college expenses with investment options and special tax advantages. Qualified higher educational expenses include tuition and fees, books, room and board (on or off campus), and equipment and supplies required for attendance at a qualified higher educational institution. If the beneficiary chooses not to attend school, the account owner may transfer the money to another beneficiary who is a member of the family of the original beneficiary or take a refund of the monies saved. Refunds or withdrawals that are not used for qualified higher educational expenses are precluded from receiving favorable tax free treatment. The program is not guaranteed by the State of Tennessee or any other entity.

Children in State Custody—This fund accounts for monies held and used for the benefit of children in the custody of the state. Monies held are from various sources including the Social Security Administration.

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2015 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

TNInvestco—Established in 2009, this fund was created by the General Assembly for the purpose of increasing the flow of capital to innovative new companies in Tennessee that are in the early stages of development. This fund accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act.

Insurance Receiverships—The Commissioner of Commerce and Insurance is designated the statutory receiver of insurers ordered into receivership and is charged with the duty to secure and distribute the assets for the benefit of policy holders, creditors, and other claimants under court supervision.

Other—These funds account for trust arrangements under which the principal and income benefit individuals or private organizations.

Agency Funds:

Local Government Fund—The purpose of the Local Government Fund is to serve as a clearing mechanism for state-shared taxes and other funds distributed to the various counties and cities of the state.

Contingent Revenue Fund—This fund is used to account for refundable deposits and other receipts held in trust until the state has the right to transfer them to operating funds or until there is proper authorization to disburse them directly to others.

Retiree Health Funds—These funds are used to account for funding received and claims paid on behalf of retirees who elect coverage. Pre- and post-65 retired employees of the state, local education, and local government employers are included.

State of Tennessee
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2014

(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 141,454	$ 138,207	$ 279,661	$ 1,012	$ 280,673
Cash collateral on loaned securities	1,826,303	1,784,766	3,611,069		3,611,069
Receivables:					
Member contributions	5,626	22,027	27,653		27,653
Employer contributions	20,470	39,589	60,059		60,059
Accrued interest	46,767	45,703	92,470		92,470
Accrued dividends	27,749	27,118	54,867		54,867
Derivative instruments	286,521	280,004	566,525		566,525
Real estate income	899	878	1,777		1,777
Investments sold	170,672	166,790	337,462		337,462
Total receivables	558,704	582,109	1,140,813		1,140,813
Due from other funds	10,273		10,273	212	10,485
Due from component units	9,715		9,715	4	9,719
Investments, at fair value:					
Short term securities	69,371	67,793	137,164		137,164
Government bonds	4,290,151	4,192,577	8,482,728		8,482,728
Corporate bonds	2,888,771	2,823,071	5,711,842		5,711,842
Corporate stocks	12,500,018	12,215,726	24,715,744		24,715,744
Derivative instruments	1,665	1,627	3,292		3,292
Strategic lending	162,654	158,954	321,608		321,608
Private equities	394,122	385,158	779,280		779,280
Real estate	1,152,345	1,126,137	2,278,482		2,278,482
Total investments	21,459,097	20,971,043	42,430,140		42,430,140
Capital assets, at cost					
Software in development	9,092	8,886	17,978		17,978
Machinery and equipment	6,089	5,951	12,040		12,040
Accumulated depreciation	(848)	(829)	(1,677)		(1,677)
Total assets	24,019,879	23,490,133	47,510,012	1,228	47,511,240
Liabilities					
Accounts payable and accruals	216,310	209,842	426,152	30	426,182
Derivative instruments	287,082	280,552	567,634		567,634
Securities lending collateral	1,826,303	1,784,766	3,611,069		3,611,069
Total liabilities	2,329,695	2,275,160	4,604,855	30	4,604,885
Net position					
Restricted for:					
Pensions	21,690,184	21,214,973	42,905,157		42,905,157
Employees' flexible benefits				1,198	1,198
Total net position	$ 21,690,184	$ 21,214,973	$ 42,905,157	$ 1,198	$ 42,906,355

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 75,030	$ 195,521	$ 270,551	$ 6,527	$ 277,078
Employers	686,219	348,475	1,034,694		1,034,694
Total contributions	761,249	543,996	1,305,245	6,527	1,311,772
Investment income:					
Net increase in fair value of investments	2,583,110	2,540,140	5,123,250		5,123,250
Interest	236,137	232,209	468,346		468,346
Dividends	250,622	246,452	497,074		497,074
Real estate income	54,489	53,583	108,072		108,072
Securities lending income	3,168	3,115	6,283		6,283
Total investment income	3,127,526	3,075,499	6,203,025		6,203,025
Less: Investment expenses	21,273	20,918	42,191		42,191
Securities lending expense	471	463	934		934
Net investment income	3,105,782	3,054,118	6,159,900		6,159,900
Total additions	3,867,031	3,598,114	7,465,145	6,527	7,471,672
Deductions					
Annuity benefits	1,043,927	1,013,051	2,056,978		2,056,978
Death benefits	2,275	1,637	3,912		3,912
Other benefits				6,310	6,310
Refunds	31,720	22,326	54,046		54,046
Administrative expenses	7,294	2,663	9,957	200	10,157
Total deductions	1,085,216	1,039,677	2,124,893	6,510	2,131,403
Change in net position restricted for:					
Pensions	2,781,815	2,558,437	5,340,252		5,340,252
Employees' flexible benefits				17	17
Net position, July 1	18,908,369	18,656,536	37,564,905	1,181	37,566,086
Net position, June 30	$ 21,690,184	$ 21,214,973	$ 42,905,157	$ 1,198	$ 42,906,355

State of Tennessee
Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2014

(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	Total Investment Trust Funds
Assets			
Cash and cash equivalents	$ 396,989	$ 325	$ 397,314
Receivables:			
Interest and dividends	2,031	793	2,824
Total receivables	2,031	793	2,824
Investments, at fair value:			
Short-term securities	1,168,551		1,168,551
Government bonds		199,963	199,963
Total investments	1,168,551	199,963	1,368,514
Total assets	1,567,571	201,081	1,768,652
Net position			
Amounts held in trust for:			
Pool participants	1,567,571	201,081	1,768,652
Total net position	$ 1,567,571	$ 201,081	$ 1,768,652

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	Total Investment Trust Funds
Additions			
Investment income:			
Interest	$ 2,439	$ 1,177	$ 3,616
Total investment income	2,439	1,177	3,616
Less: Investment expenses			
Administrative fee	872	96	968
Net investment income	1,567	1,081	2,648
Capital share transactions:			
Shares sold	2,612,956	200,000	2,812,956
Less: Shares redeemed	3,341,687		3,341,687
Net capital share transactions	(728,731)	200,000	(528,731)
Total additions	(727,164)	201,081	(526,083)
Change in net position restricted for:			
Individuals, organizations and other governments	(727,164)	201,081	(526,083)
Net position, July 1	2,294,735		2,294,735
Net position, June 30	$ 1,567,571	$ 201,081	$ 1,768,652

State of Tennessee
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2014

(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Insurance Receiverships
Assets					
Cash and cash equivalents	$ 3,462	$ 1,511	$ 15,569	$ 19,524	$ 15,080
Receivables:					
Taxes					77
Interest and dividends	230				6
Investments sold	3				
Other					98
Total receivables	233				181
Investments, at fair value:					
Mutual funds	101,509				
Government bonds					7
Corporate bonds					1,400
Total investments	101,509				1,407
Total assets	105,204	1,511	15,569	19,524	16,668
Liabilities					
Accounts payable and accruals	123	70		19	16,668
Due to other funds	118				
Total liabilities	241	70		19	16,668
Net position					
Restricted for:					
Individuals, organizations and other governments	$ 104,963	$ 1,441	$ 15,569	$ 19,505	$ -

Other	Total Private-Purpose Trust Funds
$ 3,063	$ 58,209
37	114
	236
	3
	98
37	451
	101,509
	7
	1,400
	102,916
3,100	161,576
	16,880
	118
	16,998
$ 3,100	$ 144,578

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Insurance Receiverships
Additions					
Contributions:					
Federal		$ 5,259			
Private	$ 8,991				
State	354			$ 473	
Other		1,836		3,451	$ 692
Total contributions	9,345	7,095		3,924	692
Investment income:					
Net increase/(decrease) in fair value of investments	8,903				(5)
Interest	2,484	2	$ 14	24	64
Total investment income	11,387	2	14	24	59
Total additions	20,732	7,097	14	3,948	751
Deductions					
Payments made under trust agreements	8,887	3,913		16,569	751
Refunds	1,008	1,684			
Administrative expenses	360	2,269		3,496	
Total deductions	10,255	7,866		20,065	751
Change in net position restricted for:					
Individuals, organizations and other governments	10,477	(769)	14	(16,117)	
Net position, July 1	94,486	2,210	15,555	35,622	
Net position, June 30	$ 104,963	$ 1,441	$ 15,569	$ 19,505	$ -

Other	Total Private-Purpose Trust Funds
	$ 5,259
$ 369	9,360
	827
156	6,135
525	21,581
	8,898
3	2,591
3	11,489
528	33,070
383	30,503
	2,692
	6,125
383	39,320
145	(6,250)
2,955	150,828
$ 3,100	$ 144,578

State of Tennessee
Combining Statement of Fiduciary Net Position
Agency Funds
June 30, 2014

