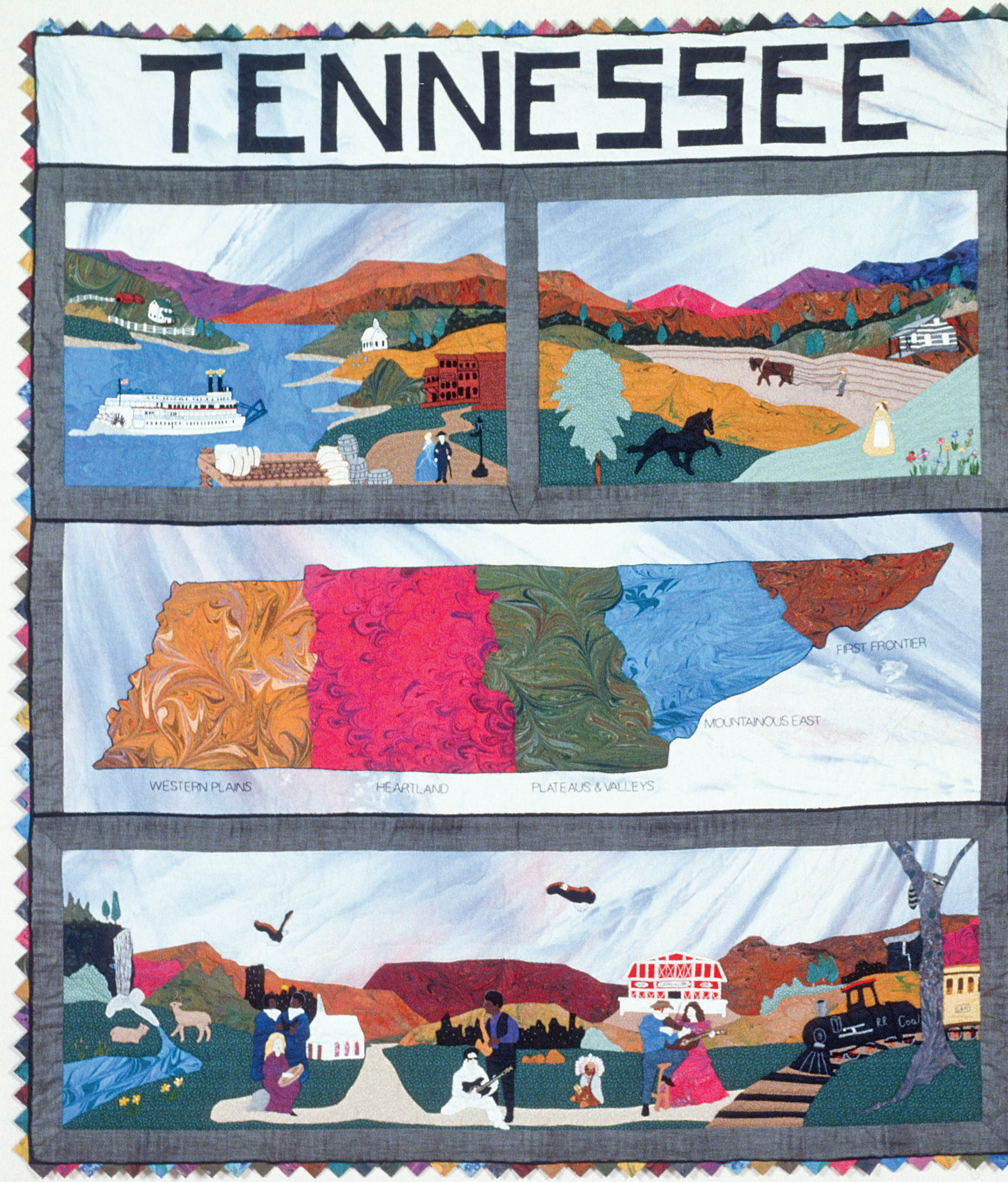

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2008

Comprehensive Annual Financial Report • For the Fiscal Year Ended June 30, 2008

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2008

PHIL BREDESEN, Governor

DEPARTMENT OF AUDIT
JOHN G. MORGAN, Comptroller of the Treasury
Division of State Audit
ARTHUR A. HAYES, JR., Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
M.D. GOETZ, JR., Commissioner
Division of Accounts
JAN I. SYLVIS, CHIEF OF ACCOUNTS

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Photographic Services
State of Tennessee

Tennessee Department of Finance and Administration, Authorization No. 317332, December 2008. 240 copies. This public document was promulgated at a cost of $7.92 per copy.

STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008

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INTRODUCTORY SECTION

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

DAVE GOETZ
COMMISSIONER

December 12, 2008

To the Honorable Phil Bredesen, Governor of the State of Tennessee, Members of the Legislature, and Citizens of the State of Tennessee.

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2008.

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

State statutes require an annual audit of all financial statements of the state. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2008. The independent auditor's report is located at the front of the financial section of this report.

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

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

Profile of the Government

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 41,219 square miles and a population estimated to be 6 million. The State has three branches of government, Executive, Legislative and Judicial. The Governor, who appoints commissioners to lead the various departments, heads the Executive branch. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The State of Tennessee provides a full range of services including education, health and social services, transportation, law, correction, safety, resources, regulation, and business and economic development. Its financial reporting entity includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable.

State legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and the Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

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

Local economy

The Tennessee economy weakened as 2007 unfolded, following the path of the national economy. Tennessee's job growth in 2007 was only 0.8 percent, the poorest showing since 2003. Many counties in the state, especially those in rural areas, have struggled to maintain a viable job base. As job growth has weakened the unemployment rate has moved upward. The slowdown has hurt income growth and has dampened taxable sales growth, in turn putting pressures on the state budget and the budgets of local governments across the state.

The state's pattern of job and overall economic growth continues to undergo transformation. Manufacturing job and plant losses have continued, as has been the case for the nation. Because rural Tennessee has relied disproportionately on manufacturing, many rural communities have suffered significant job losses. Metropolitan areas of the state continue to benefit from growth in the service sector. Job growth, per capita income levels and unemployment rates are generally more attractive in metropolitan areas of the state.

Tennessee's economic growth is expected to decelerate further in 2008, and most measures of economic prosperity are expected to weaken relative to both 2006 and 2007. Tennessee's fate will of course be dictated by the path taken by the national economy. A delayed national housing market rebound would delay a return to stronger growth in Tennessee. Consistent with recent history, it is expected that the national economy will in fact do better than the state economy in 2008 and 2009.

Per capita income is a good proxy measure of quality of life since it captures the average ability to purchase goods and services from the market. Tennessee and most other states within the southeast have long lagged behind the nation in per capita personal income. A primary explanation is relatively lower levels of educational attainment among states within the region. Tennessee is now placed 4th among the southeastern states, moving up one notch since 2000. Per capita income in Tennessee was 88.4 percent of the national average in 2006, compared to 87.8 percent in 2000 and 85.7 percent in 1990.

Job growth and population growth tend to go hand in hand. Between 2000 and 2006, the state's population grew more slowly than the nation, but ahead of the overall pace of job growth in the state. Between 1997 and 2007, Tennessee experienced 8.6 percent job growth compared to 12.4 percent for the nation as a whole. The state's job growth performance placed it 7th among the other southeastern states. Manufacturing has been a primary source of job losses across the state, with 1998 being the last year the Tennessee (or the national) economy added a net new job in the industrial sector. On an annual basis, the state's unemployment rate averaged 4.6 percent in 2007, matching the unemployment rate for the nation.

Agricultural activities account for 11.7 percent of Tennessee's economy. In 2006 the number of farms in Tennessee continued a decade's long decline. Nationally, Tennessee ranks 6th in the number of farms, 26th in the number of farm acres, and 44th in average farm size. Between 1990 and 1997, government payments accounted for 15 percent of net farm income in Tennessee. In contrast, between 1998 and 2006, 48 percent of net farm income for Tennessee farmers came from government payments. Tennessee's increased dependence on direct government payments reflects what was happening for the country as a whole as a result of a change in farm policy in 1996 that moved away from supply management policies and toward policies that supplement income. The possible future development of a farm based biofuels industry holds tremendous potential for generating new farm sector income through production of switchgrass and other energy crops on marginal lands.

Long-term financial planning

In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated state tax revenues to be allocated to the general fund and education trust fund. The revenue fluctuation reserve 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. $218.2 and $207.1 million were added to this reserve in the 2006-2007 and 2007-2008 budget years, respectively. The reserve is currently at the highest level ever.

In 2002, Tennessee initiated an Enterprise Resource Planning (ERP) automation assessment study to research the feasibility of implementing an ERP system to meet the state's financial management, procurement, human resources, payroll administration and other administrative business needs. In 2005, the software and a prime contractor were procured. The system, *Edison*, is expected to significantly improve the state's business processes, and thereby its effectiveness and efficiency. The system will enable the use of best management practices for financial, procurement, human capital management and other administrative operations. During this fiscal year, the project moved closer to implementation, with the human capital management phase of the project successfully beginning operations on October 1, 2008. The financials, procurement and logistics phase of the project is scheduled to begin operations on January 1, 2009.

Facing a worsening national economy and revenue collections below estimates, steps are being taken to protect public education and balance Tennessee's budget with no new taxes. One of these steps, an August 2008 voluntary employee buyout program to reduce the size of the state's workforce, was established with a goal of reducing $64 million in recurring expenditures from the state budget.

Relevant financial policies

Budgets are developed to maintain balance between recurring revenues and recurring appropriation requirements, to invest in education to the maximum extent possible; to invest in economic development, public health, safe communities and environmental quality; and to maintain and supplement the rainy day fund.

Current revenue shortfalls are being handled with careful agency management of spending. Limitations on funding of program improvements and capital outlay also have been necessary in achieving balance between recurring revenues and recurring appropriations. Financial performance is continually monitored and adjustments made as needed.

Subject to the specific provisions of an appropriation act, state legislation allows certain funds, reserve accounts or programs carry forwards to be denied, and allows for the transfer of funds from the same, for purposes of meeting the requirements of funding the operations of state government for the fiscal year ending June 30, 2006, and subsequent fiscal years.

Major initiatives

Tennessee continues to focus on making education the state's fundamental priority. It is considered the key to the future success of the state. The protection of funding for K-12 education from budget cuts remains paramount, and recent higher education initiatives have included assistance in raising educational attainment by a broader segment of the population.

Tennessee is also dedicated to the protection of its natural resources, environment, economy and the health of its citizens. That commitment includes a focus on promoting the efficient use of natural resources, including renewable alternative fuels, such as biodiesel and ethanol (biofuels) made from agricultural products. The vision is to position Tennessee in a strategic leadership position in the development of a commercially viable biofuels industry.

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, 2007. This was the twenty-ninth consecutive year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The Tennessee Consolidated Retirement System has also received a Certificate of Achievement for Excellence in Financial Reporting award for nineteen consecutive years for its Comprehensive Annual Financial Report. In addition, the GFOA presented its Distinguished Budget Presentation Award to the state for its annual budget for the fiscal years beginning July 1, 1991 through July 1, 1994 and July 1, 1997 through July 1, 2007. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

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

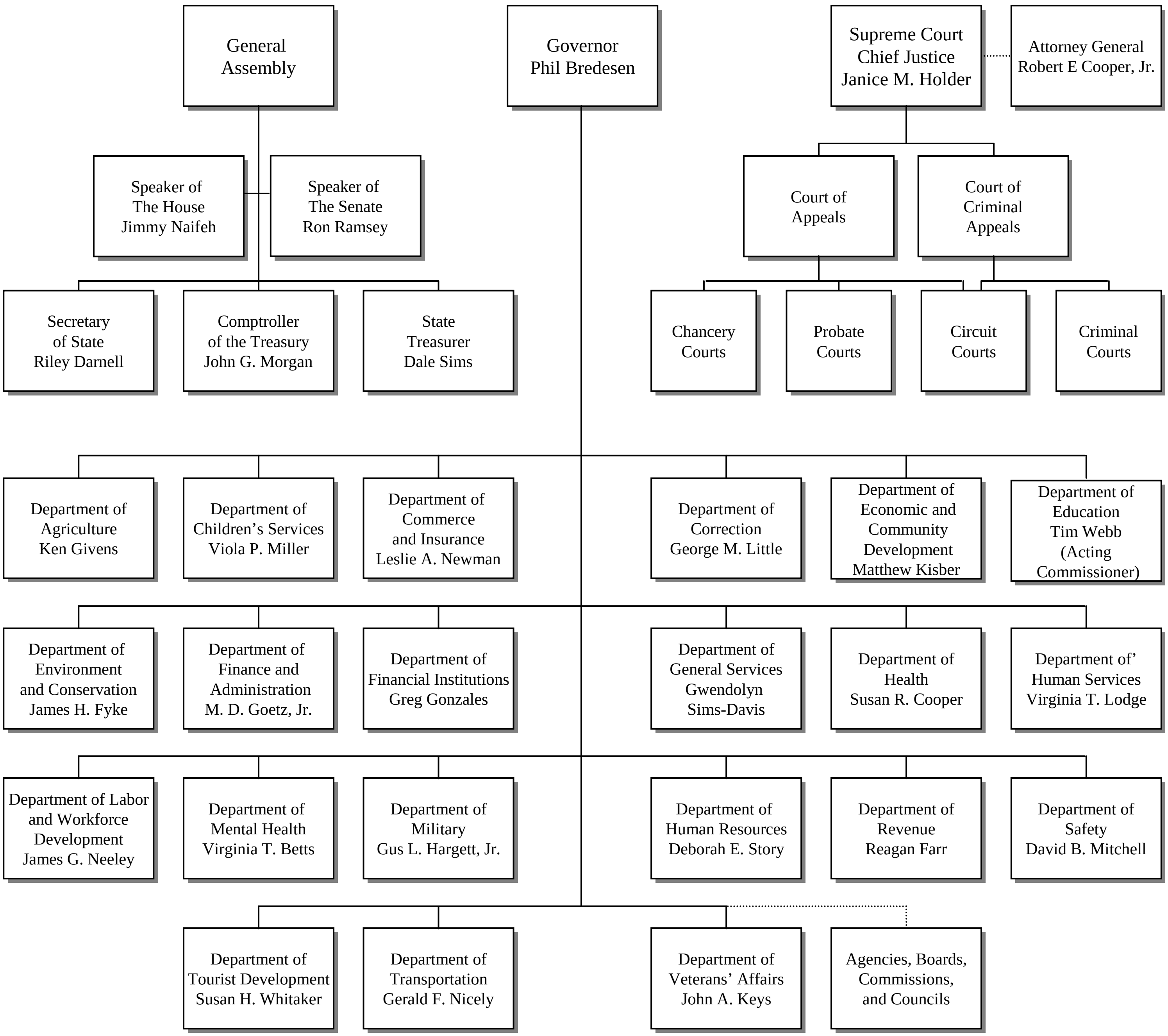
Respectfully submitted,

M. D. Goetz, Jr.
Commissioner

Jan Sylvis

Jan Sylvis
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2008



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, 2007

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

President

Executive Director

FINANCIAL SECTION

STATE OF TENNESSEE
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PHONE (615) 401-7897
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Independent Auditor's Report

December 12, 2008

To the Members of the General Assembly
of the State of Tennessee
and
The Honorable Phil Bredesen, Governor
of the State of Tennessee

Ladies and Gentlemen:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Local Education Insurance Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, Tennessee Consolidated Retirement System, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistance Corporation, and the Tennessee State School Bond Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

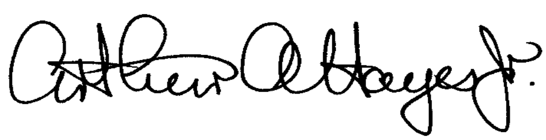
As discussed in Note 4 to the financial statements, the State has implemented the Governmental Accounting Standards Board's statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with generally accepted government auditing standards, we will issue our report dated December 12, 2008, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2008. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-6 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Assets - The assets of the State exceeded its liabilities at June 30, 2008, by $26.96 billion (reported as net assets). Of this amount, $2.8 billion may be used to meet the State's obligations not funded by restricted net assets. However, $21.8 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

  Changes in Net Assets - The State's net assets increased by $481.15 million. This increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets netted with a decrease in the General fund's fund balance. Because of this decision, the State capitalized infrastructure expenditures of $640.9 million and did not record depreciation expense. Other capital assets are depreciated.

  Component units - Component units reported net assets of $4.97 billion, an increase of $276.16 million.

- **Fund Level:**

  At June 30, 2008, the State's governmental funds reported combined ending fund balances of $4.3 billion, a decrease of $122.05 million (see discussion on page 18) compared to the prior year. Of the combined fund balance approximately $2.06 billion is available for spending at management's discretion (unreserved fund balance), however $750 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

  The State's total debt increased by $168.8 million during the fiscal year to total $1.418 billion. This change primarily results from the State's decision to issue general obligation bonds during the fiscal year to obtain long–term financing for capital projects.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 25 and 26-27) provide information about the activities of the State as a whole (government-wide statements) and present a longer-term view of the State's finances. Fund financial statements start on page 30. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the State as a whole begins on page 15. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the State's major funds begins on page 18. The fund financial statements begin on page 30 and provide detailed information about the most significant funds–not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds–governmental and proprietary–use different accounting approaches.

Governmental funds focus on the near–term inflows and outflows of funds and the balances left at year–end available for spending. The *modified accrual basis of accounting* is used for these funds, which means that we measure cash and all other financial assets that can readily be converted to cash. These statements provide a short-term view of the State's basic general government operations. One can determine whether there are more or fewer financial resources that can be spent in the near future. The governmental activities in the Statement of Net Assets are reconciled to the governmental funds in the fund financial statements in a reconciliation at the bottom of the fund financial statements.

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

Notes to the financial statements. Notes to the financial statements are also included and provide necessary information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units.

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by $26.96 billion as of June 30, 2008.

By far, the largest portion of the State's net assets (81%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment and software in development), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee
Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	$ 7,044,385	$ 6,752,432	$ 1,736,400	$ 1,705,301	$ 8,780,785	$ 8,457,733
Capital assets	22,388,322	21,561,468	51		22,388,373	21,561,468
Total assets	29,432,707	28,313,900	1,736,451	1,705,301	31,169,158	30,019,201
Current and other liabilities	2,127,399	1,753,041	60,662	53,978	2,188,061	1,807,019
Noncurrent liabilities	2,013,409	1,724,879	6,855	7,617	2,020,264	1,732,496
Total liabilities	4,140,808	3,477,920	67,517	61,595	4,208,325	3,539,515
Net assets:						
Invested in capital assets, net of related debt	21,796,151	21,078,481	51		21,796,202	21,078,481
Restricted net assets	864,270	792,542	1,479,166	1,472,523	2,343,436	2,265,065
Unrestricted net assets	2,631,478	2,964,957	189,717	171,183	2,821,195	3,136,140
Total net assets	$ 25,291,899	$ 24,835,980	$ 1,668,934	$ 1,643,706	$ 26,960,833	$ 26,479,686

An additional portion of the State's net assets (8.69%) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets ($2.8 billion) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted. See notes to the financial statements, note 4, on page 53 for explanations for June 30, 2008 adjustments.

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

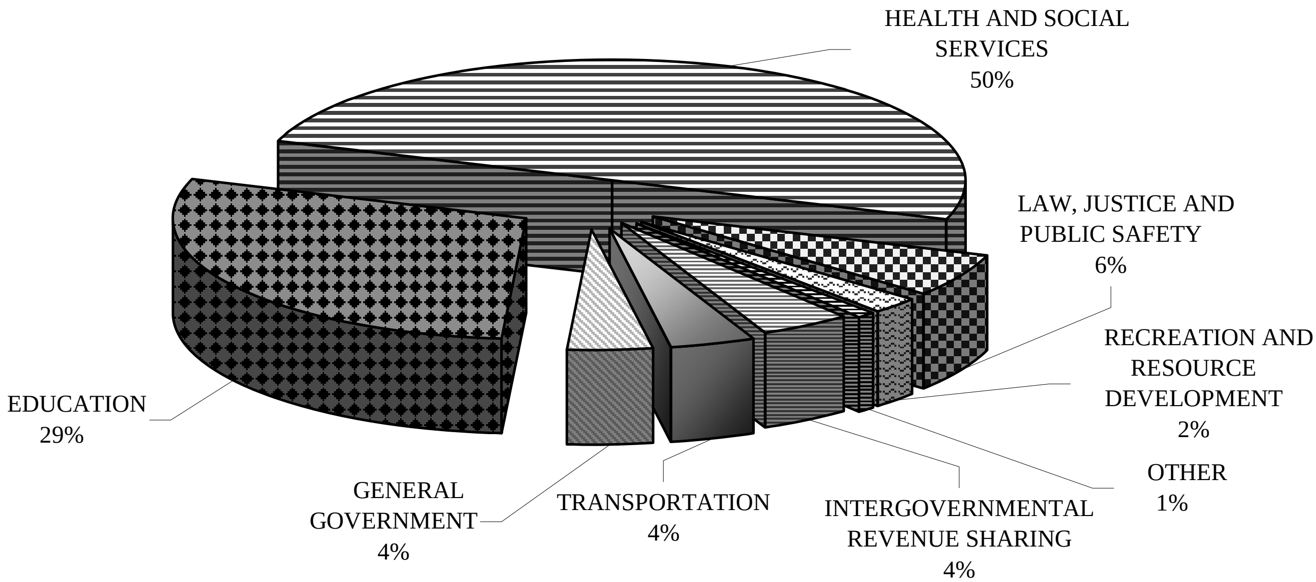
The State's net assets increased by $481.15 million during the year ended June 30, 2008. As previously discussed, much of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized $640.09 million in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Offsetting the capitalization of infrastructure is a decrease which was primarily generated by expenditures and transfers out in the General Fund exceeding transfers in and revenues.