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	$ 323,393	$ 130,324	$ 28,753	$ 482,470
Receivables:				
Accounts			1,442	1,442
Taxes	394,928			394,928
Due from other funds		24		24
Total assets	718,321	130,348	30,195	878,864
Liabilities				
Accounts payable and accruals	718,321	12,394	17,791	748,506
Amounts held in custody for others		117,954	12,404	130,358
Total liabilities	$ 718,321	$ 130,348	$ 30,195	$ 878,864

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

Local Government Fund	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash and cash equivalents	$ 335,641	$ 3,783,599	$ 3,795,847	$ 323,393
Taxes receivable	393,516	456,336	454,924	394,928
Total assets	729,157	4,239,935	4,250,771	718,321
Liabilities				
Accounts payable and accruals	729,157	4,661,370	4,672,206	718,321
Total liabilities	$ 729,157	$ 4,661,370	$ 4,672,206	$ 718,321

Contingent Revenue Fund	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash and cash equivalents	$ 138,101	$ 2,539,581	$ 2,547,358	$ 130,324
Accounts receivable	263	63	326	
Due from other funds		24		24
Total assets	138,364	2,539,668	2,547,684	130,348
Liabilities				
Accounts payable and accruals	11,970	325,714	325,290	12,394
Amount held in custody for others	126,394	620,695	629,135	117,954
Total liabilities	$ 138,364	$ 946,409	$ 954,425	$ 130,348

Retiree Health Plans	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash and cash equivalents	$ 20,787	$ 238,183	$ 230,217	$ 28,753
Accounts receivable	2,082	11,097	11,737	1,442
Total assets	22,869	249,280	241,954	30,195
Liabilities				
Accounts payable	16,684	26,265	25,158	17,791
Amount held in custody for others	6,185	239,414	233,195	12,404
Total liabilities	$ 22,869	$ 265,679	$ 258,353	$ 30,195

Totals - All Agency Funds	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets				
Cash and cash equivalents	$ 494,529	$ 6,561,363	$ 6,573,422	$ 482,470
Accounts receivable	395,861	467,496	466,987	396,370
Due from other funds		24		24
Total assets	890,390	7,028,883	7,040,409	878,864
Liabilities				
Accounts payable and accruals	757,811	5,013,349	5,022,654	748,506
Amount held in custody for others	132,579	860,109	862,330	130,358
Total liabilities	$ 890,390	$ 5,873,458	$ 5,884,984	$ 878,864

COMPONENT UNITS

Tennessee Student Assistance Corporation (TSAC) —The corporation was created by the legislature in 1974 and is responsible for administering student financial assistance programs supported by federal and state funds.

Tennessee Community Services Agency—In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The state has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. In 2009, all CSAs merged operations into one agency.

Tennessee Housing Development Agency—Created by the legislature in 1973, the purpose of this agency is to improve the quality of housing available to lower and moderate income Tennesseans. This objective is accomplished in part by (1) making funds available for loans for residential construction or rehabilitation, (2) making or participating in the making of insured mortgage loans, and (3) purchasing existing mortgages from lending institutions. These programs are funded primarily from the sale of revenue bonds or notes.

Tennessee Education Lottery Corporation—Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be transferred to the state to be used for education programs and purposes in accordance with the Constitution of Tennessee, consisting primarily of financial assistance to Tennessee citizens to enable such citizens to attend post-secondary educational institutions within Tennessee.

Tennessee Board of Regents—The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven colleges of applied technology) serve the state and its citizenry by providing education opportunities, research, continuing education and public activities. As a system, the institutions span the state and operate as a coordinated network of public education with each campus offering unique characteristics and services. The system consists of the following institutions:

UNIVERSITIES

Austin Peay State University, Clarksville
East Tennessee State University, Johnson City
Middle Tennessee State University, Murfreesboro
Tennessee State University, Nashville
Tennessee Technological University, Cookeville
University of Memphis, Memphis

COMMUNITY COLLEGES

Chattanooga State 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

COLLEGES OF APPLIED TECHNOLOGY

Athens	Crump	Hartsville	Knoxville	Memphis	Newbern	Ripley
Chattanooga	Dickson	Hohenwald	Livingston	Morristown	Oneida	Shelbyville
Covington	Elizabethton	Jacksboro	McKenzie	Murfreesboro	Paris	Whiteville
Crossville	Harriman	Jackson	McMinnville	Nashville	Pulaski	

The purpose of these colleges is to provide occupational and technical training for current and future employees of existing and prospective industries and businesses of this state.

The University of Tennessee Board of Trustees—The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

Local Development Authority—This authority was created in 1978 for the purpose of providing to local governments, through the issuing of revenue bonds or notes, the financing assistance previously provided by the State Loan Program. The Authority has also issued bonds to assist non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

Veterans' Homes Board—Created in 1988, the primary purpose of the homes is to provide support and care for honorably discharged veterans of the United States Armed Forces. The revenue sources are the Veterans' Administration, Medicaid, and a user fee.

Federal Family Education Loan Program – This program is administered by TSAC, the state’s designated federal guaranty agency. As part of the program, TSAC guarantees student loans made by lending institutions to students attending post-secondary schools as authorized by Title IV of the Higher Education Act of 1965.

Tennessee State School Bond Authority (TSSBA)—Established in 1965, the TSSBA provides a mechanism for financing building projects for the state's higher education institutions. Agreements are executed between the governing boards of the institutions and the TSSBA, and revenue bonds are issued using the constructed facilities as collateral. Charges levied on the universities provide the funds necessary for payment of principal and interest on bonds. The Authority also issues Qualified Zone Academy Bonds, which are part of a federal government program to finance loans to qualifying K-12 schools in the state. In addition, under the American Recovery and Reinvestment Act of 2009, the Authority issued Qualified School Construction Bonds to finance the construction, repair, or rehabilitation of public school facilities.

Certified Cotton Growers’ Organization—This organization was formed to aid in the eradication of the boll weevil. Revenues are collected from assessments on cotton growers and from state appropriations.

Access Tennessee—Established in 2007, this health insurance pool offers health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions.

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State of Tennessee
Combining Statement of Net Position
Component Units
June 30, 2014

(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
Assets						
Cash and cash equivalents	$ 2,153	$ 801	$ 264,941	$ 67,708	$ 948,612	$ 732,192
Investments			63,698		322,866	94,026
Receivables, net	7,561	743	66,505	69,296	113,195	185,252
Due from primary government		393			15,187	28,944
Inventories, at cost					3,335	6,648
Prepayments		23	6	7,147	4,769	4,786
Loans receivable			1,969,362			
Fair value of derivatives						
Other					728	4,776
Restricted assets:						
Cash and cash equivalents			8,345	21	65,777	220,923
Investments			189,307	6,135	320,961	889,438
Receivables, net			1,689		54,707	116,302
Capital assets:						
Land, at cost					136,669	84,237
Infrastructure					382,727	110,255
Structures and improvements, at cost				264	2,832,601	2,290,937
Machinery and equipment, at cost		74	1,437	4,943	451,942	606,327
Less accumulated depreciation		(40)	(811)	(4,283)	(1,518,776)	(1,335,164)
Construction in progress					217,146	458,133
Total assets	9,714	1,994	2,564,479	151,231	4,352,446	4,498,012
Deferred outflows of resources			1,250		2,851	5,911
Liabilities						
Accounts payable and accruals	2,207	258	42,752	47,650	138,001	155,695
Due to primary government	19	15	72	94,670	14,083	5,635
Unearned revenue			1,293	901	70,772	104,930
Other					16,109	12,872
Noncurrent liabilities:						
Due within one year	184	90	127,673	1,264	45,215	75,056
Due in more than one year	559	266	1,867,011	6,725	850,105	961,766
Total liabilities	2,969	629	2,038,801	151,210	1,134,285	1,315,954
Deferred inflows of resources					132	
Net position						
Net investment in capital assets		34	626	924	1,803,666	1,468,055
Restricted for:						
Debt service					3,422	84
Capital projects					42,908	56,170
Single family bond programs			434,000			
Other	6,745		15,905	21	244,979	363,645
Permanent and endowment:						
Expendable					18,238	196,174
Nonexpendable					325,868	628,395
Unrestricted		1,331	76,397	(924)	781,799	475,446
Total net position	$ 6,745	$ 1,365	$ 526,928	$ 21	$ 3,220,880	$ 3,187,969

Proprietary Fund Types						
Local Development Authority	Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 15,712	$ 12,414	$ 46,894	$ 72,026	$ 1,889	$ 58,267	$ 2,223,609
				1,018		481,608
	8,340	403	12,900	15	408	464,618
	822					45,346
	165					10,148
	1,973					18,704
4,563			1,715,790			3,689,715
			616			616
	31			1,693		7,228
1,154	3,297	7,346	19,733			326,596
			129,976			1,535,817
		6,023				178,721
	1,390					222,296
	1,825					494,807
	30,477					5,154,279
	6,002					1,070,725
	(13,870)					(2,872,944)
	10,928					686,207
21,429	63,794	60,666	1,951,041	4,615	58,675	13,738,096
279			17,762			28,053
132	2,183		20,181	64	716	409,839
	4,890					119,384
			2,229			180,125
	99					29,080
910	902		56,435			307,729
4,764	6,418		1,881,707			5,579,321
5,806	14,492		1,960,552	64	716	6,625,478
			616			748
	30,595					3,303,900
	346					3,852
						99,078
						434,000
	4,858	13,369				649,522
						214,412
						954,263
15,902	13,503	47,297	7,635	4,551	57,959	1,480,896
$ 15,902	$ 49,302	$ 60,666	$ 7,635	$ 4,551	$ 57,959	$ 7,139,923