State of Tennessee
Changes in Net Assets
(Expressed in Thousands)

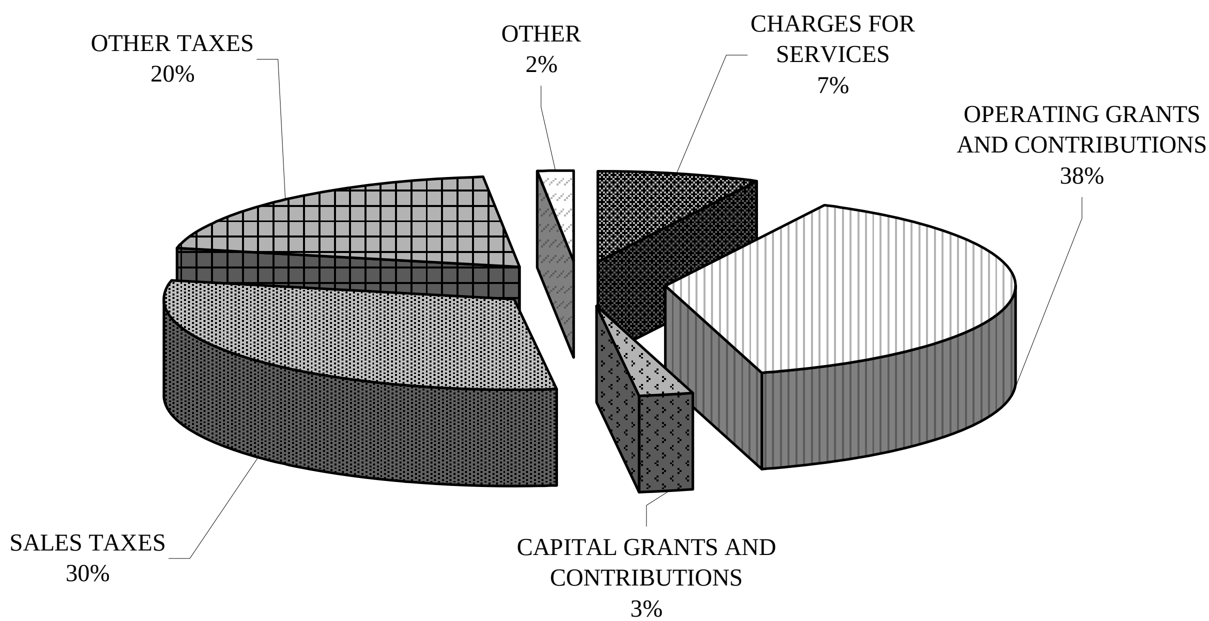
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 1,678,955	$ 1,529,913	$ 912,005	$ 810,786	$ 2,590,960	$ 2,340,699
Operating grants and contributions	8,612,838	8,481,473	124,576	116,569	8,737,414	8,598,042
Capital grants and contributions	600,404	708,384			600,404	708,384
General revenues:						
Sales Taxes	6,851,481	6,819,570			6,851,481	6,819,570
Other taxes	4,512,437	4,401,297			4,512,437	4,401,297
Other	396,022	364,284			396,022	364,284
Total revenues	22,652,137	22,304,921	1,036,581	927,355	23,688,718	23,232,276
Expenses:						
General government	837,250	738,897			837,250	738,897
Education	6,464,564	5,884,841			6,464,564	5,884,841
Health and social services	11,125,967	10,448,373			11,125,967	10,448,373
Law, justice and public safety	1,325,500	1,221,175			1,325,500	1,221,175
Recreation and resources development	613,902	485,852			613,902	485,852
Regulation of business and professions	123,391	129,107			123,391	129,107
Transportation	808,591	835,751			808,591	835,751
Intergovernmental revenue sharing	842,096	815,832			842,096	815,832
Interest on long-term debt	51,086	50,003			51,086	50,003
Payments to fiduciary fund		25,950				25,950
Employment security			541,573	467,327	541,573	467,327
Insurance programs			469,491	413,483	469,491	413,483
Loan programs			1,655	1,473	1,655	1,473
Other			2,744	2,595	2,744	2,595
Total expenses	22,192,347	20,635,781	1,015,463	884,878	23,207,810	21,520,659
Increase (decrease) in net assets before contributions and transfers	459,790	1,669,140	21,118	42,477	480,908	1,711,617
Transfers	(4,110)	(5,028)	4,110	5,028		
Contributions to permanent funds	239	270			239	270
Increase (decrease) in net assets	455,919	1,664,382	25,228	47,505	481,147	1,711,887
Net assets, July 1	24,835,980	23,171,598	1,643,706	1,596,201	26,479,686	24,767,799
Net assets, June 30	$ 25,291,899	$ 24,835,980	$ 1,668,934	$ 1,643,706	$ 26,960,833	$ 26,479,686

Governmental activities. Net assets of the State's governmental activities increased by $455.92 million, which accounts for 94.76% of the total growth of net assets of the primary government. Most of this increase is due to the State capitalizing $640.9 million in infrastructure expenditures and not recording depreciation expense on these assets. In addition, the General Fund decreased by $482.58 million. This decrease was primarily due to an increase in transfers out to the Education Fund. See notes to the financial statements, note 4, on page 53 for explanations for June 30, 2008 adjustments.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net assets of the State's business-type activities increased by $25.2 million, which accounts for 5.2 percent of the total growth in net assets of the primary government. The majority of the increase was caused by a $44.7 million increase in the Sewer Treatment Loan Program, which resulted from additional loans issued and the federal monies received for these loans, and the Clean Water Loan Fund increase of $15.8 million due to increased loan activity. Employment Security reported a deficit of $53.9 million primarily as a result of increased benefits expenditures.

THE STATE'S FUNDS

Tax collections increased for the year and expenditures also increased. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been increased to $750 million or 4.9% of General fund expenditures.

General fund revenue collections increased for the year by $260.4 million. Contributing to this increase was federal revenue collections which increased by $156 million primarily due to increased expenditures in the TennCare program. Also, Tobacco tax collections in the General fund increased by $29 million due to an increase in the Tobacco tax of $0.42 per pack and offsetting these increases was a decline in Franchise and Excise tax collections which were down $156 million due to receding corporate profits.

General fund expenditures increased approximately $899.7 million. The Department of Environment and Conservation's expenditures increased by $118.9 million. This was primarily the result of new wilderness conservation efforts administered by the State. TennCare expenditures increased by $373.5 million and an increase in Human Services, Children in State Custody and Mental Health expenditures accounts for $184.4 million of the total increase. These increases reflect the rising cost of community residential placements and associated medical costs as well as a continued increased demand for services in the health and social services function. Overall general government expenditures increased by $72 million as a consequence of rising costs in personnel administration and benefits.

Assets in the General fund decreased by approximately 3.53%. The fund balance of the General fund decreased by 18%.

The Education Trust fund revenues increased approximately $137 million for the year. This increase is primarily due to the first full year collections of the tobacco tax increase ($118.6 million). In addition, transfers in increased $371 million. This increase was from the General fund to fund the increase in appropriation requirements of the Education Trust fund.

Education Trust fund expenditures increased approximately $543 million or 9.4%. Most of the increase was to maintain full funding of the Basic Education Program (BEP) formula, to fund the state's share of the group health insurance increase for local education agencies, and to provide first year funding of BEP reform ($337.9 million). BEP reform revises various provisions regarding the BEP formula, including requiring the state to provide 75 percent of the funds generated for instruction positions within the classroom component. In addition, appropriations to the college and university systems increased approximately $108.4 million to provide additional funding for operational support, equipment replacement funds for the technology centers, and start-up costs for a biofuels facility.

Overall revenues and expenditures decreased $73 million and $81.8 million, respectively for the highway fund. Expenditures and revenues decreased primarily as a result of a decrease in the availability of federal funds. More than $237 million of federal funds has been rescinded in the last 3 years. Over time, this reduction in the availability of federal funds resulted in fewer projects commencing.

The total plan net assets of the pension trust funds were $31.6 billion, a decrease of approximately $731 million from the prior year. As a result of the decline in the performance of the financial markets, the pension trust funds incurred a net investment loss of $406 million.

General Fund Budgetary Highlights

A significant variance occurred in transfers in to the General fund between original and final budget primarily because of the General Assembly's authorization of transfers from the Special Revenue funds for the purpose of funding the requirements of the state's operations. Tax collections were $616.8 million under estimates due to greater than expected declines in retail sales including a large decline in sales of building materials, a result of a slowdown in the housing market. Business taxes were below estimates as a result of the decline in corporate profits, also a result of weaker economic conditions. Federal revenue collections were less than estimates by $177.7 million due to pharmacy savings in the Tenncare program. Additionally, there has been a noticeable decline in long–term care costs as more people opt for at home care instead of nursing home or assisted living care. This also resulted in positive expenditure variances for the Tenncare program. Timing differences between actual state appropriations and expenditure recognition resulted in positive variances for the Cover Tennessee Health Care program. Timing differences as a result of multi–year projects also contributed to a favorable expenditure variance in the State Health Planning division and in Economic and Community Development programs.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets at June 30, 2008, of $22.39 billion, net of $1.2 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
(Expressed in Thousands)

	Governmental Activties		Business-Type Activties		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land	$ 1,435,671	$ 1,299,443			$ 1,435,671	$ 1,299,443
Infrastructure	18,517,266	17,756,402			18,517,266	17,756,402
Construction in progress	1,072,892	1,236,900			1,072,892	1,236,900
Structures and improvements	1,871,097	1,794,932			1,871,097	1,794,932
Machinery and equipment	622,221	587,081	$ 51		622,272	587,081
Software in development	69,339	39,055			69,339	39,055
Subtotal	23,588,486	22,713,813	51		23,588,537	22,713,813
Accumulated depreciation	(1,200,164)	(1,152,345)			(1,200,164)	(1,152,345)
Total	$ 22,388,322	$ 21,561,468	$ 51		$ 22,388,373	$ 21,561,468

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 2007 to 2008 by approximately 3.9 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure (highways and bridges). Infrastructure increased in total by $761 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $557.5 million and decreased (projects completed and capitalized) by $778.7 million. Infrastructure right-of-way acreage increased the land classification by $83.5 million. The structures and improvements increase of $76.1 million consisted largely of the capitalization of a mental health facility lease of approximately $30 million, new improvements to the Governor's mansion of 7.8 million, improvements for Military's State Area Command Headquarters which consisted of approximately $13.9 million in capital outlays and other miscellaneous projects. The net change in machinery and equipment of $35.14 million resulted primarily from replacing aged equipment. The State's Enterprise Resource Planning system project, *Edison*, is in the application development stage, accounting for the additional capitalization of $30.3 million in software in development.

In accordance with generally accepted accounting standards, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,163 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 111), indicated that bridges were rated at 6 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 2007-2008 fiscal year reflects an improvement over previous years. Some new projects have been approved—expansions at the Southeast Tennessee Regional Correction Facility—for law, justice and public safety and numerous new K-12 school construction projects—for education. A number of new projects, such as renovations at the MTSU Learning Resources Center, the University of Tennessee facilities and the Nashville State Technical Community College Academic Building have also been approved. In addition, the capital outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, capital outlays for wilderness preservation and statutory requirements for prisons' physical plant maintenance and additions.

Debt Administration

In accordance with the Constitution, the State has the authority to issue general obligation debt that is backed by the full faith and credit of the State. The Legislature authorizes a certain amount of debt each year and the State Funding Board has oversight responsibility to issue the debt for capital projects. Capital spending is also authorized by the Legislature and the State Building Commission has oversight responsibility for all capital projects exceeding $100 thousand (for new construction) and maintenance to existing facilities. The State issues Commercial Paper as a short-term financing mechanism for capital purposes and the Commercial Paper is typically redeemed with long-term bonds. The unissued balance by function (expressed in thousands) follows:

Purpose	Unissued June 30, 2008
Highway	$ 913,700
Higher Education	79,795
Environment and Conservation	11,012
General Government	1,157,262
Local Development Authority	11,150
Total	$ 2,172,919

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		Business-Type Activities	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Bonds, net	$ 1,175,403	$ 1,115,488	$ 1,655	$ 2,534
Commercial Paper	240,626	130,824		
Total	$ 1,416,029	$ 1,246,312	$ 1,655	$ 2,534

The State issued $150 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis. Nearly two-thirds of the outstanding debt has been issued either for capital projects of two of the State's major Component Units, University of Tennessee and Tennessee Board of Regents, or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bonds are rated AA+, Aa1, and AA+ by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2008, the State's annual debt service limit of $673 million was well above the debt service required $146 million, with a legal debt service margin of $527 million.

FACTORS THAT WILL AFFECT THE FUTURE

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 Tobacco Master Settlement Agreement (Agreement) includes base payments to all states and territories through 2025, and continues in perpetuity. Lawsuits related to alleged noncompliance with certain provisions of the Agreement have been filed against a number of the states, including Tennessee, by some of the tobacco companies. Several factors, the outcome of which is unknown at this time, may affect current and future tobacco settlement payments. Approximately $16 million was withheld from the April 2008 payments and $12 million is the anticipated withholding in April 2009. While the State may vigorously dispute any adjustments or withholdings, it could take years to have those disputes resolved.

The State continues to move toward the implementation of *Edison*, its Enterprise Resource Planning system. The system is designed to update and improve many of the State's administrative processes. *Edison* will integrate functions such as human resources, payroll, benefits, financials, and procurement and will eliminate many of the State's legacy administrative systems. In July 2006, the State contracted with MAXIMUS, the prime contractor, and PeopleSoft, the software provider. The first modules, human resources, payroll, and benefits were implemented on October 1, 2008. Although the implementation of these modules was nine months later than originally planned in 2006, the implementation has been a success. Payrolls have been successfully processed since implementation with minimal difficulty and no significant problems or errors. The implementation of the remaining modules that include financials, procurement, and other administrative modules will be implemented in two waves on January 1, 2009, and April 1, 2009.

On August 16, 2007, Moody's Investors Service upgraded the State of Tennessee's general obligation bond rating to Aa1 from Aa2 and revised its outlook to stable from positive. In 2008, the State's bond rating remained Aa1 by Moody's, AA+ by Fitch and AA+ by Standard & Poor's.

In the fall of 2007, the State began seeing a decline in sales tax revenue. This decline was directly related to the slow down in the sale of large ticket items (automobiles, furniture, appliances, high end electronics, etc.). The sales tax continued to decline in calendar year 2008. Revenue estimates were revised and plans were made to address the shortfall for FY 2008. Closing FY 2008 required the reduction of reserves in several departmental accounts. However, the Reserve for Revenue Fluctuation (rainy day fund) was not reduced. An adjustment to the recommended FY 2009 budget based on revised revenue estimates was also required. In May 2008, the State designed a Voluntary Buyout Program (VBP) that offered cash, extended health insurance and tuition assistance to selected classifications in selected work units as identified by State Department and Agency management. Approximately 2,200 employees would have been accepted in the VBP. Ultimately, 1,522 employees applied and were accepted in the program. All positions accepted in the program were abolished when employees terminated on August 15, 2008.

In July 2008, Volkswagen Group of America, Inc. announced that it will build a U.S. automotive production facility in Chattanooga, Tennessee, where it will produce a car designed specifically for the North American consumer and invest $1 billion in the economy. Volkswagen of America received a comprehensive package of incentives for the new facility. The incentives are tied to job creation and capital investment.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Tennessee's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance and Administration, Division of Accounts, 312 Rosa Parks Avenue, Suite 1400, Nashville, TN 37243.

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Assets
June 30, 2008

(Expressed in Thousands)

	Primary Government			Total
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 4,199,549	$ 478,477	$ 4,678,026	$ 1,708,004
Cash on deposit with fiscal agent		619,344	619,344	
Investments	233,069		233,069	1,331,143
Investments with fiscal agent				14
Receivables, net	2,447,488	101,055	2,548,543	583,583
Internal balances	10,625	(10,625)		
Due from primary government				4,393
Due from component units	83,256	2	83,258	
Inventories, at cost	27,088	103	27,191	14,163
Prepayments	187		187	10,937
Loans receivable, net	16,921	548,026	564,947	2,986,057
Lease receivable	4,220		4,220	
Deferred charges and other	3,041	18	3,059	31,131
Restricted assets:				
Cash and cash equivalents	18,941		18,941	27,752
Investments				210,550
Receivables, net				2,543
Capital assets:				
Land, at cost	1,435,671		1,435,671	165,563
Infrastructure	18,517,266		18,517,266	261,782
Structures and improvements, at cost	1,871,097		1,871,097	3,275,494
Machinery and equipment, at cost	622,221	51	622,272	846,274
Less-Accumulated depreciation	(1,200,164)		(1,200,164)	(1,965,672)
Construction in progress	1,072,892		1,072,892	460,964
Software in development	69,339		69,339	
Total assets	29,432,707	1,736,451	31,169,158	9,954,675
Liabilities				
Accounts payable and other current liabilities	1,642,909	54,366	1,697,275	396,612
Due to primary government				83,258
Due to component units	3,793		3,793	
Unearned revenue	313,850	6,296	320,146	132,814
Payable from restricted assets	15,886		15,886	
Advance from federal government	147,692		147,692	
Other	3,269		3,269	28,834
Noncurrent liabilities:				
Due within one year	240,985	1,702	242,687	293,854
Due in more than one year	1,772,424	5,153	1,777,577	4,045,718
Total liabilities	4,140,808	67,517	4,208,325	4,981,090
Net assets				
Invested in capital assets, net of related debt	21,796,151	51	21,796,202	2,113,353
Restricted for:				
Wildlife Resources	23,765		23,765	
Capital projects	2,514		2,514	103,546
Lottery scholarships	458,388		458,388	
Single family bond programs				478,807
Sewer loans		698,010	698,010	
Unemployment compensation		681,504	681,504	
Drinking water loans		99,652	99,652	
Other	101,329		101,329	456,351
Permanent:				
Expendable	139,325		139,325	285,787
Nonexpendable	138,949		138,949	709,500
Unrestricted	2,631,478	189,717	2,821,195	826,241
Total net assets	$ 25,291,899	$ 1,668,934	$ 26,960,833	$ 4,973,585

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, 2008

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 837,250	$ 672,892	$ 69,982	$ 6,192
Education	6,464,564	35,405	1,152,164	719
Health and social services	11,125,967	548,570	6,984,411	(24,796)
Law, justice and public safety	1,325,500	117,536	94,211	27,789
Recreation and resources development	613,902	142,128	140,082	11,368
Regulation of business and professions	123,391	143,646	3,120	317
Transportation	808,591	18,778	168,868	578,815
Intergovernmental revenue sharing	842,096			
Interest on long-term debt	51,086			
Total governmental activities	22,192,347	1,678,955	8,612,838	600,404
Business-type activities:				
Employment security	541,573	413,741	73,976	
Insurance programs	469,491	480,803	6,736	
Loan programs	1,655	15,137	43,764	
Other	2,744	2,324	100	
Total business-type activities	1,015,463	912,005	124,576	
Total primary government	$ 23,207,810	$ 2,590,960	$ 8,737,414	$ 600,404
Component units:				
Higher education institutions	$ 3,716,680	$ 1,172,014	$ 1,082,869	$ 215,325
Loan programs	436,064	189,568	233,729	
Lottery program	996,441	994,038	40	
Other	98,813	61,916	9,777	1,476
Total component units	$ 5,247,998	$ 2,417,536	$ 1,326,415	$ 216,801

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

Total general revenues, contributions, and transfers

Change in net assets
Net assets, July 1

Net assets, June 30

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

	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
	$ (88,184)		$ (88,184)	
	(5,276,276)		(5,276,276)	
	(3,617,782)		(3,617,782)	
	(1,085,964)		(1,085,964)	
	(320,324)		(320,324)	
	23,692		23,692	
	(42,130)		(42,130)	
	(842,096)		(842,096)	
	(51,086)		(51,086)	
	(11,300,150)		(11,300,150)	
		$ (53,856)	(53,856)	
		18,048	18,048	
		57,246	57,246	
		(320)	(320)	
		21,118	21,118	
	(11,300,150)	21,118	(11,279,032)	
				$ (1,246,472)
				(12,767)
				(2,363)
				(25,644)
				(1,287,246)
	6,851,481		6,851,481	
	865,181		865,181	
	2,913,227		2,913,227	
	734,029		734,029	
				1,399,334
				41,911
	120,523		120,523	54,773
	275,499		275,499	27,163
	239		239	40,223
	(4,110)	4,110		
	11,756,069	4,110	11,760,179	1,563,404
	455,919	25,228	481,147	276,158
	24,835,980	1,643,706	26,479,686	4,697,427
	$ 25,291,899	$ 1,668,934	$ 26,960,833	$ 4,973,585

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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.

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

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2008

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 2,286,712	$ 143,732	$ 443,488	$ 785,925	$ 3,659,857
Investments				233,069	233,069
Receivables, net	1,524,547	585,855	284,688	41,243	2,436,333
Due from other funds	11,271	215	39	9	11,534
Due from component units	902	80,693		1,496	83,091
Inventories, at cost	12,708		7,656		20,364
Prepayments	32				32
Deferred charges and other	7,836				7,836
Loans receivable, net	90		262	16,569	16,921
Leases receivable	1,804				1,804
Restricted assets:					
Cash and cash equivalents				18,941	18,941
Total assets	$ 3,845,902	$ 810,495	$ 736,133	$ 1,097,252	$ 6,489,782
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 1,187,602	$ 205,308	$ 79,814	$ 43,784	$ 1,516,508
Due to other funds	25,338	666	1,869	533	28,406
Due to component units	1,967			1,826	3,793
Deferred revenue	311,572	84,989	18,492	11,349	426,402
Advance from federal government	109,010	2,450		36,232	147,692
Payable from restricted assets				15,886	15,886
Other	434		2,687	148	3,269
Total liabilities	1,635,923	293,413	102,862	109,758	2,141,956
Fund balances:					
Reserved for:					
Related assets	19,978		7,656	1,400	29,034
Contracts			372,778		372,778
Continuing appropriations	914,078	30,767			944,845
Statutory and other legal requirements	178,156	486,074	2,762	278,274	945,266
Unreserved, undesignated reported in:					
General fund	184				184
Special revenue funds		241	250,075	211,516	461,832
Debt service fund				7,131	7,131
Capital projects fund				489,173	489,173
Unreserved, designated for:					
Revenue fluctuations	750,000				750,000
Other specific purposes	347,583				347,583
Total fund balances	2,209,979	517,082	633,271	987,494	4,347,826
Total liabilities and fund balances	$ 3,845,902	$ 810,495	$ 736,133	$ 1,097,252	

Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,932,530
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	156,256
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	586,229
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,730,942)
Net assets of governmental activities	$ 25,291,899

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

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Sales	$ 2,796,552	$ 3,934,685	$ 71,380	$ 48,569	$ 6,851,186
Fuel	13,560		748,073	103,548	865,181
Business	2,433,536	282,976	4,195	184,575	2,905,282
Other	686,101	130		25,627	711,858
Licenses, fines, fees, and permits	282,727	1,789	218,865	169,105	672,486
Interest on investments	122,008	3	42	5,099	127,152
Federal	7,202,766	847,138	702,323	54,809	8,807,036
Departmental services	2,147,361	65,164	57,811	69,534	2,339,870
Other	255,299	306,708	8,186	441	570,634
Total revenues	15,939,910	5,438,593	1,810,875	661,307	23,850,685
Expenditures					
Current:					
General government	591,800			25,256	617,056
Education		6,310,765		8,093	6,318,858
Health and social services	12,297,128				12,297,128
Law, justice and public safety	1,272,498			6,254	1,278,752
Recreation and resources development	527,095			180,771	707,866
Regulation of business and professions	87,736			41,952	129,688
Transportation			1,459,231		1,459,231
Intergovernmental revenue sharing	546,572		295,524		842,096
Debt service:					
Principal				79,107	79,107
Interest				51,872	51,872
Debt issuance costs				980	980
Capital outlay				359,118	359,118
Total expenditures	15,322,829	6,310,765	1,754,755	753,403	24,141,752
Excess (deficiency) of revenues over (under) expenditures	617,081	(872,172)	56,120	(92,096)	(291,067)
Other financing sources (uses)					
Bonds and commercial paper issued				340,021	340,021
Commercial paper redeemed				(129,333)	(129,333)
Bond premium				2,760	2,760
Insurance claim recoveries	16		4	2,341	2,361
Transfers in	191,654	915,508	99,861	319,558	1,526,581
Transfers out	(1,291,334)	(14,708)	(1,349)	(265,984)	(1,573,375)
Total other financing sources (uses)	(1,099,664)	900,800	98,516	269,363	169,015
Net change in fund balances	(482,583)	28,628	154,636	177,267	(122,052)
Fund balances, July 1	2,692,562	488,454	478,635	810,227	4,469,878
Fund balances, June 30	$ 2,209,979	$ 517,082	$ 633,271	$ 987,494	$ 4,347,826

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

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2008

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	(122,052)
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.		778,001
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		53,487
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(134,341)
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.		(134,163)
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.		14,987
Changes in net assets of governmental activities	$	455,919

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 Assets
Proprietary Funds
June 30, 2008

(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	$ 238,606		$ 239,871	$ 478,477	$ 539,692
Cash on deposit with fiscal agent		$ 619,344		619,344	
Receivables:					
Accounts receivable		95,155	2,965	98,120	7,861
Interest	8	2,927		2,935	
Loans receivable	26,874		6,492	33,366	
Due from other funds		365		365	2,548
Due from component units		2		2	165
Inventory			103	103	6,724
Prepaid expenses					155
Total current assets	265,488	717,793	249,431	1,232,712	557,145
Noncurrent assets:					
Accounts receivable					3,294
Deferred charges			18	18	308
Due from other funds					5,372
Loans receivable	436,154		78,506	514,660	
Lease receivable					2,416
Capital assets:					
Land, at cost					61,425
Structures and improvements, at cost					497,312
Machinery and equipment, at cost			51	51	247,280
Less-accumulated depreciation					(365,611)
Construction in progress					15,386
Total capital assets, net of accumulated depreciation			51	51	455,792
Total noncurrent assets	436,154		78,575	514,729	467,182
Total assets	701,642	717,793	328,006	1,747,441	1,024,327
Liabilities					
Current liabilities:					
Accounts payable and accruals	149	20,210	34,045	54,404	91,678
Due to other funds		10,947	52	10,999	729
Lease obligations payable					335
Bonds payable			1,655	1,655	14,935
Unearned revenue		5,132	1,164	6,296	43,426
Other					28,389
Total current liabilities	149	36,289	36,916	73,354	179,492
Noncurrent liabilities:					
Lease obligations payable					887
Commercial paper payable					39,819
Bonds payable, net					149,610
Other noncurrent liabilities	3,483		1,670	5,153	68,290
Total noncurrent liabilities	3,483		1,670	5,153	258,606
Total liabilities	3,632	36,289	38,586	78,507	438,098
Net assets					
Invested in capital assets, net of related debt			51	51	271,493
Unrestricted	698,010	681,504	289,369	1,668,883	314,736
Total net assets	$ 698,010	$ 681,504	$ 289,420	$ 1,668,934	$ 586,229

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

State of Tennsssee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2008

(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	$ 13,722		$ 3,739	$ 17,461	$ 446,066
Investment income	9,245		1,947	11,192	
Premiums		$ 413,741	480,803	894,544	660,672
Other					2
Total operating revenues	22,967	413,741	486,489	923,197	1,106,740
Operating expenses					
Personal services			1,131	1,131	59,167
Contractual services	1,090		18,786	19,876	232,196
Materials and supplies			699	699	99,359
Rentals and insurance			154	154	56,133
Interest			98	98	
Depreciation and amortization			10	10	36,242
Benefits		509,266	449,123	958,389	654,802
Other		32,307	2,799	35,106	7,094
Total operating expenses	1,090	541,573	472,800	1,015,463	1,144,993
Operating income (loss)	21,877	(127,832)	13,689	(92,266)	(38,253)
Nonoperating revenues (expenses)					
Taxes					2
Operating grants	20,453	45,194	12,119	77,766	3,302
Interest income		28,782	6,836	35,618	15,633
Interest expense					(8,559)
Total nonoperating revenues (expenses)	20,453	73,976	18,955	113,384	10,378
Income (loss) before contributions and transfers	42,330	(53,856)	32,644	21,118	(27,875)
Capital contributions					178
Transfers in	2,373		1,737	4,110	42,684
Change in net assets	44,703	(53,856)	34,381	25,228	14,987
Net assets, July 1	653,307	735,360	255,039	1,643,706	571,242
Net assets, June 30	$ 698,010	$ 681,504	$ 289,420	$ 1,668,934	$ 586,229

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, 2008

(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		$ 402,604	$ 486,093	$ 888,697	$ 228,653
Receipts from interfund services provided		2,612	308	2,920	882,884
Payments to suppliers			(467,737)	(467,737)	(943,420)
Payments to employees			(1,082)	(1,082)	(58,072)
Payments for unemployment benefits		(503,914)		(503,914)	
Payments for interfund services used	$ (1,090)	(32,281)	(3,215)	(36,586)	(80,781)
Net cash from (used for) operating activities	(1,090)	(130,979)	14,367	(117,702)	29,264
Cash flows from noncapital financing activities					
Operating grants received	20,453	45,316	12,144	77,913	
Negative cash balance implicitly financed		1,010	42	1,052	20
Transfers in	2,373		1,737	4,110	42,684
Payments to component units			(25)	(25)	
Principal payments			(870)	(870)	
Interest paid			(120)	(120)	
Tax revenues received					2
Subsidy to borrowers			(31)	(31)	
Net cash from (used for) noncapital financing activities	22,826	46,326	12,877	82,029	42,706
Cash flows from capital and related financing activities					
Purchase of capital assets			(51)	(51)	(70,313)
Bond and commercial paper proceeds					79,544
Proceeds from sale of capital assets					2,153
Proceeds from insurance					34
Bond issuance cost					(66)
Principal payments					(43,070)
Interest paid					(8,553)
Net cash from (used for) capital and related financing activities			(51)	(51)	(40,271)
Cash flows from investing activities					
Loans issued	(58,975)		(18,265)	(77,240)	
Collection of loan principal	22,217		5,969	28,186	
Interest received	23,089	28,782	10,194	62,065	15,633
Net cash from (used for) investing activities	(13,669)	28,782	(2,102)	13,011	15,633
Net increase (decrease) in cash and cash equivalents	8,067	(55,871)	25,091	(22,713)	47,332
Cash and cash equivalents, July 1	230,539	675,215	214,780	1,120,534	492,360
Cash and cash equivalents, June 30	$ 238,606	$ 619,344	$ 239,871	$ 1,097,821	$ 539,692

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2008

(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)	$ 21,877	$ (127,832)	$ 13,689	$ (92,266)	$ (38,253)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization			10	10	36,242
Loss on disposal of capital assets					2,937
Bond issuance cost					81
Capital lease executory costs paid					28
Investment income			(3,264)	(3,264)	
Charges for services			(98)	(98)	
Interest income	(22,967)			(22,967)	
Interest expense			98	98	
Subsidy to borrowers			26	26	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		(8,310)	2,932	(5,378)	4,853
(Increase) decrease in due from other funds		105	1	106	(4,504)
(Increase) decrease in due from component units		(1)	15	14	337
(Increase) decrease in inventories			39	39	1,704
(Increase) decrease in prepaid expenses					(86)
Increase (decrease) in accounts payable		5,086	593	5,679	21,794
Increase (decrease) in due to other funds		25		25	16
Increase (decrease) in unearned revenue		(52)	326	274	4,115
Total adjustments	(22,967)	(3,147)	678	(25,436)	67,517
Net cash provided by (used for) operating activities	$ (1,090)	$ (130,979)	$ 14,367	$ (117,702)	$ 29,264
Noncash investing, capital and financing activities					
Contributed capital assets					$ 178
Total noncash investing, capital and financing activities					$ 178

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

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

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

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 359,097	$ 1,141,863	$ 14,353	$ 440,327
Receivables:				
Accounts				1,643
Taxes			47	355,520
Interest and dividends	158,234	4,724	855	
Due from sale of investments	62,828			
Foreign currency receivable	153,933			
Due from other governments	43,727			
Real estate income	1,433			
Other	25,629			
Total receivables	445,784	4,724	902	357,163
Due from other funds	9,716		9	10,590
Due from component units	7,240			72
Investments, at fair value:				
Short-term securities	49,998	1,552,634		
Government bonds	7,424,935			
Corporate bonds	6,574,925			
Corporate stocks	15,685,178			
Mutual funds			88,297	
Real estate	1,330,171			
Total investments	31,065,207	1,552,634	88,297	
Total assets	31,887,044	2,699,221	103,561	808,152
Liabilities				
Accounts payable and accruals	242,601		1,020	699,291
Foreign currency payable	9,368			
Amounts held in custody for others				108,861
Total liabilities	251,969		1,020	808,152
Net assets				
Held in trust for:				
Pension benefits	31,634,129			
Employees' flexible benefits	946			
Pool participants		2,699,221		
Individuals, organizations and other governments			102,541	
Total net assets	$ 31,635,075	$ 2,699,221	$ 102,541	$ -

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

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 254,045		
Employers	593,412		
Federal			$ 6,730
Political subdivisions	244,847		
Private			5,725
Other			2,996
Total contributions	1,092,304		15,451
Investment income:			
Net (decrease) in fair value of investments	(1,574,090)		(7,465)
Interest	750,895	$ 106,460	4,088
Dividends	353,427		
Real estate income	64,252		
Total investment income (loss)	(405,516)	106,460	(3,377)
Less: Investment expenses	24,543		
Administrative fee		1,351	
Net investment income (loss)	(430,059)	105,109	(3,377)
Capital share transactions:			
Shares sold		4,682,411	
Less: Shares redeemed		4,364,416	
Net capital share transactions		317,995	
Total additions	662,245	423,104	12,074
Deductions			
Annuity benefits:			
Retirement benefits	1,084,232		
Cost of living	243,575		
Death benefits	4,908		
Other benefits	8,169		13,205
Refunds	45,976		3,726
Administrative expenses	7,202		425
Total deductions	1,394,062		17,356
Change in net assets held in trust for:			
Pension benefits	(731,840)		
Employees' flexible benefits	23		
Individuals, organizations and other governments		423,104	(5,282)
Net assets, July 1	32,366,892	2,276,117	107,823
Net assets, June 30	$ 31,635,075	$ 2,699,221	$ 102,541

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, 2008
INDEX FOR THE NOTES

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

A. **Financial reporting entity**

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

Discretely presented component units

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

2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide coordination of funds or programs for the care of the citizens of the State:

   Memphis and Shelby County Community Services Agency
   Northeast Community Services Agency
   Southeast Community Services Agency
   Mid-West Community Services Agency
   Southwest Community Services Agency

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

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

4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be 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. The corporation is governed by a board of directors composed of seven directors appointed by the Governor.

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

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

7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug

facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.

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

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

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

11. The Access Tennessee (Proprietary Fund Type) health insurance pool was established to offer health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions.

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

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

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

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

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

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

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

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

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

B. Government-wide and fund financial statements

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due. Also, agency funds, custodial in nature, do not recognize revenues and expenditures and do not present the results of operations or have a measurement focus.

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

The State reports the following major governmental funds:

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

The *education fund* accounts for the financial resources associated with programs involving the Departments of Education and Higher Education.

The *highway fund* accounts for the financial resources associated with the programs of the Department of Transportation.

The State reports the following major proprietary funds:

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

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

Additionally, the State reports the following fund types:

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

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

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

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

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

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

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

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

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

   Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets—Proceeds of the State's general obligation commercial paper program that remain unspent at year end are classified as restricted cash on the Statement of Net Assets. The commercial paper program provides short-term financing for the State's capital projects.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, Tennessee Local Development Authority, and Veterans' Homes Board – report restricted cash and investments to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments.

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

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

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

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

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

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

6. Compensated absences—It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State's policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.

7. Long-term obligations—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

   Restricted net assets consist of net assets in which constraints are placed on the use of those net assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $2.3 billion restricted by the primary government, $487.5 million was by enabling legislation.

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

9. Fund equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserves for statutory and other legal requirements include amounts reserved in connection with enabling legislation, constitutional provisions and other legal requirements. Designations of fund balance represent tentative management plans that are subject to change.

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

11. Comparative data/reclassifications—Comparative total data for the prior year have not been presented.

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $1,730.942 million difference are as follows (expressed in thousands):

Bonds payable	$	993,102
Plus: Premium on bonds issued (to be amortized as interest expense)		37,951
Less: Deferred charge for issuance costs (to be amortized over life of debt)		(2,454)
Less: Deferred charge for bond refundings (to be amortized as interest expense)		(20,195)
Commercial paper payable		200,807
Accrued interest payable		15,707
Capital leases payable		17,549
Claims and judgments		131,271
Compensated absences		246,253
Other post employee benefits		103,115
Long-term accounts payable		7,836
Net adjustment to reduce *fund balance—total governmental funds* to arrive at *net assets—governmental activities*	$	1,730,942

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 assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $778.001 million difference are as follows (expressed in thousands):

Capital outlay	$ 837,952
Depreciation expense	(59,951)
Net adjustment to increase net changes in fund balances – *total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 778,001

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $134.341 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation bonds	$ 124,514
Issuance of commercial paper	215,507
Bond premium capitalized	2,760
Debt reduced:	
General obligation debt	(78,457)
Commercial paper redeemed	(129,983)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 134,341

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 $134.163 million difference are as follows (expressed in thousands):

Compensated absences	$	16,265
Claims and judgments		(21,926)
Accrued interest		559
Capital lease		12,683
Other postemployment benefits		103,116
Amortization of deferred charge		40
Loss on disposal of capital assets		22,315
Loss on lease termination		2,169
Amortization of issuance costs		199
Amortization of bond premiums		(3,169)
Amortization of deferred amount on bond refunding		1,912
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$	134,163

NOTE 3 – **Deficit fund equity**

The Certified Cotton Growers' Organization, a component unit, has a total net asset deficit of $1.678 million. This deficit occurred because a substantial amount of funds were borrowed, in previous years, to fund the balance of program costs. The monies borrowed are to be repaid by December 15, 2013. The Property Utilization fund, an enterprise fund, has a total net asset deficit of $31 thousand. This deficit occurred primarily as a result of the reporting of other post employment benefits at the fund level in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

NOTE 4 – **Accounting changes**

The following schedule enumerates adjustments for the fiscal year ended June 30, 2008, (expressed in thousands):

	6/30/2007 Net Assets As Reported	Adjustments to Net Assets	6/30/2007 Net Assets As Restated
Government-wide statements:			
Primary Government			
Governmental activities	$ 24,827,065	$ 8,915	$ 24,835,980
Total primary government	$ 24,827,065	$ 8,915	$ 24,835,980
Government-wide statements:			
Component Units	$ 4,703,827	$ (6,400)	$ 4,697,427
Total component units	$ 4,703,827	$ (6,400)	$ 4,697,427

Adjustments to Net Assets

Primary Government—Governmental activities

- $8.915 million is a correction of an error resulting from the understatement of general capital assets in prior years because certain buildings had not been recorded. Amount includes building cost of $12.708 million and related accumulated depreciation was adjusted by $3.793 million.

Component Units

- The University of Tennessee—$6.4 million is a correction of an error resulting in investments being overstated in prior years.
- Certain Community Service Agencies (CSAs), previously reported as individual component units, have consolidated to reduce the number of facilities by providing services regionally throughout the state. The following agencies have merged:

  Northeast and East effective 3/1/08
  Southeast and Upper Cumberland effective 2/1/08
  Mid Cumberland and Northwest effective 10/1/07
  South Central and Southwest effective 10/1/07

  Financial transactions of the merged entities are combined and reported under the new entity. The change did not affect total net assets of the total component units.

Changes in Accounting Principle

The state has implemented Governmental Accounting Standards Board's Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for June 30, 2008. The statement requires the state, as an employer providing an other postemployment benefit (OPEB) other than pensions, to actuarially determine an annual required contribution (ARC) and an unfunded actuarial accrued liability (UAAL) for the healthcare OPEB provided to retirees. If the state does not contribute the ARC, it will record a liability for the difference between the contribution for retiree's benefits and the ARC. In addition, disclosures describing each OPEB plan in which the state participates in or, in accordance with the standard, acts as an employer based on contributions for another government's retirees (special funding situations). Disclosures also include the state's funding policy, information about contributions made in comparison to annual OPEB cost, changes in the Net OPEB liability, the funded status of each plan as of the most recent actuarial valuation date, and the nature of the actuarial valuation process and significant methods and assumptions used. Required Supplementary Information includes a schedule of funding progress for the most recent valuation and the two preceding valuations accompanied by notes regarding factors that significantly affect the identification of trends in the amounts reported. The statement was implemented prospectively with a zero net OPEB obligation at transition.

In addition, the state has implemented Governmental Accounting Standards Board's Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria that governments will use to ascertain whether a transaction should be regarded as a sale or as collateralized borrowings and if the resulting proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues. Implementation of this statement did not require any modification to the financial statements.

The state has also implemented Governmental Accounting Standards Board's Statement 50, *Pension Disclosures*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits.

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

A. **Deposits and investments**

Primary Government

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

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.