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2014

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Component units					
Higher education institutions:					
Board of Regents	$ 2,473,515	$ 974,218	$ 696,108	$ 143,583	$ (659,606)
University of Tennessee	2,056,111	661,101	933,596	86,236	(375,178)
Total higher education institutions	4,529,626	1,635,319	1,629,704	229,819	(1,034,784)
Loan programs:					
Tennessee Student Assistance Corporation	67,090	2,847	7,213		(57,030)
Housing Development Agency	422,834	121,135	302,126		427
Local Development Authority	369	246	15		(108)
Federal Family Education Loan Program	219,244	27,158	147,568		(44,518)
State School Bond Authority	79,994	67,484	2,571		(9,939)
Total loan programs	789,531	218,870	459,493		(111,168)
Lottery program	1,323,406	1,323,307	43		(56)
Other programs:					
Tennessee CSA	5,112	1,543	3,267		(302)
Access Tennessee Insurance Plan	26,792	12,694			(14,098)
Veterans' Homes Board	39,994	40,274	13	11,953	12,246
Certified Cotton Growers'	414	227			(187)
Total other programs	72,312	54,738	3,280	11,953	(2,341)
Total	$ 6,714,875	$ 3,232,234	$ 2,092,520	$ 241,772	$ (1,148,349)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Position	Net Position July 1	Net Position June 30
$ 683,554	$ 146,941	$ 4,691	$ 3,803	$ 13,752	$ 193,135	$ 3,027,745	$ 3,220,880
487,077	2,234	24,556		43,934	182,623	3,005,346	3,187,969
1,170,631	149,175	29,247	3,803	57,686	375,758	6,033,091	6,408,849
57,386					356	6,389	6,745
		34			461	526,467	526,928
					(108)	16,010	15,902
2,838		60			(41,620)	102,286	60,666
	9,264				(675)	8,310	7,635
60,224	9,264	94			(41,586)	659,462	617,876
		70			14	7	21
					(302)	1,667	1,365
19,054		41			4,997	52,962	57,959
	86				12,332	36,970	49,302
		5			(182)	4,733	4,551
19,054	86	46			16,845	96,332	113,177
$ 1,249,909	$ 158,525	$ 29,457	$ 3,803	$ 57,686	$ 351,031	$ 6,788,892	$ 7,139,923

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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, 2014

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Revenues			
Interest on investments	$ 442		$ 442
Federal	57		57
Departmental services	66,945	$ 4,810	71,755
Other	2		2
Total revenues	67,446	4,810	72,256
Expenditures			
Education	67,021		67,021
Health and social services		5,073	5,073
Total expenditures	67,021	5,073	72,094
Excess (deficiency) of revenues over (under) expenditures	425	(263)	162
Fund balances, July 1	7,063	1,951	9,014
Fund balances, June 30	$ 7,488	$ 1,688	$ 9,176

Reconciliation to net position:

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Fund balances per above	$ 7,488	$ 1,688	$ 9,176
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		33	33
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(743)	(356)	(1,099)
Net position on Statement of Net Position	$ 6,745	$ 1,365	$ 8,110

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2014

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 121,135	$ 1,322,446	$ 1,150,106	$ 1,148,350	$ 246
Investment income	6,346		4,348	6,409	15
Grants and contributions					
Other		861	53,730	104,394	
Total operating revenues	127,481	1,323,307	1,208,184	1,259,153	261
Operating expenses					
Personal services	16,578	13,195	1,485,033	1,331,138	
Contractual services	5,973	124,800			53
Mortgage service fees	7,165				
Materials and supplies	1,250		539,158	502,144	
Rentals and insurance	94	1,950			
Interest	70,390				316
Depreciation and amortization	2,476	468	124,333	114,997	
Lottery prizes		836,500			
Nursing home services					
Scholarships and fellowships			297,921	57,026	
Benefits					
Other	9,405	9,192			
Total operating expenses	113,331	986,105	2,446,445	2,005,305	369
Operating income (loss)	14,150	337,202	(1,238,261)	(746,152)	(108)
Nonoperating revenues (expenses)					
Grant income	295,814		543,776	189,256	
Grant expense	(309,503)				
Interest expense			(25,581)	(30,579)	
Interest income		70	67,944	155,880	
Payments from primary government			683,554	487,077	
Grants and contributions				5,707	
Gifts			6,211	5,568	
Payments to primary government		(337,273)			
Other		15	581	(20,228)	
Total nonoperating revenues (expenses)	(13,689)	(337,188)	1,276,485	792,681	
Income (loss) before capital grants and contributions	461	14	38,224	46,529	(108)
Capital payments from primary government			130,263	54,964	
Capital grants and gifts			10,896	31,271	
Additions to permanent endowments			13,752	43,934	
Other				5,925	
Change in net position	461	14	193,135	182,623	(108)
Net position, July 1	526,467	7	3,027,745	3,005,346	16,010
Net position, June 30	$ 526,928	$ 21	$ 3,220,880	$ 3,187,969	$ 15,902

Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 35,042	$ 27,158	$ 67,484	$ 227	$ 12,694	$ 3,884,888
		2,571			19,689
	147,568				147,568
39					159,024
35,081	174,726	70,055	227	12,694	4,211,169
24,280					2,870,224
	171,992	1,863	414	550	305,645
					7,165
					1,042,552
					2,044
		66,033			136,739
1,367					243,641
					836,500
14,058					14,058
	252				355,199
				25,852	25,852
		12,098		390	31,085
39,705	172,244	79,994	414	26,792	5,870,704
(4,624)	2,482	(9,939)	(187)	(14,098)	(1,659,535)
5,193		9,264			1,043,303
					(309,503)
(264)					(56,424)
13	60		5	41	224,013
	2,838			19,054	1,192,523
					5,707
86					11,865
	(47,000)				(384,273)
(25)					(19,657)
5,003	(44,102)	9,264	5	19,095	1,707,554
379	(41,620)	(675)	(182)	4,997	48,019
3,127					188,354
8,826					50,993
					57,686
					5,925
12,332	(41,620)	(675)	(182)	4,997	350,977
36,970	102,286	8,310	4,733	52,962	6,780,836
$ 49,302	$ 60,666	$ 7,635	$ 4,551	$ 57,959	$ 7,131,813

SUPPLEMENTARY SCHEDULES

State of Tennessee **Schedule 1**
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2014

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt Principal	General Long-Term Debt Interest	General Long-Term Debt Total Require-ments	Facilities Revolving Fund Debt Principal	Facilities Revolving Fund Debt Interest	Facilities Revolving Fund Debt Total Require-ments
2015	$ 136,068	$ 68,595	$ 204,663	$ 15,957	$ 6,781	$ 22,738
2016	132,429	62,704	195,133	13,841	6,034	19,875
2017	127,436	56,964	184,400	12,979	5,421	18,400
2018	118,951	50,999	169,950	12,769	4,829	17,598
2019	110,970	45,957	156,927	11,455	4,281	15,736
2020	108,442	41,247	149,689	10,963	3,786	14,749
2021	102,519	36,639	139,158	10,066	3,305	13,371
2022	102,654	32,092	134,746	10,101	2,833	12,934
2023	95,706	27,715	123,421	9,354	2,377	11,731
2024	95,476	23,829	119,305	9,319	1,992	11,311
2025	87,224	20,379	107,603	8,961	1,662	10,623
2026	87,459	17,052	104,511	9,001	1,337	10,338
2027	81,135	13,726	94,861	7,190	1,024	8,214
2028	77,589	10,724	88,313	6,606	743	7,349
2029	71,849	7,416	79,265	5,391	477	5,868
2030	47,513	4,402	51,915	3,822	275	4,097
2031	37,251	2,361	39,612	2,289	115	2,404
2032	29,398	824	30,222	817	29	846
2033	6,582	99	6,681	418	6	424
TOTALS	$ 1,656,651	$ 523,724	$ 2,180,375	$ 161,299	$ 47,307	$ 208,606

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

Schedule 2

(Expressed in Thousands)

	June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Internal service funds:					
General obligation commercial paper	$ 70,107	$ 48,060	$ 51,318	$ 40,591	$ 59,930
Facilities Revolving Fund general obligation bonds	196,220	209,858	198,512	180,516	161,299
	266,327	257,918	249,830	221,107	221,229
General long-term debt:					
General obligation bonds	1,492,600	1,544,350	1,914,090	1,797,894	1,656,651
General obligation commercial paper	171,283	166,157	146,452	174,555	264,436
	1,663,883	1,710,507	2,060,542	1,972,449	1,921,087
Totals for primary government	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,193,556	$ 2,142,316

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2014

Schedule 3

(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 298,367
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	25,999
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	$ 324,366

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

Schedule 4

(Expressed in Thousands)

	June 30				
	2010	**2011**	**2012**	**2013**	**2014**
Component units:					
Local Development Authority notes	$ 53,919				
Local Development Authority bonds	48,242	$ 8,586	$ 7,406	$ 6,585	$ 5,674
Tennessee Housing Development Agency bonds	2,316,748	2,140,486	2,015,181	2,116,905	1,962,990
Tennessee Housing Development Agency notes	3,672	3,250			
Veterans' Homes Board loan	5,936	5,657	5,310	5,089	6,157
Tennessee State School Bond Authority bonds	1,075,004	1,487,945	1,423,166	1,601,480	1,780,558
Tennessee State School Bond Authority revolving credit	281,782	162,653	253,676	209,429	157,584
University of Tennessee notes	211	184	167	150	133
University of Tennessee bonds	83,644	82,089	80,449	80,365	77,171
Board of Regents notes	2,222	2,098	1,987	1,866	2,492
Board of Regents bonds	700	600	500	400	300
Board of Regents commercial paper	6,431	4,363	4,271	4,085	3,955
	$ 3,878,511	$ 3,897,911	$ 3,792,113	$ 4,026,354	$ 3,997,014