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

As of June 30, 2008, the State's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Investment Type	Fair Value	United States[1] Treasury/Agency
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	$ 869,970	$ 869,970
U.S. Government Inflation Indexed	1,641,152	1,641,152
U.S. Government Agencies	489,958	
Mortgage-Backed		
Government Pass-through	3,513,363	466,989
Corporate Pass-through	18,142	
Collateralized Mortgage Obligations		
Corporate CMO's	2,186,147	
Corporate		
Corporate Bonds	3,067,768	
Corporate Asset-Backed	1,235,991	
Non-U.S. Fixed Income - Developed Markets		
Government/Sovereign	975,890	767,765
Corporate	19,614	
Short Term		
Commercial Paper	2,952,953	
Agencies	3,235,811	121,969
Total Debt Investments	20,206,759	$ 3,867,845
Other Investments		
Equity		
U.S.	10,937,097	
Non-U.S.	4,841,156	
Real Estate	1,330,171	
Commingled Funds		
U.S. Equity	130,098	
U.S. Fixed Income	41,233	
Non-U.S. Equity	39,233	
Money Market Funds	8,636	
Total Other Investments	17,327,624	
Total Investments	$ 37,534,383	

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
JUNE 30, 2008

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

Credit Quality Rating

AAA	AA	A	BBB	BB	B	A1[2]	Not Rated[3]
$ 489,958							
							$ 3,046,374
18,142							
2,133,824	$ 33,463						18,860
14,209	223,293	$ 992,182	$ 1,774,529	$ 45,258	$ 18,297		
1,116,619	62,183	19,701	37,488				
208,125							
19,614							
						$ 2,665,601	287,352
557,229							2,556,613
$ 4,557,720	$ 318,939	$ 1,011,883	$ 1,812,017	$ 45,258	$ 18,297	$ 2,665,601	$ 5,909,199

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

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, 2008, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires a 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 a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2008, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

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

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

The BEST investment policy states that the trust may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. In addition, the policy requires that only the highest quality short-term debt issues, including commercial paper with ratings of A1 or P1, may be purchased.

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 forty percent (40%) 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. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to $100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST or other State funds in any one issuer.

As of June 30, 2008, the combined SPIF, TCRS, COE Trust, BEST 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		Carrying Amount	Percentage
Federal Home Loan Mortgage Corporation	$	2,383,376	6.35
Federal National Mortgage Association	$	3,257,002	8.68

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 ninety (90) 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 0.5 percent 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 22 to 239 days at June 30, 2008. Interest rates on certificates of deposit held at June 30, 2008, ranged from 2.0% to 5.25%. The days to maturity on U.S. Government Agencies ranged from 1 to 389 days at June 30, 2008. Interest rates on U.S. Government Agencies held at June 30, 2008, ranged from 1.64% to 5.75%. The days to maturity on commercial paper ranged from 1 to 44 days at June 30, 2008. Interest rates on commercial paper held at June 30, 2008, ranged from 2.05% to 2.55%.

As of June 30, 2008, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type		Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies/Treasuries	$	3,114,139	4.97
Commercial paper		2,665,601	0.10

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

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type		Fair Value as of June 30, 2008	Effective Duration (Years)
Debt Investments			
Government Fixed Income			
Government Agencies	$	698,083	4.54
Government Bonds		1,627,544	7.30
Government Inflation Indexed		1,617,494	7.29
Government Asset and Mortgage-Backed		3,481,814	4.39
Corporate Fixed Income			
Collateralized Mortgage Obligations		2,186,148	3.94
Asset-Backed Securities		1,230,857	2.94
Corporate Bonds		3,064,844	6.42
Short Term			
Commercial Paper		287,352	0.00
Agencies		121,969	0.13
Total Debt Investments	$	14,316,105	

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 Lehman Government/Corporate Intermediate 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, 2008	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 9,894	10.63
U.S. TIPS	23,658	7.00
Mortgage-Backed		
Government Pass-through	31,549	4.21
Collateralized Mortgage Obligations	18,141	3.40
Corporate		
Corporate Bonds	22,538	4.84
Corporate Asset-Backed	5,134	3.70
Total Debt Investments	$ 110,914	

The investment policy for BEST states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The fixed income portfolio is benchmarked against the Lehman Government/Corporate Intermediate Index and tends to have a duration within a range around that index.

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

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2008, was as follows (expressed in thousands):

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	$ 262,220		$ 262,220	
British Pound Sterling	1,256,316	$ 128,214	1,128,102	
Canadian Dollar	47,193		47,193	
Danish Krone	93,241		93,220	$ 21
Euro Currency	1,779,678	332,656	1,445,990	1,032
Hong Kong Dollar	141,112		141,020	92
Japanese Yen	1,554,682	534,634	1,016,364	3,684
New Zealand Dollar	4,900		4,819	81
Norwegian Krone	63,305		63,305	
Singapore Dollar	79,452		79,106	346
Swedish Krona	117,084		116,720	364
Swiss Franc	326,064		325,978	86
Total	$ 5,725,247	$ 995,504	$ 4,724,037	$ 5,706

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2008, has been reflected in the financial statements.

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. The futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The TCRS can increase (decrease) equity market exposure by buying (selling) the equity index future to obtain its target domestic equity allocation. 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, 2008, the TCRS was under contract for equity index futures and the resulting payable is reflected in the financial statements at fair value.

Component Units

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

1. University of Tennessee

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

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2008, the University's investments were rated as follows (expressed in thousands):

		Credit Quality Rating					
Rated Debt Instruments	Fair Value	Aaa	Aa1	Aa2	Aa3	A1	A2
Cash Management Pool							
U.S. Treasuries	$ 56,818	$ 56,818					
U.S. Agencies	138,661	138,661					
Investments							
U.S. Treasuries	$ 9,162	$ 9,116					
U.S. Agencies	15,397	13,337		$ 2,060			
Corporate Bonds	20,580	1,210	$ 629	1,955	$ 4,311	$ 2,477	$ 4,039
Municipal Bonds	2,833	202		757	964	192	420
Mutual Funds – Bonds	47,575	35,102		12,081			
Mortgages and Notes	403						
Total	$ 291,429	$ 254,446	$ 629	$ 16,853	$ 5,275	$ 2,669	$ 4,459

(Continued)	Credit Quality Rating					
Rated Debt Instruments	A3	Baa1	Baa2	Ba2	Caa	Unrated
Cash Management Pool						
U.S. Treasuries						
U.S. Agencies						
Investments						
U.S. Treasuries						$ 46
U.S. Agencies						
Corporate Bonds	$ 2,082	$ 2,002	$ 1,786			89
Municipal Bonds					$ 160	138
Mutual Funds – Bonds				$ 392		
Mortgages and Notes						403
Total	$ 2,082	$ 2,002	$ 1,786	$ 392	$ 160	$ 676

Concentration of Credit Risk

The University places no limit on the amount that may be invested in any one issuer. At June 30, 2008, more than five percent of the University's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 114,978	12.58

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2008, 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
Cash Management Pool					
Cash Equivalents					
U.S. Treasury	$ 56,818	$ 16,153	$ 40,665		
U.S. Agencies	138,661	75,086	63,575		
Investments					
U.S. Treasury	9,162		7,096	$ 1,039	$ 1,027
U.S. Agencies	15,397	1,728	7,749	4,157	1,763
Corporate Bonds	20,580	1,836	16,268	2,476	
Municipal Bonds	2,833		1,489		1,344
Mortgages and Notes	403	6	11	386	
Bond Mutual Funds	47,575		1,880	43,260	2,435
	$ 291,429	$ 94,809	$ 138,733	$ 51,318	$ 6,569

University foundations' investments in the amount of $135.733 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 sixty-four limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2008, the estimated fair value of these assets is $265.4 million and total capital contributions less returns of capital equal $243.4 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

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regent’s 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, 2008, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor’s as follows (expressed in thousands):

		Credit Quality Rating						
Rated Debt Instruments	Fair Value	AAA	AA	A	BBB	BB	B	Not Rated
U. S. Agencies	$ 31,892	$ 31,835						$ 57
Commercial Paper	24,687			$ 24,687				
Corporate Bonds	24,047	9,634	$ 4,743	5,710	$ 934	$ 872	$ 229	1,925
Municipal Bonds	101		101					
Mutual Funds—Bonds	5,562	19	1,803					3,740
Collateralized Mortgage Obligation	1,544							1,544
Total Debt Instruments	$ 87,833	$ 41,488	$ 6,647	$ 30,397	$ 934	$ 872	$ 229	$ 7,266

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, 2008, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 35,513	$ 28,815	$ 3,676	$ 759	$ 2,263
U.S. Agencies	31,892	3,560	24,951	1,895	1,486
Commercial Paper	24,687	24,687			
Corporate Bonds	24,047	2,315	10,205	9,234	2,293
Municipal Bonds	101		101		
Mutual Funds—Bonds	5,562	19			5,543
Mortgage Backed Securities	1,539			93	1,446
Collateralized Mortgage Obligation	5			5	
Total Debt Investments	$ 123,346	$ 59,396	$ 38,933	$ 11,986	$ 13,031

Certain of the System’s foundations utilize private-sector accounting standards. Those foundations reported investments at fair value in the amount of $161.232 million.

3. Tennessee Housing Development Agency (THDA)

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

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

Credit Risk

The Agency's investments as of June 30, 2008, were rated by Standard and Poor's as follows (expressed in thousands):

		Credit Quality Rating				
Rated Debt Instruments	Fair Value	U.S. Treasury	AAA	A-1+	AA-	Not Rated
U.S. Agencies	$ 296,295		$ 194,373	$ 88,787	$ 5,175	$ 7,960
U.S. Treasuries	86,708	$ 86,708				
Repurchase Agreements	109,000			20,000		89,000
FNMA Mortgage Backed Securities	1,839					1,839
Total Debt Instruments	$ 493,842	$ 86,708	$ 194,373	$ 108,787	$ 5,175	$ 98,799

Concentration of Credit Risk

At June 30, 2008, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 153,222	31.00
Federal Home Loan Mortgage Corporation	51,447	10.45
Federal National Mortgage Association	75,367	15.24
Repurchase Agreements – U.S. Agency	109,000	21.97

Interest Rate Risk

As of June 30, 2008, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 207,508	2.923
U.S. Agency Discount	88,787	0.024
U.S. Treasury Coupon	86,708	6.937
Repurchase Agreements	109,000	0.000
FNMA Mortgage Backed Securities	1,839	0.603
Total	$ 493,842	

B. Accounts and notes receivable

Receivables at June 30, 2008, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Government	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental Activities:							
General	$ 296,483	$ 637,899	$ 676,773	$ 10,515	$ 1,621,670	$ (97,123)	$ 1,524,547
Education	7,797	515,233	117,678		640,708	(54,853)	585,855
Highway	289	75,218	209,181		284,688		284,688
Nonmajor governmental	808	10,017	29,228	1,869	41,922	(679)	41,243
Internal Service	4,282		6,706	2	10,990	(36)	10,954
Total—governmental activities	$ 309,659	$ 1,238,367	$ 1,039,566	$ 12,386	$ 2,599,978	$ (152,691)	$ 2,447,287
Amounts not expected to be collected within one year	$ 3,294	$ 489					$ 3,783
Business-type Activities:							
Employment Security	$ 52,730	$ 70,162	$ 2,141	$ 2,927	$ 127,960	$ (29,878)	$ 98,082
Sewer Treatment Loan				8	8		8
Nonmajor enterprise	2,982				2,982	(17)	2,965
Total—business-type activities	$ 55,712	$ 70,162	$ 2,141	$ 2,935	$ 130,950	$ (29,895)	$ 101,055

C. **Capital assets**

Capital asset activity for the year ended June 30, 2008, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,299,443	$ 136,625	$ (397)	$ 1,435,671
Infrastructure	17,756,402	778,677	(17,813)	18,517,266
Construction in progress	1,236,900	642,694	(806,702)	1,072,892
Software in development	39,055	30,284		69,339
Total capital assets, not being depreciated	20,331,800	1,588,280	(824,912)	21,095,168
Capital assets, being depreciated:				
Structures and improvements	1,794,932	96,208	(20,043)	1,871,097
Machinery and equipment	587,081	87,262	(52,122)	622,221
Total capital assets being depreciated	2,382,013	183,470	(72,165)	2,493,318
Less accumulated depreciation for:				
Structures and improvements	(770,218)	(44,461)	10,340	(804,339)
Machinery and equipment	(382,127)	(51,780)	38,082	(395,825)
Total accumulated depreciation	(1,152,345)	(96,241)	48,422	(1,200,164)
Total capital assets, being depreciated, net	1,229,668	87,229	(23,743)	1,293,154
Governmental activities capital assets, net	$ 21,561,468	$ 1,675,509	$ (848,655)	$ 22,388,322
Business Type activities:				
Capital assets, being depreciated:				
Machinery and equipment		$ 51		$ 51
Business Type activities capital assets, net		$ 51		$ 51

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

Governmental activities:	
General Government	$ 2,231
Education	1,522
Health and Social Services	10,838
Law, Justice and Public Safety	20,270
Recreation and Resource Development	10,946
Regulation of Business and Professions	666
Transportation	13,478
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	36,290
Total depreciation expense – governmental activities	$ 96,241

Highway Construction Commitments — At June 30, 2008, the Department of Transportation had contractual commitments of approximately $712.9 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($637.8 million) and general obligation bond proceeds ($75.1 million).

Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2008, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 146,482	$ 7,246	$ (443)	$ 153,285
Construction in progress	474,953	340,020	(354,009)	460,964
Total capital assets, not being depreciated	621,435	347,266	(354,452)	614,249
Capital assets, being depreciated:				
Infrastructure	233,257	28,824	(1,077)	261,004
Structures and improvements	2,808,793	390,934	(19,004)	3,180,723
Machinery and equipment	792,855	101,532	(51,687)	842,700
Total capital assets being depreciated	3,834,905	521,290	(71,768)	4,284,427
Less accumulated depreciation for:				
Infrastructure	(129,234)	(9,588)	1,454	(137,368)
Structures and improvements	(1,246,644)	(79,521)	11,288	(1,314,877)
Machinery and equipment	(471,758)	(68,974)	47,858	(492,874)
Total accumulated depreciation	(1,847,636)	(158,083)	60,600	(1,945,119)
Total capital assets, being depreciated, net	1,987,269	363,207	(11,168)	2,339,308
Total capital assets, net	$ 2,608,704	$ 710,473	$ (365,620)	$ 2,953,557

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2008, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Land	$ 12,278
Total capital assets, not being depreciated	12,278
Capital assets, being depreciated:	
Infrastructure	778
Structures and improvements	94,771
Machinery and equipment	3,574
Total capital assets being depreciated	99,123
Less: Total accumulated depreciation	(20,553)
Total capital assets, being depreciated, net	78,570
Total capital assets, net	$ 90,848

D. Interfund balances

1. Interfund balances at June 30, 2008, consisted of the following (expressed in thousands):

D U E F R O M

		General	Education	Highway	Employment Security	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Total
	General		$ 10		$ 10,947	$ 26	$ 43	$ 245	$ 11,271
D	Education	$ 215							215
U	Highway	39							39
E	Employment Security	365							365
T	Nonmajor								
O	Governmental Funds	9							9
	Internal Service Funds	7,913		$ 7					7,920
	Fiduciary Funds	16,797	656	1,862		507	9	484	20,315
	Total	$ 25,338	$ 666	$ 1,869	$ 10,947	$ 533	$ 52	$ 729	$ 40,134

The $10.947 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2008, consisted of the following (expressed in thousands):

P A Y A B L E F R O M
COMPONENT UNITS

		Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
P	PRIMARY GOVERNMENT:						
A	General		$ 6	$ 316	$ 183	$ 397	$ 902
Y	Education		80,693				80,693
A	Employment Security					2	2
B	Nonmajor Governmental Funds			764	420	312	1,496
L	Internal Service Funds			37	16	112	165
E	Fiduciary Funds	$ 117		3,445	3,712	38	7,312
T							
O	Total	$ 117	$ 80,699	$ 4,562	$ 4,331	$ 861	$ 90,570

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2008, consisted of the following (expressed in thousands):

R E C E I V A B L E F R O M
PRIMARY GOVERNMENT

		General	Nonmajor Governmental Funds	Total
R				
E				
C	COMPONENT UNITS:			
E				
I	Tennessee Housing			
V	Development Agency	$ 2		$ 2
A	Tennessee Board of Regents		$ 807	807
B	University of Tennessee		1,019	1,019
L	Nonmajor Component			
E	Units	1,965		1,965
T				
O	Total	$ 1,967	$ 1,826	$ 3,793

The Certified Cotton Growers' fiscal year end of December 31 caused a timing difference between its receivable and the General Fund payable in the amount of $600 thousand.

E. **Transfers**

Transfers between the various primary government funds for fiscal year ended June 30, 2008, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Nonmajor Governmental Funds	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Total
General		$ 915,508	$ 15,061	$ 314,245	$ 2,373	$ 1,737	$42,410	$ 1,291,334
Education	$ 14,214			494				14,708
Highway	1,349							1,349
Nonmajor Governmental Funds	176,091		84,800	4,819			274	265,984
Totals	$191,654	$ 915,508	$ 99,861	$ 319,558	$ 2,373	$ 1,737	$42,684	$ 1,573,375

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, 2008, the general fund transferred $1.291 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $915.5 million to subsidize the activities of the education fund, $293 million for capital outlay expenditures, $77.4 million to provide appropriations to finance various programs in other funds, $3.9 million to provide for debt service payments that were due, and $1.2 million for payments for interfund services used.

The highway fund received a transfer from the debt service fund for $84.8 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The nonmajor special revenue funds transferred $69.7 million to the general fund for the purpose of funding the requirements of state government operations at June 30, 2008. 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.

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
2009	$	29,550
2010		23,621
2011		17,030
2012		12,018
2013		7,923
2014-2018		16,365
2019-2023		11,238
Total Minimum Payments Required	$	117,745

Expenditures for rent under leases for the years ended June 30, 2008 and 2007, amounted to $54.1 million and $50.8 million, respectively.

Capital Lease Obligations – The State leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 20 years and the office equipment leases expire over the next 3 years. The effective interest rates for these leases range from 4.48% to 5.14%. 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		$	418
Buildings	$ 32,326		
Less: Accumulated Depreciation	1,063		31,263
Equipment	682		
Less: Accumulated Depreciation	403		279
		$	31,960

At June 30, 2008, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30		Governmental Activities Lease Obligation Payable
2009	$	1,769
2010		1,583
2011		1,558
2012		1,560
2013		1,561
2014-2018		7,241
2019-2023		6,849
2024-2027		4,439
Total		26,560
Less - Interest		8,354
Less - Executory Costs		184
Present value of net minimum lease payments	$	18,022

G. **Lease receivables**

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

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

Minimum future lease payments to be received as of June 30, 2008 (expressed in thousands):

Year Ended June 30	Total
2009	$ 458
2010	459
2011	459
2012	458
2013	461
2014-2018	1,523
2019-2021	604
Total minimum future lease payments	$ 4,422

Net investment in direct financing leases at June 30:

Minimum lease payments receivable	$ 4,422
Plus: deferred charges	483
Net investment in direct financing lease	$ 4,905

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H. **Long term debt**

1. General Obligation Bonds – Bonds Payable at June 30, 2008, are shown below (expressed in thousands):

		Amount
Business-type Activities:		
General obligation refunding bonds, 1996 Series C, 4.8% to 4.9%, principal and interest due in amounts from $979 thousand in 2009 to $776 thousand in 2010	$	1,688
Less: Unamortized bond refunding costs		(33)
Total Business-type Activities	$	1,655
Governmental Activities:		
General obligation bonds, 4.0% to 6.5%, due in generally decreasing amounts of principal and interest from $86.835 million in 2009 to $7.664 thousand in 2028	$	654,185
General obligation refunding bonds, 1996 Series B, 4.8% to 4.875%, principal and interest due in amounts from $7.052 million in 2009 to $3.912 million in 2012		13,985
General obligation refunding bonds, 1999 Series A, 4.25% to 5%, principal and interest due in amounts from $25.557 million in 2009 to $5.398 million in 2015		117,287
General obligation refunding bonds, 2004 Series A, 4.46% to 5.1%, principal and interest due in amounts from $1.634 million in 2009 to $1.629 million in 2012		5,800
General obligation refunding bonds, 2004 Series B, 4.82% from 2009 to 2010 and variable interest rates from 2011 to 2029, principal and interest due in amounts from $2.07 million in 2009 to $3.737 million in 2029		42,950
General obligation refunding bonds, 2004 Series C, 3% to 5.25%, principal and interest due in amounts from $15.851 million in 2009 to $11.388 million in 2018		226,384
General obligation refunding bonds, 2005 Series A, 3.5% to 5.25%, principal and interest due in amounts from $14.825 million in 2009 to $7.628 million in 2020		138,652
		1,199,243
Less: Unamortized bond refunding costs		(23,840)
Total Governmental Activities	$	1,175,403

General obligation bonds issued during the year ended June 30, 2008:

November 2007 Bond Series 2007A in the amount of $150 million

The $150 million general obligation bond issue represents tax-exempt bonds maturing serially through 2028 at interest rates ranging from 4 percent to 5 percent. The bonds were sold at a premium of $3.324 million. Proceeds of the bond issue and premium were used to redeem commercial paper.

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, 2008, $162.220 million of bonds outstanding are considered defeased.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2008, is shown below (expressed in thousands).