State of Tennessee **Schedule 5**

Comparative Schedules of Revenues by Source

General Fund

For the Fiscal Years Ended June 30, 2014 and 2013

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
Taxes:		
Sales and use	$ 2,989,699	$ 2,867,413
Gasoline	9,005	9,101
Motor fuel	3,086	2,970
Gasoline inspection	670	415
Total fuel taxes	12,761	12,486
Franchise	642,721	684,340
Excise	968,051	1,093,374
Gross receipts	355,213	363,971
Beer	14,916	15,068
Alcoholic beverage	45,321	43,121
Mixed drink	38,574	34,711
Tobacco	29,683	31,250
Business	114,808	137,708
Insurance companies premium	727,943	668,067
Retaliatory	21,818	16,196
Workers compensation premium	47,470	44,225
Enhanced coverage	449,137	449,500
Medicaid provider	11,701	13,729
Other	2,804	2,702
Total business taxes	3,470,160	3,597,962
Income	239,316	233,419
Privilege	258,708	256,738
Inheritance and estate	107,722	110,632
Other	407	220
Total other taxes	606,153	601,009
Total taxes	7,078,773	7,078,870
Licenses, fines, fees and permits:		
Motor vehicle registration	43,730	44,468
Motor vehicle title registration fees	8,716	9,214
Drivers licenses	26,004	25,907
Arrests, fines and fees	8,329	8,352
Regulatory board fees	125,235	123,612
Other	108,675	95,294
Total licenses, fines, fees and permits	320,689	306,847
Interest on investments	11,536	12,166
Federal - earned by state departments	9,464,501	9,901,314
Departmental services:		
Charges to the public	329,673	325,726
Interdepartmental charges	799,637	799,180
Charges to cities, counties, etc.	568,534	540,143
Total departmental services	1,697,844	1,665,049
Other	210,267	283,140
Total revenues by source	$ 18,783,610	$ 19,247,386

State of Tennessee **Schedule 6**

Comparative Schedules of Expenditures by Function and Department

General Fund

For the Fiscal Years Ended June 30, 2014 and 2013

(Expressed in Thousands)

	For the Year Ended	
Expenditures by function and department	**June 30, 2014**	**June 30, 2013**
General government:		
Legislative	$ 38,163	$ 39,234
Secretary of State	38,556	36,995
Comptroller	97,657	86,294
Treasurer	60,441	59,300
Governor	4,704	5,082
Commissions	65,363	67,625
Finance and Administration	92,174	91,802
General Services	25,860	28,622
Revenue	101,389	99,418
Miscellaneous Appropriations	16	276
Total general government	524,323	514,648
Health and social services:		
Veterans Affairs	7,521	5,392
Labor and Workforce Development	167,876	188,988
TennCare	9,639,248	9,684,582
Mental Health	303,267	295,213
Intellectual Disabilities	199,812	203,592
Health	563,710	527,228
Human Services	2,880,185	3,085,917
Children's Services	731,991	677,571
Total health and social services	14,493,610	14,668,483
Law, justice and public safety:		
Judicial	310,185	301,741
Correction	878,563	835,075
Probation and Paroles	7,102	6,772
Military	94,677	102,188
Bureau of Criminal Investigation	77,682	72,081
Safety	181,029	175,141
Total law, justice and public safety	1,549,238	1,492,998
Recreation and resources development:		
Agriculture	78,062	74,168
Tourist Development	24,258	18,452
Environment and Conservation	200,630	199,746
Economic and Community Development	226,577	183,841
Total recreation and resources development	529,527	476,207
Regulation of business and professions:		
Commerce and Insurance	77,054	74,347
Financial Institutions	15,491	14,169
Total regulation of business and professions	92,545	88,516
Intergovernmental revenue sharing	606,979	557,102
Total expenditures by function and department	$ 17,796,222	$ 17,797,954

STATISTICAL SECTION

STATISTICAL SECTION

This part of the State of Tennessee's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the state's overall financial health.

<u>**Contents**</u> <u>**Page**</u>

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 POSITION
LAST TEN FISCAL YEARS
(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2005	**2006**	**2007**	**2008**
Expenses				
Governmental activities:				
General government	$ 596,016	$ 705,897	$ 738,897	$ 837,250
Education	5,158,369	5,449,613	5,884,841	6,464,564
Health and social services (4)	11,522,061	10,170,957	10,448,373	11,125,967
Law, justice, and public safety	1,090,779	1,214,957	1,221,175	1,325,500
Recreation and resources development (1)	423,342	466,689	485,852	613,902
Regulation of business and professions	113,902	86,945	129,107	123,391
Transportation	698,450	671,641	835,751	808,591
Intergovernmental revenue sharing	683,925	738,349	815,832	842,096
Interest on long-term debt	42,902	49,460	50,003	51,086
Payments to fiduciary fund			25,950	
Total governmental activities expenses	20,329,746	19,554,508	20,635,781	22,192,347
Business-type activities:				
Employment security (2)	476,646	452,043	467,327	541,573
Insurance programs	430,568	471,032	413,483	469,491
Loan programs	1,909	1,487	1,473	1,655
Other	2,498	2,496	2,595	2,744
Total business-type activities expenses	911,621	927,058	884,878	1,015,463
Total primary government expenses	$ 21,241,367	$ 20,481,566	$ 21,520,659	$ 23,207,810
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 380,679	$ 375,640	$ 524,306	$ 672,892
Education	13,568	26,785	34,819	35,405
Health and social services	1,027,602	692,186	521,508	548,570
Law, justice, and public safety	316,337	374,715	130,885	117,536
Recreation and resources development	140,227	138,970	153,048	142,128
Regulation of business and professions	115,556	124,435	142,805	143,646
Transportation	15,494	15,118	22,542	18,778
Operating grants and contributions (3)	8,777,283	8,314,981	8,481,473	8,612,838
Capital grants and contributions	520,090	615,584	708,384	600,404
Total governmental activities program revenues	11,306,836	10,678,414	10,719,770	10,892,197
Business-type activities:				
Charges for services:				
Employment security	463,385	381,600	356,064	413,741
Insurance programs	462,441	479,515	438,275	480,803
Loan programs	12,878	12,970	13,803	15,137
Other	2,593	2,803	2,644	2,324
Operating grants and contributions (3)	100,536	131,043	116,569	124,576
Total business-type activities program revenues	1,041,833	1,007,931	927,355	1,036,581
Total primary government program revenues	$ 12,348,669	$ 11,686,345	$ 11,647,125	$ 11,928,778
Net (Expense)/Revenue				
Governmental activities	$ (9,022,910)	$ (8,876,094)	$ (9,916,011)	$ (11,300,150)
Business-type activities	130,212	80,873	42,477	21,118
Total primary government net expense	$ (8,892,698)	$ (8,795,221)	$ (9,873,534)	$ (11,279,032)

Schedule 1

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,					
2009	2010	2011	2012	2013	2014
$ 988,309	$ 1,078,294	$ 1,048,423	$ 942,465	$ 987,800	$ 959,641
6,520,569	6,893,801	7,127,705	7,018,189	7,083,806	7,383,077
11,697,900	12,849,335	13,739,733	13,952,342	14,079,899	13,912,421
1,338,869	1,365,134	1,436,045	1,567,730	1,539,288	1,612,248
538,386	499,080	606,317	646,494	554,421	646,781
126,003	132,784	127,887	126,395	158,228	158,644
979,454	1,010,029	911,666	1,012,399	1,062,091	1,126,744
810,063	874,094	825,777	851,535	844,628	897,312
51,977	60,566	63,555	62,119	71,933	67,520
	19,747	63,114	58,453	22,386	827
23,051,530	24,782,864	25,950,222	26,238,121	26,404,480	26,765,215
1,427,713	2,135,537	1,613,716	1,232,324	750,529	451,470
514,065	557,371	552,626	540,746	544,250	541,205
1,345	1,406	1,561	1,757	1,577	1,469
2,265	1,385	25	620	163	76
1,945,388	2,695,699	2,167,928	1,775,447	1,296,519	994,220
$ 24,996,918	$ 27,478,563	$ 28,118,150	$ 28,013,568	$ 27,700,999	$ 27,759,435
$ 753,066	$ 778,352	$ 856,264	$ 673,945	$ 775,135	$ 812,528
35,124	44,813	50,052	56,898	85,722	73,276
615,871	499,694	724,971	772,850	714,788	756,038
122,064	121,201	120,137	125,879	139,622	140,123
142,657	141,278	139,302	151,545	155,422	145,675
151,095	148,788	149,090	168,590	154,896	165,611
15,936	28,322	29,769	29,601	35,470	31,863
9,758,691	12,076,579	12,677,291	11,897,517	11,697,733	11,355,859
592,719	782,188	901,798	903,281	772,061	762,251
12,187,223	14,621,215	15,648,674	14,780,106	14,530,849	14,243,224
585,668	710,113	754,108	769,446	632,408	370,752
504,130	525,662	547,207	542,756	569,982	598,209
15,684	16,584	17,350	15,600	12,450	8,897
1,543	1,043	206	133	231	221
508,249	1,482,113	1,035,693	749,005	327,928	134,026
1,615,274	2,735,515	2,354,564	2,076,940	1,542,999	1,112,105
$ 13,802,497	$ 17,356,730	$ 18,003,238	$ 16,857,046	$ 16,073,848	$ 15,355,329
$ (10,864,307)	$ (10,161,649)	$ (10,301,548)	$ (11,458,015)	$ (11,873,631)	$ (12,521,991)
(330,114)	39,816	186,636	301,493	246,480	117,885
$ (11,194,421)	$ (10,121,833)	$ (10,114,912)	$ (11,156,522)	$ (11,627,151)	$ (12,404,106)

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2005	**2006**	**2007**	**2008**
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Sales and use	$ 6,099,159	$ 6,540,224	$ 6,819,570	$ 6,851,481
Fuel	846,826	851,362	867,520	865,181
Business (5)	2,311,448	2,507,653	2,799,751	2,913,227
Other	514,938	598,827	734,026	734,029
Grants and contributions not restricted to specific programs	46,807			
Unrestricted investment earnings	30,361	81,287	113,940	120,523
Miscellaneous	209,226	185,466	250,344	275,499
Contributions to permanent funds	468	369	270	239
Transfers	(21,062)	(22,783)	(5,028)	(4,110)
Total governmental activities	10,038,171	10,742,405	11,580,393	11,756,069
Business-type activities:				
Transfers	21,062	22,783	5,028	4,110
Total business-type activities	21,062	22,783	5,028	4,110
Total primary government general revenues and other changes in net position	$ 10,059,233	$ 10,765,188	$ 11,585,421	$ 11,760,179
Changes in Net Position				
Governmental activities	$ 1,015,261	$ 1,866,311	$ 1,664,382	$ 455,919
Business-type activities	151,274	103,656	47,505	25,228
Total primary government	$ 1,166,535	$ 1,969,967	$ 1,711,887	$ 481,147

(1) The increase in expenses of the recreation and resources development function between fiscal years 2007 and 2008 resulted from the acquisition of conservation easements for wilderness protection.

(2) The increase in expenses of the Employment security program between fiscal years 2008 and 2009 was due to a significant increase in the demand for unemployment benefits. Between 2010 and 2011, continued weeks unemployment claims decreased resulting in a significant decrease in expenses in the Employment security program.

(3) The significant increase in operating grants and contributions revenue for both governmental and business-type activities between fiscal years 2008 and 2009 was due to the increase in federal funds received as a result of the American Recovery and Reinvestment Act. The decline in operating grants for business-type activities between 2010 and 2011 was due to a significant decline in continued weeks unemployment claims. The rise in operating grants and contributions from fiscal year 2010 to 2011 for governmental activities was due to the increase in federal funds for reimbursement of medical and pharmacy costs which increased significantly.

(4) From fiscal years 2010 to 2011, expenses for health and social services have increased due to rising medical and pharmacy program costs.

(5) A new dedicated hospital coverage assessment to fund the TennCare program resulted in an increase in the Business taxes from 2010 to 2011.

Schedule 1

FOR THE FISCAL YEAR ENDED JUNE 30,					
2009	**2010**	**2011**	**2012**	**2013**	**2014**
$ 6,326,857	$ 6,170,977	$ 6,461,461	$ 6,884,762	$ 7,018,128	$ 7,276,443
817,873	874,511	846,384	842,133	834,956	843,164
2,671,226	2,944,465	3,536,200	3,926,566	4,122,814	3,948,253
563,501	504,750	525,192	608,762	648,193	641,244
42,883	7,245	4,602	772	4,144	7,079
226,907	195,414	217,630	253,489	282,705	221,138
217	196	180	174	180	547
(3,541)	(3,608)	(2,134)	(4,655)	(4,256)	(4,622)
10,645,923	10,693,950	11,589,515	12,512,003	12,906,864	12,933,246
3,541	3,608	2,134	4,655	4,256	4,622
3,541	3,608	2,134	4,655	4,256	4,622
$ 10,649,464	$ 10,697,558	$ 11,591,649	$ 12,516,658	$ 12,911,120	$ 12,937,868
$ (218,384)	$ 532,301	$ 1,287,967	$ 1,053,988	$ 1,033,233	$ 411,255
(326,573)	43,424	188,770	306,148	250,736	122,507
$ (544,957)	$ 575,725	$ 1,476,737	$ 1,360,136	$ 1,283,969	$ 533,762

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2005	**2006**	**2007**	**2008**
Governmental activities				
Net investment in capital assets	$ 19,406,978	$ 20,204,007	$ 21,078,481	$ 21,796,151
Restricted	580,840	725,209	792,542	864,270
Unrestricted (1)(2)	1,306,226	2,204,315	2,964,957	2,631,478
Total governmental activities net position	21,294,044	23,133,531	24,835,980	25,291,899
Business-type activities				
Net investment in capital assets	-	-	-	51
Unrestricted	1,511,189	1,614,845	1,643,706	1,668,883
Total business-type activities net position	1,511,189	1,614,845	1,643,706	1,668,934
Primary Government				
Net investment in capital assets	19,406,978	20,204,007	21,078,481	21,796,202
Restricted	580,840	725,209	792,542	864,270
Unrestricted	2,817,415	3,819,160	4,608,663	4,300,361
Total primary government net position	$ 22,805,233	$ 24,748,376	$ 26,479,686	$ 26,960,833

(1) The increase in unrestricted net position between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net position 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.

(2) The decrease in unrestricted net position between fiscal years 2008 and 2009 was mostly attributable to the decrease in cash and cash equivalents caused by a reduction in revenue collections from business and sales taxes and interest on investments.

Schedule 2

FOR THE FISCAL YEAR ENDED JUNE 30,					
2009	2010	2011	2012	2013	2014
$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523
965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324
1,495,656	1,284,192	1,330,947	1,183,704	1,458,291	1,299,446
25,036,800	25,569,101	26,856,959	27,985,116	28,978,083	29,397,293
-	-	-	-	-	-
1,342,361	1,385,785	1,574,664	1,880,812	2,134,924	2,264,747
1,342,361	1,385,785	1,574,664	1,880,812	2,134,924	2,264,747
22,575,852	23,360,007	24,346,493	25,628,600	26,326,451	26,855,523
965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324
2,838,017	2,669,977	2,905,611	3,064,516	3,593,215	3,564,193
$ 26,379,161	$ 26,954,886	$ 28,431,623	$ 29,865,928	$ 31,113,007	$ 31,662,040

Schedule 3

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	$ 19,343	$ 18,609	$ 21,349	$ 21,075
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	100,942	63,192	73,346	68,331
Committed	N/A	N/A	N/A	N/A	N/A	N/A	235,301	286,918	355,546	281,969
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	1,179,652	1,250,677	1,585,964	1,138,496
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	507,501	698,663	476,264	567,286
Total general fund							$ 2,042,739	$ 2,318,059	$ 2,512,469	$ 2,077,157
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	$ 144,426	$ 147,468	$ 150,579	$ 153,004
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	951,222	980,972	990,317	1,024,350
Committed	N/A	N/A	N/A	N/A	N/A	N/A	191,557	344,696	398,864	396,298
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	710,582	672,610	575,300	759,845
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A				
Total all other governmental funds							$ 1,997,787	$ 2,145,746	$ 2,115,060	$ 2,333,497

(1) The schedule was changed due to the implementation of GASB 54, which reclassified fund balance into the five following categories: nonspendable, restricted, committed, assigned, and unassigned. It was determined that Statistical Schedule 3 would not be restated for the years prior to 2011.

Schedule 4

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenues										
Taxes	$ 9,819,155	$ 10,488,650	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171	$ 12,762,694
Licenses, fines, fees, and permits	624,694	637,522	660,888	672,486	677,766	675,009	693,702	731,752	725,785	727,158
Interest on investments	46,222	102,075	178,080	127,152	23,964	36,443	45,089	17,411	35,987	67,117
Federal [(2)]	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185	11,750,878
Departmental services	2,360,891	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141	1,994,334
Other	502,074	491,064	537,816	570,634	535,534	519,936	513,919	595,305	630,355	604,336
Total revenues	22,341,723	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624	27,906,517
Expenditures										
Current:										
General government	425,243	530,637	555,545	617,056	581,364	558,013	563,195	575,919	538,243	553,807
Education	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325	7,182,444
Health and social services	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483	14,493,610
Law, justice, and public safety	1,109,819	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252	1,555,028
Recreation and resources development	491,681	544,744	525,885	707,866	599,885	555,717	682,531	705,043	655,168	711,526
Regulation of business and professions	119,620	92,888	134,955	129,688	131,614	139,200	136,644	135,877	164,673	165,238
Transportation	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946	1,753,581
Intergovernmental revenue sharing	683,925	738,349	815,832	842,096	810,063	874,094	825,777	851,535	844,628	897,312
Debt service:										
Principal	89,474	86,532	81,790	79,107	83,960	101,804	112,234	115,935	274,858	142,643
Interest	43,455	49,319	50,363	51,872	52,110	64,344	68,496	65,471	76,041	75,155
Debt issuance costs	2,159	1,082	1,173	980	4,362	4,837	4,363	4,793	2,659	1,452
Capital outlay	119,730	253,229	343,712	359,118	472,451	485,937	391,519	483,279	515,999	491,077
Total expenditures	22,115,456	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275	28,022,873
Revenues over (under) expenditures	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)	35,349	(116,356)
Other Financing Sources (Uses)										
Bonds and commercial paper issued	52,979	228,409	196,290	340,021	601,664	415,033	307,318	637,868	290,178	91,281
Commercial paper redeemed		(109,908)	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)		
Insurance claim recoveries		1,670	4,013	2,361	251			2,734	1,061	1,335
Premium on bond sale		2,485	2,049	2,760	30,147	26,358	11,132	37,069		
Refunding bonds issued [(3) (4)]	355,053				91,536	43,985	43,014	464,809	25,713	
Refunding bond premium [(3) (4)]	31,929				10,670		2,122	88,775	11,672	
Refunding payment to escrow [(3) (4)]	(386,261)				(101,707)	(43,985)	(44,816)	(552,898)	(25,473)	
Other						21,146	52,741			
Proceeds from pledged revenue								58,453	22,183	472
Transfers in [(1)]	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860	1,561,780
Transfers out [(1)]	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)	(1,763,423)
Total other financing sources (uses)	450	48,391	13,680	169,015	299,864	259,814	108,907	454,876	142,126	(108,555)
Net Change in Fund Balances	$ 226,717	$ 957,510	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475	$ (224,911)
Debt Service as a Percentage of Noncapital Expenditures	0.6241%	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%	0.8036%