	Commercial Paper
General obligation commercial paper, interest rates ranging from 1.50% to 1.75% for tax exempt and 2.50% to 2.58% for taxable, varying maturities	$ 240,626

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

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

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2010. At June 30, 2008, $240.626 million of commercial paper was outstanding ($223.886 million tax exempt and $16.740 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2008, are as follows (expressed in thousands):

For the Year(s)	General Obligation Bonds		Total
Ended June 30	Principal	Interest	Requirements
2009	$ 103,491	$ 51,312	$ 154,803
2010	100,486	46,458	146,944
2011	99,542	41,223	140,765
2012	95,732	36,564	132,296
2013	95,757	31,798	127,555
2014-2018	380,183	99,719	479,902
2019-2023	214,767	41,877	256,644
2024-2028	107,408	9,308	116,716
2029	3,565	172	3,737
	$ 1,200,931	$ 358,431	$ 1,559,362

The above principal for bonds does not reflect a $23.873 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2008, 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, 2007	Authorized	Canceled	Unissued June 30, 2008
Highway	$ 882,800	$ 225,700	$ 194,800	$ 913,700
Higher Education	74,075	5,720		79,795
Environment and Conservation	11,012			11,012
General Government	1,273,610	53,700	170,048	1,157,262
Local Development Authority	11,800		650	11,150
Totals	$ 2,253,297	$ 285,120	$ 365,498	$ 2,172,919

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2008, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Commercial Paper Payable:					
General Obligation Debt	$ 1,272,520	$ 422,325	$ (254,976)	$ 1,439,869	$ 98,745
Less Deferred Amount on Refundings	(26,208)		2,368	(23,840)	
Total Bonds and Commercial Paper Payable	1,246,312	422,325	(252,608)	1,416,029	98,745
Capital Leases	2,561	16,724	(1,263)	18,022	1,006
Compensated Absences	234,349	180,687	(164,437)	250,599	112,845
Claims and Judgments	241,657	56,672	(74,179)	224,150	28,389
Other Post Employment Benefits		104,609		104,609	
Governmental Activities Long-Term Obligations	$ 1,724,879	$ 781,017	$ (492,487)	$ 2,013,409	$ 240,985
BUSINESS-TYPE ACTIVITIES					
Bonds Payable	$ 2,587		$ (899)	$ 1,688	$ 1,655
Less Deferred Amount on Refundings	(53)		20	(33)	
Total Bonds Payable	2,534		(879)	1,655	1,655
Deposits Payable	4,992	141	(76)	5,057	
Compensated Absences	91	79	(64)	106	47
Other Post Employment Benefits		37		37	
Business-Type Activities Long-Term Obligations	$ 7,617	$ 257	$ (1,019)	$ 6,855	$ 1,702

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 and OPEB liabilities. Claims and judgments are obligations of Underground Storage Tanks and Highway Funds (special revenue funds), Risk Management (internal service fund) and the General Fund.

I. Payables

Payables as of June 30, 2008, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total Payables
Governmental Activities:					
General	$ 1,039,082	$ 87,921		$ 77,396	$ 1,204,399
Education	189,930	4,143		11,891	205,964
Highway	73,158	8,518			81,676
Nonmajor governmental	41,476	2,287	$ 16,750	233	60,746
Internal Service	87,914	2,210			90,124
Total—governmental activities	$ 1,431,560	$ 105,079	$ 16,750	$ 89,520	$ 1,642,909
Business-Type Activities:					
Employment Security	$ 582			$ 19,628	$ 20,210
Sewer Treatment Loan	149				149
Other Proprietary	33,904	$ 40		63	34,007
Total—business-type activities	$ 34,635	$ 40		$ 19,691	$ 54,366

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

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2008 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, Investments, and Other Assets	$ 2,402,408	$ 123,156	$ 1,185,518	$ 1,808,770	$ 285,152	$ 5,805,004
Due from Primary Government	2		807	1,019	2,565	4,393
Due from Other Component Units					860,028	860,028
Restricted Assets	203,101	2,534			35,210	240,845
Capital Assets, Net	79	2,088	1,608,056	1,404,770	29,412	3,044,405
Total Assets	2,605,590	127,778	2,794,381	3,214,559	1,212,367	9,954,675
Liabilities						
Accounts Payable and Other Current Liabilities	60,097	43,207	184,513	226,986	35,788	550,591
Due to Primary Government	117	80,699	4,562	4,331	861	90,570
Due to Other Component Units			397,847	462,181		860,028
Long-Term Liabilities	2,052,914	3,775	110,595	243,603	1,069,014	3,479,901
Total Liabilities	2,113,128	127,681	697,517	937,101	1,105,663	4,981,090
Net Assets						
Invested in Capital Assets, Net of Related Debt	79	2,088	1,219,990	868,014	23,182	2,113,353
Restricted	492,193	97	458,000	1,081,757	1,944	2,033,991
Unrestricted	190	(2,088)	418,874	327,687	81,578	826,241
Total Net Assets	$ 492,462	$ 97	$ 2,096,864	$ 2,277,458	$ 106,704	$ 4,973,585

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	$ 314,497	$ 125,607	$ 224,202	
Tennessee Education Lottery	996,441	994,038	40	
Board of Regents	2,084,050	694,173	514,820	$ 104,688
University of Tennessee	1,632,630	477,841	568,049	110,637
Nonmajor Component Units	220,380	125,877	19,304	1,476
Total	$ 5,247,998	$ 2,417,536	$ 1,326,415	$ 216,801

General Revenues:
Payments from Primary Government
Unrestricted Grants and Contributions
Unrestricted Investment Earnings
Miscellaneous
Total General Revenues
Contributions to Permanent Funds
Change in Net Assets
Net Assets – July 1
Net Assets – June 30

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

State appropriations from the Education Fund in the amount of $789.6 million were made to the TBR and $534.9 million to the UT.

Capital project expenditures in the amount of $132 million were made for the TBR and $61 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 $35.1 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $272 million for the State's Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 35,312					$ 35,312
	$ (2,363)				(2,363)
		$ (770,369)			(770,369)
			$ (476,103)		(476,103)
				$ (73,723)	(73,723)
35,312	(2,363)	(770,369)	(476,103)	(73,723)	(1,287,246)
		786,962	534,615	77,757	1,399,334
		40,553	1,294	64	41,911
(242)	2,329	26,810	23,441	2,435	54,773
		20,281	6,521	361	27,163
(242)	2,329	874,606	565,871	80,617	1,523,181
		12,279	27,944		40,223
35,070	(34)	116,516	117,712	6,894	276,158
457,392	131	1,980,348	2,159,746	99,810	4,697,427
$ 492,462	$ 97	$ 2,096,864	$ 2,277,458	$ 106,704	$ 4,973,585

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, 2008, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 16,551	$ 381,113
University of Tennessee	17,077	444,930
Total	$ 33,628	$ 826,043

K. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2008, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.1% to 7.935%, due in amounts of principal and interest ranging from $188.255 million in 2009 to $5.194 million in 2040	$ 1,959,709
Less: Unamortized bond refunding costs	(7,414)
Net Bonds Payable	$ 1,952,295
Single Family Mortgage Convertible Notes, interest rates ranging from 1.846% to 4.822% due August 12, 2010	$ 88,720

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

Bond sales during the year ended June 30, 2008, included the following issues:

August 2007—Program bonds of $150 million
October 2007—Program bonds of $150 million
May 2008—Program bonds of $60 million

On August 7, 2007, the agency issued $150 million in Homeownership Program Bonds, Issue 2007-3. The agency used $100.02 million of these bonds to redeem notes.

On October 30, 2007, the agency issued $150 million in Homeownership Program Bonds, Issue 2007-4. The agency used $55.275 million to redeem notes.

On May 29, 2008, the agency issued $60 million in Homeownership Bonds, Issue 2008-1. The agency used $54.77 million to redeem notes.

Current Refundings

During the year ended June 30, 2008, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $7.005 million and in the Homeownership Program in the amount of $41.665 million. The respective carrying values of the bonds were $6.932 million and $41.913 million. This resulted in an expense to the Mortgage Finance Program of $73 thousand and in income to the Homeownership Program of $248 thousand.

On July 2, 2007, the agency used $31.535 million of Single Family Mortgage Program Notes, 2004CN–1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of $16.035 million early redemption and $15.500 million current maturities). The carrying amount of these bonds was $31.908 million. The refunding resulted in a difference of $373 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate. Also on this date, the agency used $10.840 million of the proceeds from the Homeownership Program bond issue 2007-2 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was $10.829 million. The refunding resulted in a difference of $11 thousand between the reacquisition price and net carrying amount of the old debt.

On August 7, 2007, the agency issued $150 million in Homeownership Program Bonds, Issue 2007-3. On August 9, 2007, the agency used $85.295 million of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005, July 3, 2006 and January 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The agency also used $14.725 million of these bonds to refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund the convertible drawdown notes 2002 CN-1, at maturity. The convertible drawdown notes, 2002 CN-1, were used July 1, 2004 to refund bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding reduced the agency's debt service by $2.177 million over the next 25 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $242 thousand.

On August 9, 2007, $91.695 million of Series 2007 CN-1 notes were drawn. These proceeds were used to refund the convertible drawdown notes, 2004 CN-1, at maturity.

On October 11, 2007, $61.250 million of Series 2007 CN-1 notes were drawn. These proceeds were used on November 1, 2007, to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($61.251 million early redemption and $0 current maturities). The difference between the amount of the drawdown and the early redemption is $1 thousand due to accretion. The carrying amount of these bonds was $61.170 million. The refunding resulted in a difference of $81 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On October 30, 2007, the agency issued $150 million in Homeownership Program Bonds, Issue 2007-4. On November 8, 2007, the agency used $55.275 million of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used August 9, 2007 to refund the convertible drawdown notes, 2004 CN-1, at maturity. The convertible drawdown notes, 2004 CN-1, were used January 2, 2007, and July 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $3.157 million over the next 24 years and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $1.190 million.

On January 2, 2008, $46 million of Series 2007 CN-1 notes were drawn. These proceeds were used on the same day to refund bonds previously issued in the Mortgage Finance and Homeownership programs ($39.860 million early redemption and $6.140 million current maturities). The carrying amount of these bonds was $46.593 million. The refunding resulted in a difference of $593 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On May 29, 2008, the agency issued $60 million in Homeownership Program Bonds, Issue 2008-1. On June 12, 2008, the agency used $36.420 million of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used August 9, 2007 to refund the convertible drawdown notes, 2004 CN-1, at maturity. The agency also used $18.530 million of these bonds to refund the convertible drawdown notes, 2007 CN-1, which were used October 11, 2007, and January 2, 2008 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The convertible drawdown notes, 2004 CN-1, were used July 1, 2005, January 1, 2006, July 3, 2006, January 2, 2007, and July 2, 2007, to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by $34.744 million over the next 19.5 years and the agency realized an economic loss (the difference between the present values of the old and new debt service payments) of $1.866 million.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2008, are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2009	$ 96,924	$ 91,331	$ 188,255
2010	49,148	90,766	139,914
2011	49,993	88,746	138,739
2012	46,558	86,635	133,193
2013	42,933	84,659	127,592
2014-2018	186,429	397,407	583,836
2019-2023	132,649	361,855	494,504
2024-2028	251,594	308,036	559,630
2029-2033	274,319	252,510	526,829
2034-2038	628,932	157,051	785,983
2039-2040	200,230	5,588	205,818
	$ 1,959,709	$ 1,924,584	$ 3,884,293

The debt principal in the preceding table is $7.414 million more than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

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

The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002, the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2008 (expressed in thousands).

Beginning Balance	Additions	Reductions	Ending Balance
$ 247,675	$ 198,945	$ 357,900	$ 88,720

The $88.720 million of notes outstanding at year end consist of Series 2007 CN-1, which mature on August 12, 2010 with interest rates ranging from 1.846% to 4.822%.

L. Nonmajor component units – long term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2008, are shown below (expressed in thousands):

Revenue bonds, 3.15% to 5%, due in generally decreasing amounts of principal and interest from $5.91 million in 2009 to $26 thousand in 2034	$	56,921
Less: Unamortized bond refunding costs		(1,511)
Net Bonds Payable	$	55,410
Revenue bond anticipation notes, $56.99 million at 3% due June 30, 2009	$	56,998

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

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2008, are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2009	$ 3,657	$ 2,251	$ 5,908
2010	3,783	2,123	5,906
2011	3,592	1,988	5,580
2012	3,367	1,865	5,232
2013	3,247	1,740	4,987
2014-2018	15,231	6,576	21,807
2019-2023	8,736	4,190	12,926
2024-2028	9,214	2,555	11,769
2029-2033	6,074	589	6,663
2034	20	6	26
	$ 56,921	$ 23,883	$ 80,804

The above principal for revenue bonds does not reflect a $1.511 million deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2008, are shown below (expressed in thousands):

Revenue bonds, various Series, 2.25% to 7.15%, due in decreasing amounts of principal and interest from $62.718 million in 2009 to $2.534 million in 2037	$ 716,780
Less: Unamortized bond refunding costs	(20,440)
Net Bonds Payable	$ 696,340
Commercial paper, interest rates ranging from .70% to 5.4%, varying maturities	$ 243,229

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

On January 31, 2008, the Authority issued one new series of tax-exempt revenue bonds, 2008A, in the amount of $118.53 million. The proceeds from the 2008A issue was used for new construction projects and to redeem $64.927 million of commercial paper.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2008, $224.755 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2008, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2009	$ 32,909	$ 29,808	$ 62,717
2010	34,217	28,586	62,803
2011	42,940	25,075	68,015
2012	29,130	23,915	53,045
2013	28,350	22,781	51,131
2014-2018	159,257	95,427	254,684
2019-2023	175,511	63,630	239,141
2024-2028	120,873	33,169	154,042
2029-2033	73,127	12,000	85,127
2034-2037	16,855	1,657	18,512
	$ 713,169	$ 336,048	$ 1,049,217

The above principal for revenue bonds is more than that presented on the accompanying financial statements by $16.829 million. Of this amount, $3.611 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2009-2011). In addition, $20.44 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed $300 million. At June 30, 2008, $185.404 million of tax-exempt and $57.825 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from .7% to 5.4% during the fiscal year. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under a Credit Agreement, is State Street Bank and Trust Company with a termination date of March 30, 2014, subject to extension and earlier termination. The total available commitment is $304.594 million. The obligation of State Street Bank and Trust Company is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

M. Component units – changes in long-term obligations

A summary of changes in long-term obligations for the year ended June 30, 2008, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee (UT)					
Loans and Notes Payable	$ 351,626	$ 148,577	$ (38,203)	$ 462,000	$ 17,586
Tennessee Board of Regents (TBR)					
Loans and Notes Payable	348,543	110,835	(54,646)	404,732	16,462
Tennessee Housing Development					
Agency (THDA) Bonds Payable	1,820,597	368,585	(229,473)	1,959,709	100,890
Less Deferred Amount on Refunding	(8,330)	(759)	1,675	(7,414)	
THDA Notes Payable	247,675	198,945	(357,900)	88,720	
Nonmajor Component Units Bonds,					
Notes, and Loans Payable	932,867	326,090	(169,013)	1,089,944	97,154
Less Deferred Amount on Refunding	(23,537)		1,245	(22,292)	
Total Revenue Bonds, Notes					
and Loans Payable	$ 3,669,441	$ 1,152,273	$ (846,315)	$ 3,975,399	$ 232,092
UT Compensated Absences	73,844	42,746	(40,564)	76,026	40,564
UT Other Post Employment Benefits		19,923		19,923	
UT Due to Grantors, Deferred					
Revenue and Annuities Payable	58,251	1,335	(1,720)	57,866	
UT Capital Leases		3,126	(416)	2,710	824
TBR Compensated Absences	53,523	31,702	(28,192)	57,033	13,541
TBR Other Post Employment Benefits		25,975		25,975	
TBR Due to Grantors, Deferred Revenue and Other	20,444	1,425	(1,350)	20,519	
THDA Escrow Deposits, Arbitrage					
Rebate Payable, and Deferred Revenue	14,831	6,647	(10,748)	10,730	3,845
THDA Compensated Absences	838	586	(536)	888	426
THDA Other Post Employment Benefits		281		281	
Tennessee Education Lottery Corporation					
(TELC) Prizes Annuities Payable	2,561	136	(156)	2,541	104
TELC Compensated Absences	398	321	(315)	404	263
TELC Deferred Lease	890	8	(68)	830	67
Nonmajor Component Units					
Compensated Absences	1,068	1,127	(984)	1,211	639
Nonmajor Component Units Other Post					
Employment Benefits		151		151	
Component Units Long-Term Obligations	$ 3,896,089	$ 1,287,762	$ (931,364)	$ 4,252,487	$ 292,365

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 $87.085 million ($1.489 million due within one year).

N. **Endowments – component units**

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2008, net appreciation of $216.820 million is available to be spent, of which $212.553 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, 2008, net appreciation of $68.967 million is available to be spent, of which $66.707 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, 2008, included 123 local education agencies and two education cooperatives, with 48,565 teachers and support personnel enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State does not retain any risk for losses by this fund.

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

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

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

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

	2008	2007
Unpaid Claims at Beginning of Year	$ 25,087	$ 27,355
Incurred Claims:		
Provision for insured events of the current year	365,225	321,829
Increase (decrease) in provision for insured events of prior years	(839)	(3,045)
Total Incurred Claims Expenses	364,386	318,784
Payments:		
Claims attributable to insured events of the current year	338,025	296,742
Claims attributable to insured events of prior years	24,247	24,310
Total Payments	362,272	321,052
Total Unpaid Claims at End of the Year	$ 27,201	$ 25,087

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, 2008, included 34 counties, 78 municipalities and 264 quasi-governmental organizations, with 12,565 employees maintaining coverage through one of four options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

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

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

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 253-2159.

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

	2008	2007
Unpaid Claims at Beginning of Year	$ 7,235	$ 6,819
Incurred Claims:		
Provision for insured events of the current year	93,250	90,585
Increase (decrease) in provision for insured events of prior years	(1,435)	(279)
Total Incurred Claims Expenses	91,815	90,306
Payments:		
Claims attributable to insured events of the current year	87,418	83,350
Claims attributable to insured events of prior years	5,800	6,540
Total Payments	93,218	89,890
Total Unpaid Claims at End of the Year	$ 5,832	$ 7,235

3. Risk Management - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State's management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the State's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from $25,000 per occurrence to an aggregate of $5 million. All agencies and authorities of the State participate in RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization (a component unit). The Tennessee Education Lottery Corporation (a component unit) participates in the RMF for general liability purposes but is responsible for its own workers' compensation coverage. RMF allocates the cost of providing claims servicing and claims payment by charging a premium to each agency based on a percentage of each organization's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole.

RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, such as salvage or subrogation, are another component of the claims liability estimate. At June 30, 2008, the present value of the casualty liability as actuarially determined was $84.622 million (discounted at 3.5%). Changes in the balances of claims liabilities during fiscal years 2007 and 2008 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
2007-2008	$ 88,459	$ 33,713	$ (29,295)	$ 92,877
2006-2007	$ 83,466	$ 36,822	$ (31,829)	$ 88,459

At June 30, 2008, RMF held $123.9 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees and former employees with work related injuries are eligible to participate. Fund members at June 30, 2008, included 69,495 employees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

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

	2008	2007
Unpaid Claims at Beginning of Year	$ 41,090	$ 46,775
Incurred Claims:		
Provision for insured events of the current year	627,479	580,070
Increase (decrease) in provision for insured events of prior years	7,007	(5,541)
Total Incurred Claims Expenses	634,486	574,529
Payments:		
Claims attributable to insured events of the current year	575,510	538,980
Claims attributable to insured events of prior years	48,098	41,234
Total Payments	623,608	580,214
Total Unpaid Claims at End of the Year	$ 51,968	$ 41,090

5. Component Unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state's uninsured. In accordance with Tennessee Code Annotated 56-7-2901, the target population is those Tennessean residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2008, the plan had 3,768 participants. Three plans exist with deductibles of $1,000, $2,500, and $5,000. The benefit plans are based on PPO plans with an 80% in-network benefit and 60% out-of-network benefit and modeled after the state employee plans. The State does not retain any risk for losses by this fund.

   This insurance fund provides health care financing based in part upon member premiums, and uses traditional insurance components, including deductibles, co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. The State's enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The initial assessment for AccessTN is projected following the end of fiscal year 2008, approximately December 31, 2008. 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 current year (expressed in thousands):

	2008	2007
Unpaid Claims at Beginning of Year	$ 392	
Incurred Claims:		
Provision for insured events of the current year	26,306	$ 788
Increase (decrease) in provision for insured events of prior years	143	
Total Incurred Claims Expenses	26,449	788
Payments:		
Claims attributable to insured events of the current year	20,610	396
Claims attributable to insured events of prior years	535	
Total Payments	21,145	396
Total Unpaid Claims at End of the Year	$ 5,696	$ 392

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, Goodwyn Institute Commission, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Competitive Export Corporation, Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., and Sports Festival, Inc.

C. Jointly governed organizations

The State in conjunction with 36 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid $44,586 in fiscal year 2008 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid $22,500 in fiscal year 2008 for membership dues.

The Compact for Education was entered into with 48 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid $77,300 in fiscal year 2008 for membership dues.

The Interstate Mining Compact has 19 member states, including Tennessee. Tennessee paid $16,863 in fiscal year 2008 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 in fiscal year 2008 for membership dues.

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

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

The Interstate Insurance Product Regulation Commission was entered into on June 2, 2008, with 32 other states and Puerto Rico.

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):

	2007	2006
Current Assets	$ 189	$ 196
Capital Assets	380	33
Total Assets	569	229
Long-Term Debt	364	0
Invested in General Fixed Assets	16	33
Fund Balance	189	196
Total Liabilities and Fund Balance	569	229
Revenues	364	306
Expenditures	371	279
Excess of Revenues over (under) Expenditures	(7)	27
Beginning Fund Balance	196	169
Ending Fund Balance	$ 189	$ 196

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 a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy.