(1) The increase in transfers in and transfers out between 2007 and 2008 was due to transfers from the General fund to the Education Trust fund for an increase in appropriation requirements and to the Capital Projects fund for capital outlay appropriations.

(2) The increase in federal revenue between 2009 and 2010 is the result of funding provided by the American Recovery and Reinvestment Act.

(3) The state issued approximately $500 million more in refunding bonds in FY 2012 than in the prior year resulting in significant increases to refunding bonds issued, premiums and payments to escrow.

(4) The state issued approximately $500 million less in refunding bonds in FY 2013 than in the prior year resulting in significant decreases to refunding bonds issued, premiums and payments to escrow.

Schedule 5

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Auto dealers	$ 9,444	$ 9,429	$ 9,389	$ 9,503	$ 7,938	$ 6,727	$ 7,674	$ 8,437	$ 9,285	$ 9,825
Purchases from manufacturers	4,150	4,803	4,679	4,745	4,497	3,492	3,657	4,013	4,053	4,072
Miscellaneous durable goods	14,183	15,845	17,209	17,441	16,348	13,748	14,497	15,588	16,377	16,800
Eating and drinking places	7,454	7,960	8,465	8,880	8,974	8,841	9,057	9,509	10,201	10,565
Food stores	7,937	8,196	8,419	8,731	8,601	8,823	8,886	9,218	9,689	10,049
Liquor stores	458	495	548	594	636	657	685	728	793	840
Hotels and motels	1,881	2,044	2,218	2,355	2,313	2,039	2,067	2,333	2,489	2,510
Other retail and service	24,286	25,806	27,134	28,303	28,236	26,801	27,310	28,748	30,182	31,032
Miscellaneous nondurable goods	6,521	7,024	7,293	7,758	7,784	7,365	7,646	7,990	8,425	8,729
Transportation, communication	6,410	6,682	7,353	7,689	7,910	7,729	6,923	7,089	6,566	6,330
Total taxable sales	$ 82,724	$ 88,284	$ 92,707	$ 95,999	$ 93,237	$ 86,222	$ 88,402	$ 93,653	$ 98,060	$ 100,752

Source: University of Tennessee Economic Report to the Governor

Schedule 6

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	6.00%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%
Energy fuels used by manufacturers and nurserymen	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Cable and wireless TV (between $15 and $27.50) and satellite services	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget
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,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Retail:										
Building materials	$ 363,952	$ 405,812	$ 423,160	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513	$ 371,086
General merchandise	735,074	767,584	820,549	829,576	810,503	799,387	817,350	840,896	836,055	845,407
Food stores	494,466	508,497	526,981	529,977	520,280	510,104	517,420	539,402	546,972	555,692
Auto dealers and service stations	815,985	817,689	856,109	835,035	672,112	690,797	760,119	830,875	869,748	933,751
Apparel and accessory stores	185,683	194,946	200,131	200,745	191,132	191,110	194,172	205,480	215,308	217,170
Furniture and home furnishings	222,089	238,475	246,569	244,312	215,352	207,398	214,575	224,096	221,025	228,231
Eating and drinking places	518,689	547,547	585,490	605,544	596,893	598,562	615,741	653,210	681,255	706,095
Miscellaneous retail stores	508,694	550,340	580,936	597,649	568,197	560,527	578,884	613,097	637,761	664,927
Total retail	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637	4,522,359
Services:										
Hotels and lodging places	131,675	142,333	154,081	160,909	146,253	137,973	144,129	160,868	164,403	175,227
Personal services	49,818	49,375	51,099	51,151	46,564	46,777	46,923	47,932	49,145	49,724
Business services	218,799	234,810	245,387	254,506	239,143	224,044	236,982	249,083	260,000	273,397
Auto repair, services, and parking	159,935	163,710	174,680	173,481	157,972	153,781	160,268	176,923	172,698	178,693
Miscellaneous repair services	24,873	27,100	28,387	28,441	25,321	22,801	23,189	24,384	25,636	26,807
Motion pictures	22,851	22,282	22,178	21,498	21,512	19,803	17,794	18,972	18,323	18,900
Amusement services	50,854	54,629	59,578	59,636	58,225	57,636	60,071	63,922	69,280	73,891
Health services	11,139	11,710	13,123	13,676	14,228	14,305	13,683	15,122	10,750	15,463
Other services	31,025	34,282	34,400	37,740	43,434	36,802	40,752	42,200	37,140	40,659
Total services	700,969	740,231	782,913	801,038	752,652	713,922	743,791	799,406	807,375	852,761
Non-retail, non-services:										
Agriculture, forestry, fishing	5,968	6,920	7,261	7,451	7,381	7,312	7,259	7,257	7,096	7,304
Mining	5,073	5,635	6,302	7,117	6,126	5,933	5,741	6,491	5,814	6,765
Construction	42,640	48,540	54,075	59,119	52,415	44,038	48,503	49,782	51,094	54,483
Manufacturing	289,494	312,570	305,558	299,223	256,995	225,530	241,844	255,062	256,157	264,955
Transportation	36,239	42,825	46,688	53,866	69,930	34,556	38,345	43,525	40,728	29,009
Communications	385,544	442,837	457,116	475,675	477,281	443,576	430,847	416,347	387,780	379,013
Electric, gas, and sanitary services	174,794	194,574	203,789	215,552	236,692	215,020	237,479	239,531	239,441	245,644
Wholesale trade	349,023	418,607	451,777	450,898	393,100	361,217	398,111	438,113	436,411	447,524
Finance, insurance, real estate	11,037	12,899	17,830	17,908	12,981	17,766	14,027	13,847	14,620	15,207
Total non-retail, non-services	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141	1,449,904
County Clerk	112,753	114,767	126,081	125,355	101,136	110,328	120,986	134,188	133,101	143,818
Consumer Use Tax	5,313	7,545	5,071	4,641	5,250	4,322	4,695	6,334	4,293	5,636
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	(2,649)	N/A	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(121)	N/A	N/A
Unclassified	N/A	N/A	N/A	N/A	N/A	N/A	N/A	208,275	258,465	279,555
Grand Total	$ 5,963,479	$ 6,378,840	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012	$ 7,254,033

Source: Revenue Collections Reports, Tennessee Department of Revenue
Notes: N/A means not available.
Disaster relief includes May 2010 flood tax rebate, April 2011 disaster relief, and sales tax rebate on storm shelters.
The 2012 report differed from the 2013 report in that it did not include Unclassified as a category. However, the 2013 report included the amount for 2012 and 2013. FY 2012 grand total was revised to include this amount.

Schedule 8

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Governmental activities debt:										
General obligation bonds	$ 1,044,830	$ 1,096,765	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458
General obligation commercial paper	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366
Capital leases	1,229	3,619	3,943	11,743	10,810	16,301	15,503	14,666	13,790	21,798
Total governmental activities debt	1,214,634	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566	2,342,622
Business-type activities debt:										
General obligation bonds	5,232	3,378	2,534	1,655						
Total business-type activities debt	5,232	3,378	2,534	1,655						
Total primary government debt	$ 1,219,866	$ 1,248,387	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566	$ 2,342,622
Debt Ratios										
Personal income	$ 184,637,000	$ 195,085,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	N/A
Ratio of total debt to personal income	0.66%	0.64%	0.61%	0.67%	0.79%	0.87%	0.85%	0.96%	0.94%	
Population	5,963	6,039	6,157	6,215	6,296	6,346	6,403	6,456	6,496	N/A
Net general bonded debt per capita	$ 205	$ 206	$ 203	$ 228	$ 270	$ 304	$ 307	$ 358	$ 368	
General Bonded Debt:										
General obligation bonds	$ 1,050,062	$ 1,100,143	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458
General obligation commercial paper	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366
Assets restricted for debt principal					(14,509)					
Total net bonded debt	$ 1,218,637	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776	$ 2,320,824
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%	43.11%	42.55%

Source: State of Tennessee Comprehensive Annual Financial Report
and the University of Tennessee Economic Report to the Governor

Notes: (1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 5H in the basic financial statements.

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

Debt Capacity(1)

State tax revenues allocated for FYE June 30, 2013 to:		
General fund	$ 5,401,932 *	
Debt service fund	402,200 *	
Highway fund	685,207 *	
Total allocated revenues		$ 6,489,339
Legal debt service limit (10% of total allocated revenues)		648,934
Less: maximum annual debt service at June 30, 2014		227,401
Legal debt service margin		$ 421,533

* Obtained from State of Tennessee Budget , Fiscal Year 2014-2015

Debt Capacity- Ten Year Trend(1)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt limit	$ 594,778	$ 628,010	$ 673,748	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288	$ 648,934
Total net debt service applicable to limit	155,215	148,033	145,975	145,721	154,803	186,684	203,866	209,820	243,779	227,401
Legal debt service margin	$ 439,563	$ 479,977	$ 527,773	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509	$ 421,533
Legal debt service margin as a percentage of the debt limit	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%	64.48%	64.96%

(1) Prior to July 1, 2013, in order to issue debt, the state had to have accumulated 150% of the amount necessary to pay annual interest and principal on debt obligations. As of July 1, 2013, the debt capacity test will be calculated as shown under the debt capacity heading. The debt capacity test is based on the allocated tax revenues of the immediately preceding fiscal year.

Pledged Revenues(2)

	Collections for Fiscal Year 2014		
	Portion Pledged	All Governmental Fund Types	Fiscal Year 2014 Pledged Amount
Gasoline tax	25%	$ 616,606	$ 154,152
Petroleum products fee	100%	63,244	63,244
Motor vehicle registration fee	50%	218,703	109,352
Franchise tax	100%	660,721	660,721
		$ 1,559,274	$ 987,469

(2) This pledge of "Special Taxes" is made for general obligation bonds issued prior to July 1, 2013. The final maturity of such bonds is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of special taxes will expire. All state general obligation bonds and notes constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state.

Schedule 10

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403 (est)	6,456 (est)	6,496 (est)
Total personal income	$ 174,727,000	$ 184,567,000	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000
Per capita personal income	$ 29,761	$ 31,127	$ 32,474	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682	$ 40,734
Unemployment rate	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%	8.0%	8.2%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor

Schedule 11

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

	2013			2004		
Industry	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment
Trade, Transportation, and Utilities	583,400	1	21.17%	587,900	1	21.73%
Government	417,500	2	15.15%	415,000	2	15.34%
Education and Health Services	401,500	3	14.57%	320,700	4	11.85%
Professional and Business Services	348,600	4	12.65%	302,300	5	11.17%
Manufacturing	320,300	5	11.62%	411,800	3	15.22%
Leisure and Hospitality	289,000	6	10.49%	253,600	6	9.37%
Financial Activities	139,600	7	5.07%	141,900	7	5.24%
Natural Resources, Mining, and Construction	108,500	8	3.94%	121,300	8	4.48%
Other Services	104,800	9	3.80%	101,700	9	3.76%
Information	42,100	10	1.53%	49,500	10	1.83%
Total	2,755,300		100.00%	2,705,700		100.00%
	Calendar Year 2013			Calendar Year 2004		
Total State Employment	2,818,360			2,733,850		

Source: An Economic Report to the Governor of the State of Tennessee January 2014
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.

Schedule 12

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government	4,394	4,671	4,964	5,040	4,947	4,866	4,786	4,705	4,703	4,327
Education	1,028	1,025	1,070	1,206	1,157	1,193	1,154	1,128	1,259	1,118
Health and social services (1)	20,431	21,246	21,208	20,990	19,704	19,241	17,917	17,453	17,036	16,735
Law, justice and public safety	10,922	10,987	10,843	11,004	10,530	10,629	10,534	10,592	10,940	11,249
Recreation and resources development	3,757	3,846	3,885	3,901	3,698	3,640	3,564	3,515	3,458	3,431
Regulation of business and professions	718	738	776	754	708	717	714	706	711	724
Transportation	4,454	4,448	4,380	4,294	4,167	4,326	3,940	3,809	3,678	3,439
Total	45,704	46,961	47,126	47,189	44,911	44,612	42,609	41,908	41,785	41,023

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.

Schedule 13

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government										
Motor pool vehicles	6,689	7,067	7,276	7,392	7,562	7,536	7,621	6,530	6,280	6,181
Buildings	108	107	107	107	107	107	109	110	110	97
Machinery and equipment	3,634	3,637	3,586	3,528	3,166	3,888	4,061	4,121	5,895	6,772
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	244	219	209	240	242	260	249	307	229	222
Health and social services										
Buildings	342	340	339	329	320	320	316	314	330	346
Machinery and equipment	2,031	2,142	2,303	2,443	2,462	2,856	2,600	2,862	3,020	3,357
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	19	20	20
Armories	86	86	86	83	83	83	83	83	83	83
Machinery and equipment	2,352	2,532	2,586	3,103	3,156	3,732	4,424	4,506	5,246	6,441
Recreation and resources development										
Acreage of state parks	164,251	164,399	164,537	165,486	173,878	163,032	173,382	191,563	184,521	188,573
Machinery and equipment	2,295	2,476	2,543	2,729	2,736	2,949	2,912	3,075	3,220	3,198
Regulation of business and professions										
Machinery and equipment	93	104	138	147	140	148	146	151	169	230
Transportation										
State highways (in miles)	14,151	14,163	13,835	13,887	13,882	13,871	13,867	13,877	13,884	13,898
Bridges, state and local highways	19,646	19,432	19,515	19,563	19,536	19,595	19,595	19,659	19,729	19,746
Facilities	122	122	122	122	122	122	122	122	122	122
Buildings	710	713	717	708	708	708	754	754	754	755

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

Function	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government										
Tax returns processed (1)	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716	3,914,540	4,682,702
New corporate charters registered	12,103	11,807	11,726	10,745	11,073	11,724	9,717	9,618	9,702	9,781
Investment return on total portfolio	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%	0.11%	0.12%
Residential and commercial property reappraisals completed	1,441,168	554,798	336,050	255,250	511,050	677,720	525,516	185,965	1,495,789	640,264
Education										
Number of public schools (K-12)	1,693	1,699	1,714	1,718	1,736	1,736	1,736	1,784	1,797	1,823
Enrollment of public schools (K-12)	976,574	991,489	925,898	929,543	930,525	933,703	934,246	935,317	993,256	993,841
Number of high school graduates from public schools	51,436	53,960	54,191	57,486	60,371	62,526	62,147	62,157	62,019	N/A
Health and social services										
TennCare enrollees	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521	1,187,082	1,271,151
Food stamp recipients	833,687	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000	1,200,000	1,280,000
Percentage of population (4)	13.98%	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%	18.59%	19.70%
Temporary assistance recipients	72,676	70,108	64,684	60,000	60,000	58,000	61,500	57,000	57,000	57,000
Percentage of population (4)	1.22%	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%	0.88%	0.88%
Children in state custody (2)	10,467	9,700	9,048	8,149	7,202	7,336	7,870	8,533	8,960	8,552
Percentage of population (4)	0.18%	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%	0.14%	0.13%
Mental health institutes average daily census	888	845	808	780	688	575	538	517	480	479
Law, justice and public safety										
Correctional institutions average daily census	19,141	19,119	26,573	26,998	27,325	27,164	27,782	29,231	29,654	29,758
Department of Safety citations issued	453,630	472,465	403,363	380,586	358,104	347,571	301,394	340,575	381,588	419,122
Drivers licenses issued	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905	1,734,205	1,741,379
Recreation and resources development										
Hunting/fishing licenses and boats registered	733,554	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935	547,660	586,839	538,971	569,447
Wetland acres acquired	782	3,308 (est.)	891 (est.)	3,602	2,327	79	559	1,604	1,127	1,598
Number of visitors to state parks	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603	29,881,059	32,063,100
Air pollution monitoring sites	86	87	86	78	89	93	32	32	41	40
Regulation of business and professions										
Fire safety inspections		18,418	34,976	39,518	34,241	37,920	34,539	27,058	25,601	27,724
Consumer affairs written complaints		5,528	5,420	5,797	5,481	6,240	5,818	5,541	5,407	5,447
Transportation										
Lane miles resurfaced (3)	2,188	1,632	2,408	1,968	2,893	2,261	2,317	2,298	2,596	2,447
HELP program services provided	148,805	154,362	128,006	130,062	108,460	112,438	116,865	130,941	118,773	124,823

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, or unruly.
(3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
(4) Population figures used in calculating percentages are from schedule 10.
(5) N/A indicates that data is unavailable.