Special Funding Situation

The state is legally responsible for contributions to the Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provides a subsidy for retired teachers in each plan. The state is not the sole "employer" contributor in the Teacher Group Plan since some Local Education Agencies provide a level of support. However, the state is the sole contributor for the teachers that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation—*Primary Government*
(dollars in thousands)

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Annual required contribution	$ 117,244	$ 25,579	$ 14,900	$ 10,064
Interest on the net OPEB obligation				
Adjustment to the ARC				
Annual OPEB cost	117,244	25,579	14,900	10,064
Amount of contribution	(39,861)	(15,244)	(4,501)	(3,534)
Increase/Decrease in net OPEB obligation	77,383	10,335	10,399	6,530
Net OPEB obligation —beginning of year				
Net OPEB obligation —end of year	$ 77,383	$ 10,335	$ 10,399	$ 6,530

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2008	Employee Group	$ 117,244	34.00%	$ 77,383
6/30/2008	Teacher Group (State Share)	25,579	59.60%	10,335
6/30/2008	Medicare Supp State	14,900	30.21%	10,399
6/30/2008	Medicare Supp Teachers	10,064	35.12%	6,530

*Data not available for two preceding years.

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

	Employee Group Plan
Annual required contribution	$ 70,128
Interest on the net OPEB obligation	
Adjustment to the ARC	
Annual OPEB cost	70,128
Amount of contribution	(23,870)
Increase/Decrease in net OPEB obligation	46,258
Net OPEB obligation —beginning of year	
Net OPEB obligation —end of year	$ 46,258

Year End*	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2008	Employee Group	$ 70,128	34%	$ 46,258

*Data not available for two preceding years.

Funded Status and Funding Progress

The funded status of the plans as of June 30, 2008, was as follows (dollars in thousands):

Primary Government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Actuarial valuation date	7/1/2007	7/1/2007	7/1/2007	7/1/2007
Actuarial accrued liability (AAL)	$ 1,152,887	$ 252,546	$ 200,080	$ 140,464
Actuarial value of plan assets				
Unfunded actuarial accrued liablility (UAAL)	$ 1,152,887	$ 252,546	$ 200,080	$ 140,464
Actuarial Value of Assets as a % of the AAL				
Covered payroll (active plan members)	$ 1,944,150	N/A	N/A	N/A
UAAL as a percentage of covered payroll	59.30%	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
Actuarial valuation date	7/1/2007
Actuarial accrued liability (AAL)	$ 652,696
Actuarial value of plan assests	
Unfunded actuarial accrued liability (UAAL)	$ 652,696
Actuarial Value of Assets as a % of the AAL	0.00%
Covered payroll (active plan members)	$ 1,378,089
UAAL as a percentage of covered payroll	47.36%

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, 2007, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7 percent initially, increased to 11 percent in the second year, and then reduced by decrements to an ultimate rate of 5 percent after 12 years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

Plan

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

Beginning in the fiscal year ending June 30, 2008, 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, 2008, there were 7,108 retirees and disabled participants enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The State insurance committee establishes premiums annually.

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

c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-201, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Employee Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retiree premiums are based on years of service; therefore, retirees with 30 years of service are subsidized 80 percent; 25 years, 70 percent; and 20 years, 60 percent. This plan is funded on a pay-as-you-go basis.

2. Retiree Health Plan—LEA Plan

a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 123 local education agencies and two education cooperatives 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, 2008, there were 5,316 retirees and disability participants enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

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

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

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 34 counties, 78 municipalities, and 264 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, 2008, there were 126 retirees and disability participants enrolled in one of three options: preferred provider organizations plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

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

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

4. Retiree Health Plan—Medicare Supplement

   a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2008, there were 21,442 retirees and disabled members enrolled. The State insurance committee establishes premiums annually.

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

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

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 284 former employees during fiscal year 2007-2008, and the State Plan paid approximately $3.8 million in benefits to this group.

F. **Pension plans**

1. State Defined Benefit Plan - The State of Tennessee contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) and consisting of 140 participating employers. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established by state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent; a COLA of one percent will be granted if the CPI increases between one-half percent and one percent; the maximum annual COLA is capped at three percent.

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

   Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 13.62% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2008, 2007, and 2006, were $593.412 million, $562.729 million, and $474.879 million respectively, equal to the required contributions for each year.

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

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 444 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment.

There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

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

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

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were $87.9 million for the year ended June 30, 2008.

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

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

   The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2008, contributions totaling $123.2 million were made by employees participating in the plans. Another $19 million was contributed by the State as matching contributions up to $50 per employee per month for the 401(k) plan match.

G. Investment pool

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

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9th Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-7063.

H. Loan guarantees

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75% of their principal amounts. At June 30, 2008, TSAC was guarantor of $4.668 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. Nashville correctional facilities revenue bonds

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville that were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2008, of $7.375 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

J. Contingencies

1. <u>Litigation</u>

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

   The State is also involved in other litigating matters that include claims which normally recur in governmental operations. Some of these lawsuits, including the ones referred to above, may have a future budgetary programmatic impact. They will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the State approximately $27 million.

2. <u>Federal grants</u>

   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.

   Audits of the State's Medical Assistance Program (TennCare) have resulted in likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditures for healthcare for patients with mental retardation and other developmental disabilities. The HHS Centers for Medicare and Medicaid Services (CMS) have not acted upon the audit findings which include $6.9 million of questioned costs.

3. Tobacco settlement

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement (MSA) includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at $4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, previously settled states and non-participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as volume adjustment and the market share adjustment can work to reduce annual payments. The non-participating manufacturers' adjustment is currently the subject of dispute, and some of the sums related to it are being withheld from the payments to the States. Furthermore, there is a possibility that additional amounts, which were paid in previous years, could be subject to refund as a result of these ongoing disputes. These refunds could reduce future payments received by some of the MSA participants. Third party lawsuits may also affect future payments. The net effect of these adjustments on future payments is unclear.

K. **Subsequent events**

Primary Government

Subsequent to June 30, the State issued $63 million in general obligation commercial paper. Also, in September 2008, the State issued 2008 Series A tax-exempt general obligation bonds in the amount of $125.8 million and 2008 Series B taxable general obligation bonds in the amount of $15.3 million at a premium of $3.3 million to redeem commercial paper and to finance the purchase of capital assets.

On August 20, 2008, the state was notified that the federal drawdown of Certified Public Expenditures (CPE) expenditures should be suspended. The TennCare CPE Program allows the state to claim federal financial participation from the Medicaid program based upon certain qualified state expenditures for public hospitals and nursing home facilities. Subsequently, TennCare has learned that the Nursing Home CPE Program will be discontinued. The annual federal expenditures for Nursing Home CPE are estimated to be $81 million. TennCare is currently in the process of negotiating a revised protocol for Hospital CPE and is hopeful that funds will be recovered back to September 1. The federal portion of Hospital CPE is $258 million.

In an effort to reduce expenditures on a recurring basis, the state developed a Voluntary Buyout Program (VBP). The VBP was designed to provide eligible employees who voluntarily elected to separate employment with severance pay and benefits. The buyout offer was made to approximately 12,000 eligible employees in hopes to achieve a desired reduction of about 2,200 positions and $64 million in annualized salaries. The offer was made in June 2008, and employees had until August 15, 2008, to make their decision. The State ultimately accepted 1,522 applications for the VBP. The total VBP cost to the state due to participation in the VBP is approximately $63 million.

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) issued $50 million of revenue bonds (2008-2) in August and $90 million of revenue bonds (2008-3) in September 2008. The bond proceeds were used to refund Series 2007 CN-1 Notes. The agency used mortgage prepayments, foreclosure proceeds, and note proceeds to redeem $48.5 million of outstanding bonds in July 2008 and $38.9 million in October 2008. Also in July, the agency drew $44.3 million of Series 2007 CN-1 Notes to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. In October 2008, the agency purchased $83 million of the 2007 CN-1 Notes per IRS Notice 2008-88. This notice states that state governments can hold these notes until not later than December 31, 2009. The agency has announced a bond call on January 1, 2009, to redeem bonds in the amount of $33.7 million in the Homeownership Program and $1.5 million in the Mortgage Program Bonds for a total $35.3 million.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $56.7 million in commercial paper. In November 2008, TSSBA offered 2008 Series B tax-exempt bonds in the amount of $166.9 million for the purpose of redeeming commercial paper. The issue of these bonds is expected to occur in December 2008.

On October 1, 2008, the Community Services Agencies (CSAs) (Northeast, Memphis and Shelby County, Mid-West, Southeast, and Southwest) combined into a single multi-county CSA. The Tennessee CSA will serve all 95 counties.

Other

Continued disruption in the credit markets and overall declines in economic conditions in markets in the United States of America and internationally have resulted in significant declines in the fair market value of the state's and component units' investments subsequent to June 30, 2008. As of October 31, 2008, the Tennessee Consolidated Retirement System (TCRS) (fiduciary fund) estimated that the value of investments excluding the real estate portfolio has declined approximately $5.5 billion, the Tennessee Baccalaureate Education Trust (BEST) (fiduciary fund) estimated that the value of investments had declined approximately $15 million, and the Chairs of Excellence (permanent fund) estimated that the value of investments had declined approximately $42 million compared to the value as of June 30, 2008. In addition, the University of Tennessee (component unit) estimated that as of September 30, 2008, the value of investments had declined approximately $72.4 million compared to the value as of June 30, 2008. The Tennessee Board of Regents (TBR) (component unit) estimated that as of September 30, 2008, the fair value of investments for TBR institutions and foundations decreased approximately $2.7 million and $30.5 million, respectively, subsequent to June 30, 2008.

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REQUIRED SUPPLEMENTARY INFORMATION

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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, 2008	89.20
June 30, 2007	89.70
June 30, 2006	90.39

BRIDGES

Measurement Scale
The state maintains information on its 8,136 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, 2008	81.00%
June 30, 2006	85.80%
June 30, 2004	80.00%

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		Bridges	
	Estimated	Actual	Estimated	Actual
2008	$270,331	$310,355	$36,224	$29,196
2007	236,556	286,663	35,624	28,183
2006	224,472	277,442	33,052	38,327
2005	261,846	229,414	35,372	23,054
2004	290,027	260,066	29,247	36,514
2003	289,516	285,459	28,787	39,557

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

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

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)
7/1/07	State Plan	$ 0	$ 1,152,887	$ 1,152,887	0 %	$ 1,944,150	59.30%
7/1/07	Teacher Grp (State-Share)	$ 0	$ 252,546	$ 252,546	0 %	N/A	N/A
7/1/07	MedSup S	$ 0	$ 200,080	$ 200,080	0 %	N/A	N/A
7/1/07	MedSup T	$ 0	$ 140,464	$ 140,464	0 %	N/A	N/A

*Two additional years will be reported as data becomes available.

Other Post Employment Benefits Schedule of Funding Progress—*Component Units*
(dollars 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)
7/1/07	State P	$ 0	$ 652,696	$ 652,696	0 %	$ 1,378,089	47%

State of Tennessee
AccessTN Insurance Fund
Required Supplementary Information
Two-Year Claims Development Table

(Expressed in Thousands)

The table below illustrates how the AccessTN Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the AccessTN Insurance Fund as of the end of each of the last two 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); because this program is new, full policy year amounts are not yet available. (4) This section shows the cumulative net amounts paid as of the end of successive years for each year; these amounts are unavailable. (5) This section shows how each year's net incurred claims increased or decreased as of the end of successive years; these amounts are unavailable. 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
(1) Required contribution and investment revenue earned		
(fiscal year)	877	21,847
(2) Unallocated expenses	3,520	2,830
(3) Estimated claims and expenses, end of policy year,		
net incurred	*	*
(4) Net paid (cumulative) as of:		
End of policy year	*	*
One year later	*	
(5) Reestimated net incurred claims and expenses:		
End of policy year	*	*
One year later	*	
(6) Increase (decrease) in estimated net incurred claims		
and expenses from end of policy year	*	*

* Data not available

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

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	$ 2,682,084	$ 2,682,084	$ 2,682,084	
Add:				
Prior year encumbrances reappropriated	10,478	10,478	10,478	
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	2,692,562	2,692,562	2,692,562	
Revenues:				
Taxes	6,546,606	6,546,606	5,929,750	$ (616,856)
Licenses, fines, fees, and permits	198,824	198,824	282,727	83,903
Interest on investments	120,000	120,000	122,008	2,008
Federal	7,232,341	7,380,469	7,202,766	(177,703)
Departmental services	2,124,580	2,223,676	2,147,361	(76,315)
Other	214,449	214,449	255,298	40,849
Other financing sources:				
Transfers in	15,425	191,654	191,654	
Bond authorization				
Insurance recoveries		16	16	
Total sources of financial resources	19,144,787	19,568,256	18,824,142	(744,114)
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	67,726	67,703	36,930	30,773
Secretary of State	68,669	69,804	58,589	11,215
Comptroller	101,296	101,036	83,754	17,282
Treasurer	58,093	58,093	50,760	7,333
Governor	4,720	4,720	3,746	974
Commissions	79,755	84,054	75,192	8,862
Finance and Administration	179,553	168,360	103,878	64,482
Personnel	14,091	17,967	14,168	3,799
General Services	24,527	25,067	21,481	3,586
Revenue	119,563	121,490	107,533	13,957
Miscellaneous Appropriations	89,852	86,670	35,769	50,901
Education				
Health and social services				
Veterans Affairs	5,371	5,399	4,851	548
Labor and Workforce Development	238,186	242,392	219,007	23,385
TennCare	8,171,514	8,179,618	7,498,387	681,231
Mental Health	342,461	347,443	315,899	31,544
Mental Retardation	861,898	900,984	866,640	34,344
Health	617,351	647,448	559,128	88,320
Human Services	2,005,853	2,099,751	2,038,082	61,669
Cover Tennessee	203,081	203,916	97,352	106,564
Children's Services	690,913	729,329	697,782	31,547
Law, justice and public safety				
Judicial	281,149	288,254	273,053	15,201
Correction	693,087	669,368	623,345	46,023
Probation and Parole	85,152	85,152	79,337	5,815
Military	109,606	138,681	71,808	66,873
Bureau of Criminal Investigation	62,775	66,902	64,992	1,910
Safety	178,245	178,261	159,963	18,298
Recreation and resource development				
Agriculture	104,386	101,438	92,802	8,636
Tourist Development	20,783	20,783	18,570	2,213
Environment and Conservation	344,863	359,688	325,760	33,928
Economic and Community Development	226,571	233,472	89,963	143,509
Regulation of business and professions				
Commerce and Insurance	85,692	85,507	74,262	11,245
Financial Institutions	16,254	16,254	13,474	2,780
Transportation				
Intergovernmental revenue sharing	546,572	546,572	546,572	
Other financing uses:				
Transfers out	1,287,935	1,291,334	1,291,334	
Total uses of financial resources	17,987,543	18,242,910	16,614,163	1,628,747
Fund balances (budgetary basis), June 30	$ 1,157,244	$ 1,325,346	$ 2,209,979	$ 884,633

Education Fund				Highway Fund			
Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
$ 487,210	$ 487,210	$ 487,210		$ 7,375	$ 7,375	$ 7,375	
1,243	1,243	1,243		9,389	9,389	9,389	
				461,871	461,871	461,871	
488,453	488,453	488,453		478,635	478,635	478,635	
4,511,400	4,511,400	4,217,791	$ (293,609)	790,500	790,500	823,648	$ 33,148
2,000	2,000	1,789	(211)	223,475	223,475	218,865	(4,610)
		3	3			42	42
910,997	911,011	847,138	(63,873)	941,346	3,199,935	702,323	(2,497,612)
47,107	68,952	65,164	(3,788)	50,433	37,574	57,811	20,237
307,900	307,900	306,709	(1,191)	4,450	4,450	8,186	3,736
915,058	915,508	915,508		15,061	99,861	99,861	
				84,800			
					4	4	
7,182,915	7,205,224	6,842,555	(362,669)	2,588,700	4,834,434	2,389,375	(2,445,059)
6,450,215	6,457,400	6,310,765	146,635				
				2,302,996	4,489,059	2,084,795	2,404,264
				291,300	291,300	295,524	(4,224)
402	14,708	14,708		1,349	1,349	1,349	
6,450,617	6,472,108	6,325,473	146,635	2,595,645	4,781,708	2,381,668	2,400,040
$ 732,298	$ 733,116	$ 517,082	$ (216,034)	$ (6,945)	$ 52,726	$ 7,707	$ (45,019)

State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2008

(Expressed in thousands)

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

	General Fund	Education Fund	Highway Fund
Sources of financial resources			
Actual amounts (budgetary basis)	$ 18,824,142	$ 6,842,555	$ 2,389,375
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(2,692,562)	(488,453)	(478,635)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(191,670)	(915,508)	(99,865)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 15,939,910	$ 5,438,594	$ 1,810,875
Uses of financial resources			
Actual amounts (budgetary basis)	$ 16,614,163	$ 6,325,473	$ 2,381,668
Differences - budget to GAAP:			
Certain construction contract commitments are reported in the year of federal appropriation for budgetary purposes, but in the year the services are received for financial reporting purposes.			(625,564)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(1,291,334)	(14,708)	(1,349)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 15,322,829	$ 6,310,765	$ 1,754,755

2. Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

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

Most appropriations generally lapse at the end of each fiscal year. There were no outstanding encumbrances reported as of June 30, 2008. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $22.465 million were required.

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

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.

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2008

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	$ 251,091	$ 3,384	$ 486,732	$ 44,718	$ 785,925
Investments				233,069	233,069
Receivables:					
Taxes	3,996	5,322		20	9,338
Due from other governments	8,070		21,158		29,228
Interest				1,869	1,869
Other	770		31	7	808
Due from other funds	9				9
Due from component units			1,079	417	1,496
Loans receivable	9,224	7,345			16,569
Restricted assets:					
Cash and cash equivalents			18,941		18,941
Total assets	$ 273,160	$ 16,051	$ 527,941	$ 280,100	$ 1,097,252
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 21,036	$ 406	$ 22,342		$ 43,784
Due to other funds	533				533
Due to component units				$ 1,826	1,826
Deferred revenue	2,442	8,367	540		11,349
Advance from federal government	36,232				36,232
Deposits payable	1				1
Payable from restricted assets			15,886		15,886
Other		147			147
Total liabilities	60,244	8,920	38,768	1,826	109,758
Fund balances:					
Reserved for:					
Related assets	1,400				1,400
Specific purposes:					
Permanent funds:					
Expendable				139,325	139,325
Nonexpendable				138,949	138,949
Unreserved, undesignated reported in:					
Special revenue funds	211,516				211,516
Debt service fund		7,131			7,131
Capital projects fund			489,173		489,173
Total fund balances	212,916	7,131	489,173	278,274	987,494
Total liabilities and fund balances	$ 273,160	$ 16,051	$ 527,941	$ 280,100	$ 1,097,252

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, 2008

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues					
Taxes:					
Sales		$ 48,569			$ 48,569
Fuel	$ 18,748	84,800			103,548
Business	244	184,331			184,575
Other	25,627				25,627
Licenses, fines, fees, and permits	163,857	2,700		$ 2,548	169,105
Interest on investments	11,245			(6,146)	5,099
Federal	33,817		$ 20,992		54,809
Departmental services	13,691	2,205	53,638		69,534
Other	2		412	27	441
Total revenues	267,231	322,605	75,042	(3,571)	661,307
Expenditures					
Current:					
General government	25,256				25,256
Education				8,093	8,093
Law, justice and public safety	6,254				6,254
Recreation and resources development	179,863			908	180,771
Regulation of business and professions	41,952				41,952
Debt service:					
Bond principal retirement		78,457			78,457
Commercial paper retirement		650			650
Bond interest		47,479			47,479
Commercial paper interest		4,393			4,393
Debt issuance costs		980			980
Capital outlay			359,118		359,118
Total expenditures	253,325	131,959	359,118	9,001	753,403
Excess (deficiency) of revenues over (under) expenditures	13,906	190,646	(284,076)	(12,572)	(92,096)
Other financing sources (uses)					
Bond and commercial paper issued			340,021		340,021
Commercial paper redeemed			(129,333)		(129,333)
Bond premium		2,760			2,760
Insurance claims recoveries			2,341		2,341
Transfers in	17,935	3,946	297,275	402	319,558
Transfers out	(70,065)	(195,619)	(300)		(265,984)
Total other financing sources (uses)	(52,130)	(188,913)	510,004	402	269,363
Net changes in fund balances	(38,224)	1,733	225,928	(12,170)	177,267
Fund balances, July 1	251,140	5,398	263,245	290,444	810,227
Fund balances, June 30	$ 212,916	$ 7,131	$ 489,173	$ 278,274	$ 987,494

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.

Job Skills—This program is administered by the Department of Economic and Community Development. Revenues are collected from a tax on employer's wages. The revenues will be used to enhance employment opportunites and to meet the needs of existing and new industries in the state.

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

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

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

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

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

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

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

Community Development—This fund is used to account for the federal monies received for revolving loans made primarily to small businesses.

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.

Regulatory Boards—This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees assessed on licenses to real estate brokers, affiliate real estate brokers or auctioneers. These revenues are used to pay court judgments for violations by brokers, contractors or auctioneers of the applicable acts or of any rules promulgated by the appropriate officials.

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

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

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

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

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

Small and Minority Owned Business Assistance—This program provides loans and loan guarantees and technical assistance to small and minority-owned companies. Revenues collected during fiscal years 1997-2001, were derived from a fee on telecommunication service providers.

Sex Offender Treatment Program—This program was formed to standardize the evaluation, identification, treatment and continued monitoring of sex offenders. Revenue is derived from a fine on those convicted of a sex offense.

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.

Cemetery Consumer Protection—This program is administred by the Department of Commerce and Insurance. Revenues are collected from fees on every pre-need sales contract entered into by a renewed cemetery registration. These fees are used to fund the cemetery registration program and to fund any receivership action initiated against a cemetery due to a deficiency in the cemetery's improvement care or pre-need merchandise and services trust fund.

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2008

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote	Environmental Protection
Assets						
Cash and cash equivalents	$ 42,375	$ 7,965	$ 1,922	$ 21,444	$ 37,940	$ 8,002
Receivables:						
Taxes	61	592	1,777			
Due from other governments	2,281	5,253				
Other	3		1			
Due from other funds	7					
Loans receivable						
Total assets	$ 44,727	$ 13,810	$ 3,700	$ 21,444	$ 37,940	$ 8,002
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 3,873	$ 6,831	$ 3,575	$ 196		$ 2
Due to other funds	367		11			
Deferred revenue	1					
Advance from federal government					$ 36,232	
Deposits payable						
Total liabilities	4,241	6,831	3,586	196	36,232	2
Fund balances:						
Reserved for:						
Related assets						
Unreserved	40,486	6,979	114	21,248	1,708	8,000
Total fund balances	40,486	6,979	114	21,248	1,708	8,000
Total liabilities and fund balances	$ 44,727	$ 13,810	$ 3,700	$ 21,444	$ 37,940	$ 8,002

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development	Driver Education
$ 6,170	$ 31,083	$ 2,083	$ 10,404	$ 53,960	$ 3,257	$ 215
			1,487			72
53			195			
		409				
			1			
					7,824	
$ 6,223	$ 31,083	$ 2,492	$ 12,087	$ 53,960	$ 11,081	$ 287
$ 178	$ 1,652	$ 93	$ 1,140	$ 2,117		$ 35
30	17		40	4		2
1,519		15	907			
1,727	1,669	108	2,087	2,121		37
4,496	29,414	2,384	10,000	51,839	$ 11,081	250
4,496	29,414	2,384	10,000	51,839	11,081	250
$ 6,223	$ 31,083	$ 2,492	$ 12,087	$ 53,960	$ 11,081	$ 287

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2008

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response
Assets						
Cash and cash equivalents	$ 1,079	$ 2,657	$ 3,613	$ 30	$ 18	$ 2,612
Receivables:						
Taxes						
Due from other governments						
Other					1	
Due from other funds						
Loans receivable						
Total assets	$ 1,079	$ 2,657	$ 3,613	$ 30	$ 19	$ 2,612
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals		$ 769	$ 13	$ 24	$ 14	$ 261
Due to other funds				6		2
Deferred revenue						
Advance from federal government						
Deposits payable						
Total liabilities		769	13	30	14	263
Fund balances:						
Reserved for:						
Related assets						
Unreserved	$ 1,079	1,888	3,600		5	2,349
Total fund balances	1,079	1,888	3,600		5	2,349
Total liabilities and fund balances	$ 1,079	$ 2,657	$ 3,613	$ 30	$ 19	$ 2,612

Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Cemetery Consumer Protection	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 873	$ 858	$ 10,306	$ 43	$ 27	$ 2,155	$ 251,091
			7			3,996
	288					8,070
3	353					770
	1					9
		1,400				9,224
$ 876	$ 1,500	$ 11,706	$ 50	$ 27	$ 2,155	$ 273,160
$ 1	$ 227	$ 19	$ 16			$ 21,036
	54					533
						2,442
						36,232
	1					1
1	282	19	16			60,244
		1,400				1,400
875	1,218	10,287	34	$ 27	$ 2,155	211,516
875	1,218	11,687	34	27	2,155	212,916
$ 876	$ 1,500	$ 11,706	$ 50	$ 27	$ 2,155	$ 273,160

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote	Environmental Protection
Revenues						
Taxes:						
Fuel	$ 530					
Business	241			$ 3		
Other	7,313		$ 6,627			
Licenses, fines, fees, and permits	37,523	$ 10,616	5,747			$ 37,143
Interest on investments	1,635	270	630	859	$ 455	512
Federal	22,340	5,253			216	
Departmental services	9,235		36			
Other		2				
Total revenues	78,817	16,141	13,040	862	671	37,655
Expenditures						
General government		14,724			610	
Law, justice and public safety						
Recreation and resources development	85,875		12,131	252		39,549
Regulation of business and professions						
Total expenditures	85,875	14,724	12,131	252	610	39,549
Excess (deficiency) of revenues over (under) expenditures	(7,058)	1,417	909	610	61	(1,894)
Other financing sources (uses)						
Transfers in	5,985	3,700				
Transfers out	(1,452)		(14,220)			(4,087)
Total other financing sources (uses)	4,533	3,700	(14,220)			(4,087)
Net change in fund balances	(2,525)	5,117	(13,311)	610	61	(5,981)
Fund balances, July 1	43,011	1,862	13,425	20,638	1,647	13,981
Fund balances, June 30	$ 40,486	$ 6,979	$ 114	$ 21,248	$ 1,708	$ 8,000

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Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development	Driver Education
			$ 18,218			
	$ 7,312					
		$ 3,149	4,887	$ 51,362		$ 733
$ 204	1,294	95	1,268	2,596	$ 311	
1,916	1,703		1,807		15	
2,480	703	370	302			
4,600	11,012	3,614	26,482	53,958	326	733
		4,397				678
5,502	12,431		12,401		731	
				41,817		
5,502	12,431	4,397	12,401	41,817	731	678
(902)	(1,419)	(783)	14,081	12,141	(405)	55
1,076	4,874					
(2,949)	(1046)		(28,563)	(10,000)		(1,429)
(1,873)	3,828		(28,563)	(10,000)		(1,429)
(2,775)	2,409	(783)	(14,482)	2,141	(405)	(1,374)
7,271	27,005	3,167	24,482	49,698	11,486	1,624
$ 4,496	$ 29,414	$ 2,384	$ 10,000	$ 51,839	$ 11,081	$ 250

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, 2008

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response
Revenues						
Taxes:						
Fuel						
Business						
Other		$ 3,375			$ 1,000	
Licenses, fines, fees, and permits	$ 17		$ 239	$ 1,475		$ 917
Interest on investments	35	95	189			123
Federal	247					
Departmental services	104		10		1	23
Other						
Total revenues	403	3,470	438	1,475	1,001	1,063
Expenditures						
General government				944		
Law, justice and public safety						
Recreation and resources development	175	4,402			1,001	1,894
Regulation of business and professions			135			
Total expenditures	175	4,402	135	944	1,001	1,894
Excess (deficiency) of revenues over (under) expenditures	228	(932)	303	531	-	(831)
Other financing sources (uses)						
Transfers in		2,250				
Transfers out		(124)	(1,154)	(2,544)		
Total other financing sources (uses)		2,126	(1,154)	(2,544)		
Net change in fund balances	228	1,194	(851)	(2,013)		(831)
Fund balances, July 1	851	694	4,451	2,013	5	3,180
Fund balances, June 30	$ 1,079	$ 1,888	$ 3,600	$ -	$ 5	$ 2,349

Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Cemetery Consumer Protection	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
						$ 18,748
						244
						25,627
$ 3,015	$ 5,707		$ 111	$ 27	$ 1,189	163,857
179		$ 490			5	11,245
	320					33,817
	347		80			13,691
						2
3,194	6,374	490	191	27	1,194	267,231
	8,058	920				25,256
			226		953	6,254
3,519						179,863
						41,952
3,519	8,058	920	226		953	253,325
(325)	(1,684)	(430)	(35)	27	241	13,906
			50			17,935
(2,297)			(200)			(70,065)
(2,297)			(150)			(52,130)
(2,622)	(1,684)	(430)	(185)	27	241	(38,224)
3,497	2,902	12,117	219		1,914	251,140
$ 875	$ 1,218	$ 11,687	$ 34	$ 27	$ 2,155	$ 212,916

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, 2008

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 40,110	$ 40,110	
Add:			
Prior year encumbrances liquidated	431	431	
Adjusted fund balances (budgetary basis), July 1	40,541	40,541	
Revenues:			
Taxes	8,063	8,084	$ 21
Licenses, fines, fees, and permits	43,251	37,523	(5,728)
Interest on investments		1,635	1,635
Federal	21,908	22,340	432
Departmental services	13,880	9,235	(4,645)
Other			
Other financing sources - transfers in	5,985	5,985	
Total sources of financial resources	133,628	125,343	(8,285)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	96,382	83,405	12,977
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	1,452	1,452	
Total uses of financial resources	97,834	84,857	12,977
Fund balances (budgetary basis), June 30	$ 35,794	$ 40,486	$ 4,692

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,862	$ 1,862		$ 13,419	$ 13,419	
1,862	1,862		13,419	13,419	
			5,587	6,627	$ 1,040
8,767	10,616	$ 1,849	5,313	5,747	434
	270	270	338	630	292
5,056	5,253	197			
			266	36	(230)
3	2	(1)			
3,700	3,700				
19,388	21,703	2,315	24,923	26,459	1,536
19,555	14,724	4,831			
			12,838	12,125	713
			14,220	14,220	
19,555	14,724	4,831	27,058	26,345	713
$ (167)	$ 6,979	$ 7,146	$ (2,135)	$ 114	$ 2,249

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, 2008

(Expressed in Thousands)

	Job Skills		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 20,638	$ 20,638	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	20,638	20,638	
Revenues:			
Taxes		3	$ 3
Licenses, fines, fees, and permits			
Interest on investments	285	859	574
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	20,923	21,500	577
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	9,285	252	9,033
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	9,285	252	9,033
Fund balances (budgetary basis), June 30	$ 11,638	$ 21,248	$ 9,610

(continued on next page)

Help America Vote			Environmental Protection		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,647	$ 1,647		$ 13,981	$ 13,981	
1,647	1,647		13,981	13,981	
			48,206	37,143	$ (11,063)
	455	$ 455		512	512
19,500	216	(19,284)			
21,147	2,318	(18,829)	62,187	51,636	(10,551)
20,500	610	19,890			
			47,877	39,549	8,328
			4,087	4,087	
20,500	610	19,890	51,964	43,636	8,328
$ 647	$ 1,708	$ 1,061	$ 10,223	$ 8,000	$ (2,223)

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, 2008

(Expressed in Thousands)

	Hazardous Waste		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 7,271	$ 7,271	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	7,271	7,271	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		204	$ 204
Federal	2,008	1,916	(92)
Departmental services	4,470	2,480	(1,990)
Other			
Other financing sources - transfers in	1,076	1,076	
Total sources of financial resources	14,825	12,947	(1,878)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	11,907	5,502	6,405
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	2,949	2,949	
Total uses of financial resources	14,856	8,451	6,405
Fund balances (budgetary basis), June 30	$ (31)	$ 4,496	$ 4,527

(continued on next page)

Parks Acquisition			Supreme Court Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 27,005	$ 27,005		$ 3,167	$ 3,167	
27,005	27,005		3,167	3,167	
7,312	7,312				
			3,494	3,149	$ (345)
	1,294	$ 1,294		95	95
	1,703	1,703			
52	703	651		370	370
4,874	4,874				
39,243	42,891	3,648	6,661	6,781	120
			4,633	4,397	236
14,321	12,431	1,890			
1,046	1,046				
15,367	13,477	1,890	4,633	4,397	236
$ 23,876	$ 29,414	$ 5,538	$ 2,028	$ 2,384	$ 356

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, 2008

(Expressed in Thousands)

	Underground Storage Tanks		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 24,482	$ 24,482	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	24,482	24,482	
Revenues:			
Taxes	18,200	18,218	$ 18
Licenses, fines, fees, and permits	4,271	4,887	616
Interest on investments		1,268	1,268
Federal	2,087	1,807	(280)
Departmental services		302	302
Other			
Other financing sources - transfers in			
Total sources of financial resources	49,040	50,964	1,924
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	24,558	12,401	12,157
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	28,563	28,563	
Total uses of financial resources	53,121	40,964	12,157
Fund balances (budgetary basis), June 30	$ (4,081)	$ 10,000	$ 14,081

(continued on next page)

Enhanced Emergency 911 Service			Driver Education		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 49,698	$ 49,698		$ 1,609	$ 1,609	
			3	3	
49,698	49,698		1,612	1,612	
49,014	51,362	$ 2,348	477	733	$ 256
	2,596	2,596			
98,712	103,656	4,944	2,089	2,345	256
			892	666	226
56,873	41,817	15,056			
10,000	10,000		1,429	1,429	
66,873	51,817	15,056	2,321	2,095	226
$ 31,839	$ 51,839	$ 20,000	$ (232)	$ 250	$ 482

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, 2008

(Expressed in Thousands)

	Abandoned Land Program		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 851	$ 851	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	851	851	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	500	17	$ (483)
Interest on investments		35	35
Federal		247	247
Departmental services		104	104
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,351	1,254	(97)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	500	175	325
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	500	175	325
Fund balances (budgetary basis), June 30	$ 851	$ 1,079	$ 228

(continued on next page)

Agricultural Non-Point Water Pollution			Regulatory Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 694	$ 694		$ 4,451	$ 4,451	
694	694		4,451	4,451	
3,375	3,375				
			374	239	$ (135)
	95	$ 95		189	189
				10	10
2,250	2,250				
6,319	6,414	95	4,825	4,889	64
5,625	4,402	1,223			
			374	135	239
124	124		1,154	1,154	
5,749	4,526	1,223	1,528	1,289	239
$ 570	$ 1,888	$ 1,318	$ 3,297	$ 3,600	$ 303

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, 2008

(Expressed in Thousands)

	Salvage Title Enforcement		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 2,009	$ 2,009	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	2,009	2,009	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	1,079	1,475	$ 396
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	3,088	3,484	396
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue	1,058	940	118
Other financing uses - transfers out	2,544	2,544	
Total uses of financial resources	3,602	3,484	118
Fund balances (budgetary basis), June 30	$ (514)	$	$ 514

(continued on next page)

Drycleaner's Environmental Response			Agricultural Regulatory Fund		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 3,180	$ 3,180		$ 3,497	$ 3,497	
3,180	3,180		3,497	3,497	
2,519	917	$ (1,602)	2,354	3,015	$ 661
	123	123	120	179	59
	23	23			
5,699	4,243	(1,456)	5,971	6,691	720
			3,518	3,519	(1)
2,519	1,894	625			
			2,297	2,297	
2,519	1,894	625	5,815	5,816	(1)
$ 3,180	$ 2,349	$ (831)	$ 156	$ 875	$ 719

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, 2008

(Expressed in Thousands)

	Tennessee Regulatory Authority		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 2,894	$ 2,894	
Add:			
Prior year encumbrances liquidated	8	8	
Adjusted fund balances (budgetary basis), July 1	2,902	2,902	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	8,417	5,707	$ (2,710)
Interest on investments			
Federal	350	320	(30)
Departmental services	3	347	344
Other			
Other financing sources - transfers in			
Total sources of financial resources	11,672	9,276	(2,396)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions	8,771	8,058	713
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	8,771	8,058	713
Fund balances (budgetary basis), June 30	$ 2,901	$ 1,218	$ (1,683)

(continued on next page)

Small and Minority Owned Business Assistance		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 12,117	$ 12,117	
12,117	12,117	
152	490	$ 338
12,269	12,607	338
2,252	920	1,332
2,252	920	1,332
$ 10,017	$ 11,687	$ 1,670

Sex Offender Treatment Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 219	$ 219	
219	219	
84	111	$ 27
	80	80
50	50	
353	460	107
248	226	22
200	200	
448	426	22
$ (95)	$ 34	$ 129

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, 2008

(Expressed in Thousands)

	Cemetery Consumer Protection		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1			
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1			
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 360	$ 27	$ (333)
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	360	27	(333)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	360		360
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	360		360
Fund balances (budgetary basis), June 30	$	$ 27	$ 27

Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 234,801	$ 234,801	
442	442	
235,243	235,243	
42,537	43,619	$ 1,082
178,480	162,668	(15,812)
895	10,929	10,034
50,909	33,802	(17,107)
18,671	13,690	(4,981)
3	2	(1)
17,935	17,935	
544,673	517,888	(26,785)
4,633	4,397	236
20,500	610	19,890
21,807	15,644	6,163
8,771	8,058	713
248	226	22
892	666	226
9,143	7,921	1,222
114,520	84,077	30,443
96,382	83,405	12,977
9,285	252	9,033
57,607	41,952	15,655
1,058	940	118
70,065	70,065	
414,911	318,213	96,698
$ 129,762	$ 199,675	$ 69,913

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.

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, 2008

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 5,398	$ 5,398	
Revenues:			
Taxes	317,700	317,700	
Licenses, fines, fees, and permits	2,700	2,700	
Other		2,205	$ 2,205
Other financing sources			
Transfers in	3,946	3,946	
Bond premium	2,760	2,760	
Total sources of financial resources	332,504	334,709	2,205
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	330,401	131,959	198,442
Other financing uses - transfers out	195,619	195,619	
Total uses of financial resources	526,020	327,578	198,442
Fund balances (budgetary basis), June 30	$ (193,516)	$ 7,131	$ 200,647

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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.

Academic Scholars Fund—This fund is used to account for the academic scholars program administered by Tennessee Student Assistance Corporation. An endowment was established in 1986 to provide scholarships to superior students from the interest earnings.

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, 2008

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Assets				
Cash and cash equivalents	$ 6,830		$ 37,888	$ 44,718
Investments	229,665	$ 3,404		233,069
Receivables:				
Taxes			20	20
Interest	1,869			1,869
Other			7	7
Due from component units	417			417
Total assets	$ 238,781	$ 3,404	$ 37,915	$ 280,100
Liabilities and fund balances				
Liabilities:				
Due to component units	$ 1,826			$ 1,826
Total liabilities	1,826			1,826
Fund balances:				
Reserved for:				
Expendable	137,025	$ 699	$ 1,601	139,325
Nonexpendable	99,930	2,705	36,314	138,949
Total fund balances	236,955	3,404	37,915	278,274
Total liabilities and fund balances	$ 238,781	$ 3,404	$ 37,915	$ 280,100

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Revenues				
Licenses, fines, fees and permits			$ 2,548	$ 2,548
Interest on investments	$ (7,920)	$ 289	1,485	(6,146)
Other			27	27
Total revenues	(7,920)	289	4,060	(3,571)
Expenditures				
Education	7,572	521		8,093
Recreation and resources development			908	908
Total expenditures	7,572	521	908	9,001
Excess (deficiency) of revenues over (under) expenditures	(15,492)	(232)	3,152	(12,572)
Other financing sources (uses)				
Transfers in		402		402
Total other financing sources (uses)		402		402
Net change in fund balances	(15,492)	170	3,152	(12,170)
Fund balances, July 1	252,447	3,234	34,763	290,444
Fund balances, June 30	$ 236,955	$ 3,404	$ 37,915	$ 278,274

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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.

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

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

<u>Teacher Group Insurance</u>—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.

<u>Local Government Group Insurance</u>—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.

<u>Drinking Water Loan</u>—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.

<u>Grain Indemnity</u>—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.

<u>Property Utilization</u>—This agency, a division of the Department of General Services, receives surplus federal property and redistributes it to civil defense units, health and educational institutions and other eligible donees within the state. The agency collects fees from the donees to offset operating costs. In addition, this agency handles surplus property by the various State agencies.