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 448,955	$ 430,412	$ 66	$ 25,317
2006	484,786	440,014	56	23,896
2007	532,582	471,730	45	26,652
2008	565,963	510,261	35	33,177
2009	599,973	476,333	35	43,577
2010	648,298	493,304	12	43,998
2011	685,003	548,787		51,079
2012	584,147	411,729		49,835
2013	619,399	432,636		52,859
2014	650,337	464,961		56,462

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 151,536	$ 106,393		$ 5,609
2006	166,652	108,395		4,993
2007	177,082	116,006		6,013
2008	188,462	123,719		6,280
2009	195,365	114,524		8,914
2010	214,426	122,480		8,914
2011	237,768	133,514		8,839
2012	259,510	97,773		8,589
2013	265,206	94,419		8,511
2014	183,140	94,419		8,469

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 44,332	$ 32,216		$ 2,242
2006	50,818	32,684		2,104
2007	56,119	34,977		2,253
2008	57,821	36,371		2,581
2009	62,358	33,427		3,512
2010	70,128	39,157		3,512
2011	78,214	36,102		3,531
2012	85,043	26,502		3,330
2013	85,725	28,733		4,343
2014	74,084	28,733		6,014

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)
2005	$ 136,192	$ 85,305		$ 6,937
2006	149,759	86,971		6,455
2007	158,641	94,005		7,875
2008	168,872	100,859		8,011
2009	182,576	92,908		12,962
2010	199,352	101,836		12,962
2011	180,529	100,110		14,928
2012	218,283	74,071		14,780
2013	232,344	77,254		17,575
2014	180,748	77,254		19,641

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 92,599	$ 83,221	$ 312	$ 2,824
2006	101,586	85,040	2,242	2,221
2007	108,864	90,643	2,070	2,895
2008	122,334	98,105	1,889	5,172
2009	137,173	91,775	1,699	9,489
2010	159,993	85,322	1,399	9,502
2011	169,479	97,996	1,399	9,229
2012	177,436	77,520	1,399	9,142
2013	192,055	79,860		9,926
2014	115,941	79,860		12,028

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 57,504	$ 37,110		$ 3,001
2006	59,847	37,864		2,893
2007	60,537	39,913		2,911
2008	85,505	41,775		3,506
2009	80,016	38,085		4,041
2010	85,831	44,400		4,041
2011	91,919	40,831		4,071
2012	97,171	28,782		4,056
2013	97,174	29,959		4,237
2014	75,307	29,959		4,241

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 52,138	$ 42,742		$ 1,168
2006	56,568	43,370		1,042
2007	61,679	46,012		1,242
2008	70,801	48,812		1,273
2009	76,045	47,577		1,786
2010	81,475	48,133		1,786
2011	89,100	50,616		3,104
2012	100,915	35,747		3,102
2013	110,217	36,914		3,479
2014	93,241	36,914		4,079

Dyersburg State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 5,490	$ 6,386		
2006	5,451	6,490		
2007	6,032	7,118		$ 117
2008	6,141	7,612		116
2009	6,945	7,276		116
2010	9,027	7,758		116
2011	9,988	7,985		
2012	10,626	6,570		
2013	10,647	6,900		
2014	9,151	6,900		

Chattanooga 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)
2005	$ 18,216	$ 21,977		$ 73
2006	19,084	22,336		69
2007	20,832	23,697		280
2008	22,190	25,074		489
2009	26,466	23,937		489
2010	29,512	24,926		489
2011	34,021	26,901		285
2012	36,319	20,643		285
2013	36,895	21,983		351
2014	32,676	21,983		374

Jackson State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 8,958	$ 11,282		
2006	9,280	11,480		
2007	10,614	12,383		$ 168
2008	11,512	13,147		166
2009	12,383	13,264		166
2010	14,749	11,710		166
2011	15,739	13,193		
2012	16,009	10,652		
2013	14,918	10,871		
2014	13,749	10,871		

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)
2005	$ 5,737	$ 9,580		
2006	6,249	9,683		
2007	6,422	10,317		$ 169
2008	7,360	10,856		168
2009	8,336	10,379		213
2010	9,958	10,992		213
2011	10,979	11,432		45
2012	11,373	9,088		45
2013	11,377	8,887		45
2014	11,513	8,887		45

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)
2005	$ 9,416	$ 12,057		$ 17
2006	9,943	12,204		17
2007	10,077	13,194		17
2008	10,903	13,986		18
2009	11,755	13,824		14
2010	14,406	12,463		18
2011	15,413	14,098		18
2012	15,296	11,467		18
2013	15,792	11,326		112
2014	15,232	11,326		127

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Motlow State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 7,022	$ 9,343		
2006	7,678	9,434		
2007	8,661	10,290		$ 171
2008	9,780	10,951		170
2009	11,148	12,890		170
2010	13,121	9,143		170
2011	13,983	11,023		
2012	14,494	9,774		
2013	14,062	10,359		
2014	14,036	10,359		

Nashville 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)
2005	$ 13,955	$ 13,449		$ 13
2006	15,615	14,045		13
2007	15,828	15,185		13
2008	17,657	16,370		85
2009	19,900	15,619		70
2010	24,984	14,585		85
2011	30,011	16,451		85
2012	30,181	13,965		73
2013	30,199	14,592		73
2014	28,533	14,592		73

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 11,823	$ 16,470		
2006	12,528	16,660		
2007	13,510	17,892		$ 330
2008	14,478	18,976		323
2009	15,366	18,104		323
2010	18,411	16,997		323
2011	20,532	19,098		153
2012	21,580	15,571		153
2013	21,902	15,619		145
2014	21,902	15,619		141

Northeast 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)
2005	$ 7,702	$ 10,958		
2006	8,471	11,147		
2007	9,191	12,256		$ 212
2008	9,423	13,199		209
2009	10,140	12,678		209
2010	10,798	13,247		209
2011	12,141	13,291		43
2012	13,934	12,069		43
2013	12,654	12,970		41
2014	17,593	12,970		40

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 16,749	$ 36,210		$ 179
2006	18,166	36,905		169
2007	22,042	38,723		174
2008	30,403	40,131		175
2009	36,691	38,230		389
2010	39,546	40,340		389
2011	42,093	40,168		390
2012	41,966	32,359		357
2013	39,705	31,281		357
2014	36,221	31,281		358

Pellissippi 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)
2005	$ 17,376	$ 18,935		
2006	19,184	19,252		
2007	20,801	20,657		$ 293
2008	23,917	22,037		375
2009	25,530	20,983		376
2010	32,052	19,105		376
2011	35,757	22,100		179
2012	36,322	18,910		178
2013	44,992	20,887		178
2014	35,680	20,887		171

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2005	$ 13,206	$ 16,303		$ 17
2006	14,224	16,548		17
2007	14,974	17,995		140
2008	16,565	19,245		139
2009	17,802	18,351		139
2010	22,240	18,944		139
2011	24,326	20,729		17
2012	26,812	15,650		17
2013	25,995	15,577		16
2014	25,256	15,577		

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)
2005	$ 11,798	$ 16,643		
2006	12,740	16,860		
2007	14,097	18,249		$ 294
2008	15,810	19,429		289
2009	17,859	19,601		289
2010	21,454	19,180		289
2011	21,821	19,986		102
2012	23,034	16,078		102
2013	23,157	17,227		97
2014	21,112	17,227		94

Source: Comptroller of the Treasury,
Division of State and Local Finance
Note: Prior year amounts do not reflect later adjustments made by the institutions.

STATE OF TENNESSEE **Schedule 16**
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, 2014

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 282	$ 11,245	$ 29,695	$ 4,008	$ 6,288
University of Tennessee- Chattanooga	300	8,138	24,256	3,100	5,900
University of Tennessee- Martin	380	8,024	21,968	2,571	4,570
Austin Peay State University	274	7,462	22,678	2,643	5,526
East Tennessee State University	180	7,985	25,151	2,940	4,398
Middle Tennessee State University	408	8,188	25,252	3,050	4,363
Tennessee State University	178	7,224	20,580	2,978	3,255
Tennessee Technological University	58	8,017	23,767	4,764	3,176
University of Memphis	490	8,973	14,829	4,150	4,180
Chattanooga State Technical Community College		4,027	19,345		
Cleveland State Community College		3,985	19,303		
Columbia State Community College		3,973	19,291		
Dyersburg State Community College		4,001	19,319		
Jackson State Community College		3,987	19,305		
Motlow State Community College		3,978	19,296		
Nashville State Technical Community College		3,927	19,245		
Northeast State Technical Community College		3,989	19,307		
Pellissippi State Technical Community College	30	4,041	19,359		
Roane State Community College		4,005	19,323		
Southwest Tennessee Community College		4,017	19,335		
Volunteer State Community College		3,975	19,293		
Walters State Community College		3,990	19,308		

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

STATE OF TENNESSEE **Schedule 17**
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2014
(expressed in thousands)

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 635,140	$ 87,549	$ 722,689
Austin Peay State University	84,601	8,046	92,647
East Tennessee State University	145,207	463	145,670
Middle Tennessee State University	215,777	26,143	241,920
Tennessee State University	31,697		31,697
Tennessee Technological University	44,296	3,829	48,125
University of Memphis	95,461	12,240	107,701
Chattanooga State Technical Community College	2,919		2,919
Cleveland State Community College	323		323
Columbia State Community College	1,236		1,236
Nashville State Technical Community College	489		489
Northeast State Technical Community College	236		236
Pellissippi State Technical Community College	1,143		1,143
Roane State Community College	830		830
Southwest Tennessee Community College	2,203		2,203
Walters State Community College	553		553
	$ 1,262,111	$ 138,270	$ 1,400,381

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

SECURITIES & EXCHANGE COMMISSION DISCLOSURES

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, Commissioner
Mike Morrow, Deputy Commissioner, F&A Operations
Jan Sylvis, Chief of Accounts

The Comprehensive Annual Financial Report was prepared by the Administration and Financial Oversight sections of the Division of Accounts with assistance from the following other sections:

Accounts Payable
Asset Management
Cash Management/Clearing Accounts
Cash Management Improvement Act/Credit Cards
Centralized Accounting
Departmental Accounting
General Ledger
Payroll
Policy Development
Vendor File Maintenance

The Department of Finance and Administration would like to extend special appreciation to all fiscal and accounting personnel throughout the state who contributed the financial information for their agencies.

Special Acknowledgement

The Department of Finance and Administration, Division of Accounts staff are indebted to Jan I. Sylvis for her guidance and constant supervision during the CAFR preparation processes throughout the past 20 years.