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

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2008

(Expressed in Thousands)

Assets	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Current assets:				
Cash and cash equivalents	$ 2,639	$ 19,993	$ 163,083	$ 19,129
Receivables:				
Accounts receivable			2,313	610
Loans receivable	821	2,191		
Inventory				
Total current assets	3,460	22,184	165,396	19,739
Noncurrent assets:				
Deferred charges	18			
Loans receivable	961	9,180		
Capital assets:				
Machinery and equipment, at cost				
Total capital assets, net of accumulated depreciation				
Total noncurrent assets	979	9,180		
Total assets	4,439	31,364	165,396	19,739
Liabilities				
Current liabilities:				
Accounts payable and accruals	147	710	27,202	5,844
Due to other funds				
Bonds payable	1,655			
Unearned revenue			786	378
Total current liabilities	1,802	710	27,988	6,222
Noncurrent liabilities:				
Other noncurrent liabilities				
Total noncurrent liabilities				
Total liabilities	1,802	710	27,988	6,222
Net assets				
Invested in capital assets, net of related debt				
Unrestricted	2,637	30,654	137,408	13,517
Total net assets	$ 2,637	$ 30,654	$ 137,408	$ 13,517

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
$ 29,444	$ 3,166		$ 2,417	$ 239,871
		$ 42		2,965
3,480				6,492
		103		103
32,924	3,166	145	2,417	249,431
				18
68,365				78,506
		51		51
		51		51
68,365		51		78,575
101,289	3,166	196	2,417	328,006
63		79		34,045
		52		52
				1,655
				1,164
63		131		36,916
1,574		96		1,670
1,574		96		1,670
1,637		227		38,586
		51		51
99,652	3,166	(82)	2,417	289,369
$ 99,652	$ 3,166	$ (31)	$ 2,417	$ 289,420

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Operating revenues				
Charges for services		$ 98		
Investment income	$ 116	823		
Premiums			$ 384,980	$ 95,823
Total operating revenues	116	921	384,980	95,823
Operating expenses				
Personal services				
Contractual services	21		14,686	2,988
Materials and supplies				
Rentals and insurance				
Interest	98			
Depreciation and amortization	10			
Benefits			358,267	90,856
Other	26		1,680	512
Total operating expenses	155		374,633	94,356
Operating income (loss)	(39)	921	10,347	1,467
Nonoperating revenues (expenses)				
Operating grants	(25)			
Interest income			5,855	735
Total nonoperating revenues (expenses)	(25)		5,855	735
Income (loss) before transfers	(64)	921	16,202	2,202
Transfers in				
Change in net assets	(64)	921	16,202	2,202
Net assets, July 1	2,701	29,733	121,206	11,315
Net assets, June 30	$ 2,637	$ 30,654	$ 137,408	$ 13,517

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
$ 1,317		$ 2,129	$ 195	$ 3,739
1,008				1,947
				480,803
2,325		2,129	195	486,489
		1,131		1,131
410		426	255	18,786
		699		699
		154		154
				98
				10
				449,123
	$ 502	78	1	2,799
410	502	2,488	256	472,800
1,915	(502)	(359)	(61)	13,689
12,144				12,119
	146		100	6,836
12,144	146		100	18,955
14,059	(356)	(359)	39	32,644
1,737				1,737
15,796	(356)	(359)	39	34,381
83,856	3,522	328	2,378	255,039
$ 99,652	$ 3,166	$ (31)	$ 2,417	$ 289,420

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Cash flows from operating activities				
Receipts from customers and users			$ 387,557	$ 96,496
Receipts from interfund services provided				
Payments to suppliers			(370,847)	(95,241)
Payments to employees				
Payments for interfund services used	$ (21)		(1,680)	(512)
Net cash from (used for) operating activities	(21)		15,030	743
Cash flows from noncapital financing activities				
Negative cash balance implicitly financed				
Operating grants received				
Transfers in				
Payments to component units	(25)			
Principal payments	(870)			
Interest paid	(120)			
Subsidy to borrowers	(31)			
Net cash from (used for) noncapital financing activities	(1,046)			
Cash flows from capital and related financing activities financing activities				
Purchase of capital assets				
Net cash from (used for) capital and related financing activities				
Cash flows from investing activities				
Loans issued		$ (3,916)		
Collection of loan principal	958	2,206		
Interest received	116	921	5,855	735
Net cash from (used for) investing activities	1,074	(789)	5,855	735
Net increase (decrease) in cash and cash equivalents	7	(789)	20,885	1,478
Cash and cash equivalents, July 1	2,632	20,782	142,198	17,651
Cash and cash equivalents, June 30	$ 2,639	$ 19,993	$ 163,083	$ 19,129
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ (39)	$ 921	$ 10,347	$ 1,467
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	10			
Investment income	(116)	(823)		
Charges for services		(98)		
Interest expense	98			
Subsidy to borrowers	26			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			2,351	566
(Increase) decrease in due from other funds				
(Increase) decrease in due from component units				7
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			2,106	(1,397)
Increase (decrease) in unearned revenue			226	100
Total adjustments	18	(921)	4,683	(724)
Net cash provided by (used for) operating activities	$ (21)	$ -	$ 15,030	$ 743

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
		$ 1,845	$ 195	$ 486,093
		308		308
$ (1)	$ (502)	(891)	(255)	(467,737)
		(1,081)	(1)	(1,082)
(409)		(593)		(3,215)
(410)	(502)	(412)	(61)	14,367
		42		42
12,144				12,144
1,737				1,737
				(25)
				(870)
				(120)
				(31)
13,881		42		12,877
		(51)		(51)
		(51)		(51)
(14,349)				(18,265)
2,805				5,969
2,321	146		100	10,194
(9,223)	146		100	(2,102)
4,248	(356)	(421)	39	25,091
25,196	3,522	421	2,378	214,780
$ 29,444	$ 3,166	$ -	$ 2,417	$ 239,871
$ 1,915	$ (502)	$ (359)	$ (61)	$ 13,689
				10
(2,325)				(3,264)
				(98)
				98
				26
		15		2,932
		1		1
		8		15
		39		39
		(116)		593
				326
(2,325)		(53)		678
$ (410)	$ (502)	$ (412)	$ (61)	$ 14,367

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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. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan counties. In fiscal year 91-92, the fund encompassed 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.

Food Services—a division of the Department of General Services, is responsible for the preparation and distribution of certain food to the various state institutions. This consists of food that is cooked and then immediately frozen and is then reheated at the institution.

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.

Capitol Print Shop—a division of the Office of the Comptroller, is responsible for providing printing, mailing and other office services for the state agencies located in the Capitol.

Purchasing—a division of the Department of General Services, is responsible for the procurement of supplies, equipment and certain specialized services.

Central Stores—a division of the Department of General Services, is responsible for the purchasing and distribution of office supplies to all state government and quasi-governmental entities that opt to use this service.

Records Management—a division of the Department of General Services, is responsible for the retention and disposal of official records.

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, 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 .

State of Tennessee
Combining Statement of Net Assets
Internal Service Funds
June 30, 2008

(Expressed in Thousands)

Assets	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Current assets:						
Cash and cash equivalents	$ 76,110	$ 123,966	$ 14,412	$ 649	$ 46,628	$ 267,633
Accounts receivable	264	3,341	116	5	205	3,511
Due from other funds	2,544					
Due from component units	52		4		98	
Inventories, at cost	1,073		4	76		
Prepaid expenses						
Total current assets	80,043	127,307	14,536	730	46,931	271,144
Noncurrent assets:						
Accounts receivable		3,294				
Due from other funds	5,372					
Deferred charges					308	
Lease receivable					2,416	
Capital assets:						
Land, at cost					61,210	
Structures and improvements, at cost					481,560	
Machinery and equipment, at cost	75,522		154,709	1,634	134	
Less-accumulated depreciation	(56,025)		(80,826)	(1,170)	(212,326)	
Construction in progress					15,386	
Total capital assets, net of accumulated depreciation	19,497		73,883	464	345,964	
Total noncurrent assets	24,869	3,294	73,883	464	348,688	
Total assets	104,912	130,601	88,419	1,194	395,619	271,144
Liabilities						
Current liabilities:						
Accounts payable	21,515	459	3,762	174	7,332	52,966
Accrued payroll and related deductions	2,135		105	146		
Due to other funds	286	24	13	16		
Lease obligations payable				123	205	
Bonds payable					14,935	
Unearned revenue		7	1,676			41,743
Other		28,389				
Total current liabilities	23,936	28,879	5,556	459	22,472	94,709
Noncurrent liabilities:						
Lease obligations payable				26	861	
Commercial paper payable	21,183		6,008		12,628	
Bonds payable, net					149,610	
Other noncurrent liabilities	1,970	64,489	114	181		
Total noncurrent liabilities	23,153	64,489	6,122	207	163,099	
Total liabilities	47,089	93,368	11,678	666	185,571	94,709
Net assets						
Invested in capital assets, net of related debt	19,497		67,875	315	167,829	
Unrestricted	38,326	37,233	8,866	213	42,219	176,435
Total net assets	$ 57,823	$ 37,233	$ 76,741	$ 528	$ 210,048	$ 176,435

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 2,226	$ 516	$ 275	$ 735		$ 187	$ 4,429	$ 1,926	$ 539,692
	1			$ 1		73	344	7,861
			1			1	2	2,548
				5			6	165
	227	12		668			4,664	6,724
	143	12						155
2,226	887	299	736	674	187	4,503	6,942	557,145
								3,294
								5,372
								308
								2,416
215								61,425
15,752								497,312
3,313	1,997	315			219	150	9,287	247,280
(7,854)	(1,330)	(312)			(203)	(47)	(5,518)	(365,611)
								15,386
11,426	667	3			16	103	3,769	455,792
11,426	667	3			16	103	3,769	467,182
13,652	1,554	302	736	674	203	4,606	10,711	1,024,327
677	38	18	6	237	1	20	709	87,914
13	132	20	171	43	47	361	591	3,764
2	16		23	226	7	50	66	729
					7			335
								14,935
								43,426
								28,389
692	186	38	200	506	62	431	1,366	179,492
								887
								39,819
								149,610
14	188	36	186	63	51	324	674	68,290
14	188	36	186	63	51	324	674	258,606
706	374	74	386	569	113	755	2,040	438,098
11,426	667	3			9	103	3,769	271,493
1,520	513	225	350	105	81	3,748	4,902	314,736
$ 12,946	$ 1,180	$ 228	$ 350	$ 105	$ 90	$ 3,851	$ 8,671	$ 586,229

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 149,708	$ 44,385	$ 38,586	$ 4,053	$ 130,569	
Premiums						$ 660,672
Other				2		
Total operating revenues	149,708	44,385	38,586	4,055	130,569	660,672
Operating expenses						
Personal services	33,342		1,650	2,121		
Contractual services	116,032	9,399	1,752	849	60,995	23,850
Materials and supplies	32,091		22,182	923	9,207	
Rentals and insurance	2,711	2,749	319	289	38,105	8,754
Depreciation and amortization	8,177		14,657	143	11,613	
Benefits		33,713				621,089
Other	2,653		461	20	85	3,071
Total operating expenses	195,006	45,861	41,021	4,345	120,005	656,764
Operating income (loss)	(45,298)	(1,476)	(2,435)	(290)	10,564	3,908
Nonoperating revenues (expenses)						
Taxes		2				
Operating grants		3,302				
Interest income		4,442			1,877	9,314
Interest expense	(384)		(167)	(13)	(7,994)	
Total nonoperating revenues (expenses)	(384)	7,746	(167)	(13)	(6,117)	9,314
Income (loss) before contributions and transfers	(45,682)	6,270	(2,602)	(303)	4,447	13,222
Capital contributions	152				26	
Transfers in	18,556		7,532	727	14,274	758
Change in net assets	(26,974)	6,270	4,930	424	18,747	13,980
Net assets, July 1	84,797	30,963	71,811	104	191,301	162,455
Net assets, June 30	$ 57,823	$ 37,233	$ 76,741	$ 528	$ 210,048	$ 176,435

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
$ 5,862	$ 20,332	$ 633	$ 5,923	$ 6,725	$ 1,713	$ 11,081	$ 26,496	$ 446,066
								660,672
								2
5,862	20,332	633	5,923	6,725	1,713	11,081	26,496	1,106,740
208	2,336	480	2,658	1,040	870	5,425	9,037	59,167
5,118	1,159	326	2,634	936	350	4,868	3,928	232,196
21	15,733	76	122	4,393	19	84	14,508	99,359
33	815	29	275	279	372	357	1,046	56,133
615	199	9			10	11	808	36,242
								654,802
5	48		36	23	19	16	657	7,094
6,000	20,290	920	5,725	6,671	1,640	10,761	29,984	1,144,993
(138)	42	(287)	198	54	73	320	(3,488)	(38,253)
								2
								3,302
								15,633
					(1)			(8,559)
					(1)			10,378
(138)	42	(287)	198	54	72	320	(3,488)	(27,875)
								178
555		260	22					42,684
417	42	(27)	220	54	72	320	(3,488)	14,987
12,529	1,138	255	130	51	18	3,531	12,159	571,242
$ 12,946	$ 1,180	$ 228	$ 350	$ 105	$ 90	$ 3,851	$ 8,671	$ 586,229

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Cash flows from operating activities						
Receipts from customers and users	$ 2,690	$ 11,255	$ 752	$ 55	$ 3,155	$ 204,783
Receipts from interfund services provided	142,510	33,142	37,701	3,993	127,576	464,675
Payments to suppliers	(113,333)	(34,569)	(19,479)	(1,260)	(85,411)	(642,578)
Payments to employees	(32,809)		(1,594)	(2,023)		
Payments for interfund services used	(29,344)	(7,075)	(6,705)	(686)	(22,713)	(3,071)
Net cash from (used for) operating activities	(30,286)	2,753	10,675	79	22,607	23,809
Cash flows from noncapital financing activities						
Negative cash balance implicitly financed						
Transfers in	18,556		7,532	727	14,274	758
Tax revenues received		2				
Net cash from (used for) noncapital financing activities	18,556	2	7,532	727	14,274	758
Cash flows from capital and related financing activities financing activities						
Purchase of capital assets	(9,028)		(18,460)	(152)	(42,287)	
Bond and commercial paper proceeds	21,183				58,361	
Proceeds from sale of capital assets			1,952		201	
Proceeds from insurance					34	
Bond issuance cost					(66)	
Principal payments			(3,201)	(124)	(39,735)	
Interest paid	(384)		(167)	(13)	(7,988)	
Net cash from (used for) capital and related financing activities	11,771		(19,876)	(289)	(31,480)	
Cash flows from investing activities						
Interest received		4,442			1,877	9,314
Net cash from (used for) investing activities		4,442			1,877	9,314
Net increase (decrease) in cash and cash equivalents	41	7,197	(1,669)	517	7,278	33,881
Cash and cash equivalents, July 1	76,069	116,769	16,081	132	39,350	233,752
Cash and cash equivalents, June 30	$ 76,110	$ 123,966	$ 14,412	$ 649	$ 46,628	$ 267,633
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating income (loss)	$ (45,298)	$ (1,476)	$ (2,435)	$ (290)	$ 10,564	$ 3,908
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	8,177		14,657	144	11,613	
Loss on disposal of capital assets	2,498		441	(2)		
Bond issuance cost					81	
Capital lease executory costs paid					28	
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	(95)		(48)	(5)	1	4,583
(Increase) decrease in due from other funds	(4,643)				139	
(Increase) decrease in due from component units	229	12	2		23	
(Increase) decrease in inventories	110		4	5		
(Increase) decrease in prepaid expenses						
Increase (decrease) in accounts payable	8,748	4,199	(1,861)	226	158	11,116
Increase (decrease) in due to other funds	(12)	17	3	1		
Increase (decrease) in unearned revenue		1	(88)			4,202
Total adjustments	15,012	4,229	13,110	369	12,043	19,901
Net cash provided by (used for) operating activities	$ (30,286)	$ 2,753	$ 10,675	$ 79	$ 22,607	$ 23,809
Noncash investing, capital and financing activities						
Contributed capital assets	$ 152				$ 26	
Total noncash investing, capital and financing activities	$ 152				$ 26	

	Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
	$ 268	$ 139	$ 9	$ 41	$ 31	$ 15	$ 598	$ 4,862	$ 228,653
	5,632	20,192	624	5,882	6,689	1,698	10,478	22,092	882,884
	(5,387)	(16,825)	(379)	(339)	(4,976)	(160)	(1,127)	(17,597)	(943,420)
	(219)	(2,220)	(464)	(2,544)	(998)	(851)	(5,238)	(9,112)	(58,072)
	(356)	(1,189)	(33)	(2,690)	(766)	(594)	(4,170)	(1,389)	(80,781)
	(62)	97	(243)	350	(20)	108	541	(1,144)	29,264
					20				20
	555		260	22					42,684
									2
	555		260	22	20				42,706
	(66)	(116)				(12)	(114)	(78)	(70,313)
									79,544
									2,153
									34
									(66)
						(10)			(43,070)
						(1)			(8,553)
	(66)	(116)				(23)	(114)	(78)	(40,271)
									15,633
									15,633
	427	(19)	17	372		85	427	(1,222)	47,332
	1,799	535	258	363	-	102	4,002	3,148	492,360
	$ 2,226	$ 516	$ 275	$ 735	$ -	$ 187	$ 4,429	$ 1,926	$ 539,692
	$ (138)	$ 42	$ (287)	$ 198	$ 54	$ 73	$ 320	$ (3,488)	$ (38,253)
	614	199	9			10	11	808	36,242
									2,937
									81
									28
	38						(4)	383	4,853
									(4,504)
					(5)			76	337
		214	5		(48)			1,414	1,704
		(88)	2						(86)
	(576)	(271)	28	147	(22)	25	206	(329)	21,794
		1		5	1		8	(8)	16
									4,115
	76	55	44	152	(74)	35	221	2,344	67,517
	$ (62)	$ 97	$ (243)	$ 350	$ (20)	$ 108	$ 541	$ (1,144)	$ 29,264
									$ 178
									$ 178

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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, 2007. As of that date there were 212,725 active members and 98,230 retired members representing a 3.9% and 11.9% increase, respectively, since the previous actuarial valuation in 2003.

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

Private-Purpose Trust Funds:

Baccalaureate Education—This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution. Funds in this trust may only be provided to named individuals who are participants in the program. No other State programs are supported from this trust.

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

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2014 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

Duck River Water Supply—This fund accounts for monies received from the Tennessee Valley Authority to be held for the various Duck River utility districts.

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

Agency Funds:

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

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

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

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2008

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 300,422	$ 57,899	$ 358,321	$ 776	$ 359,097
Receivables:					
Member contributions	20,835	4,794	25,629		25,629
Employer contributions	25,178	18,549	43,727		43,727
Accrued interest	104,184	20,079	124,263		124,263
Accrued dividends	28,482	5,489	33,971		33,971
Foreign currency	129,060	24,873	153,933		153,933
Real estate income	1,201	232	1,433		1,433
Investments sold	52,676	10,152	62,828		62,828
Total receivables	361,616	84,168	445,784		445,784
Due from other funds	9,453		9,453	263	9,716
Due from component units	7,234		7,234	6	7,240
Investments, at fair value:					
Short term securities	41,919	8,079	49,998		49,998
Government bonds	6,225,179	1,199,756	7,424,935		7,424,935
Corporate bonds	5,512,517	1,062,408	6,574,925		6,574,925
Corporate stocks	13,150,692	2,534,486	15,685,178		15,685,178
Real estate	1,115,235	214,936	1,330,171		1,330,171
Total investments	26,045,542	5,019,665	31,065,207		31,065,207
Total assets	26,724,267	5,161,732	31,885,999	1,045	31,887,044
Liabilities					
Accounts payable and accruals	203,230	39,272	242,502	99	242,601
Foreign currency payable	7,854	1,514	9,368		9,368
Total liabilities	211,084	40,786	251,870	99	251,969
Net assets					
Held in trust for:					
Pension benefits	26,513,183	5,120,946	31,634,129		31,634,129
Employees' flexible benefits				946	946
Total net assets	$ 26,513,183	$ 5,120,946	$ 31,634,129	$ 946	$ 31,635,075

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 181,236	$ 64,617	$ 245,853	$ 8,192	$ 254,045
Employers	593,412		593,412		593,412
Political subdivisions		244,847	244,847		244,847
Total contributions	774,648	309,464	1,084,112	8,192	1,092,304
Investment income:					
Net (decrease) in fair value of investments	(1,322,815)	(251,275)	(1,574,090)		(1,574,090)
Interest	631,028	119,867	750,895		750,895
Dividends	297,009	56,418	353,427		353,427
Real estate income	53,995	10,257	64,252		64,252
Total investment (loss)	(340,783)	(64,733)	(405,516)		(405,516)
Less: Investment expenses	20,625	3,918	24,543		24,543
Net investment (loss)	(361,408)	(68,651)	(430,059)		(430,059)
Total additions	413,240	240,813	654,053	8,192	662,245
Deductions					
Annuity benefits:					
Retirement benefits	929,377	154,855	1,084,232		1,084,232
Cost of living	215,810	27,765	243,575		243,575
Death benefits	3,309	1,599	4,908		4,908
Other benefits				8,169	8,169
Refunds	19,113	26,863	45,976		45,976
Administrative expenses	3,711	3,491	7,202		7,202
Total deductions	1,171,320	214,573	1,385,893	8,169	1,394,062
Change in net assets held in trust for:					
Pension benefits	(758,080)	26,240	(731,840)		(731,840)
Employees' flexible benefits				23	23
Net assets, July 1	27,271,263	5,094,706	32,365,969	923	32,366,892
Net assets, June 30	$ 26,513,183	$ 5,120,946	$ 31,634,129	$ 946	$ 31,635,075

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2008

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Other	Total Private-Purpose Trust Funds
Assets					
Cash and cash equivalents	$ 1,756	$ 1,599	$ 9,283	$ 1,715	$ 14,353
Receivables:					
Taxes				47	47
Interest and dividends	855				855
Total receivables	855			47	902
Due from other funds	9				9
Investments, at fair value:					
Mutual funds	88,297				88,297
Total investments	88,297				88,297
Total assets	90,917	1,599	9,283	1,762	103,561
Liabilities					
Accounts payable and accruals	862	158			1,020
Total liabilities	862	158			1,020
Net assets					
Held in trust for:					
Individuals, organizations and other governments	$ 90,055	$ 1,441	$ 9,283	$ 1,762	$ 102,541

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Other	Total Private-Purpose Trust Funds
Additions					
Contributions:					
Federal		$ 5,730	$ 1,000		$ 6,730
Private	$ 5,257			$ 468	5,725
Other		2,839		157	2,996
Total contributions	5,257	8,569	1,000	625	15,451
Investment income:					
Net (decrease) in fair value of investments	(7,465)				(7,465)
Interest	3,521	146	359	62	4,088
Total investment (loss)	(3,944)	146	359	62	(3,377)
Total additions	1,313	8,715	1,359	687	12,074
Deductions					
Payments made under trust agreements	5,551	7,141		513	13,205
Refunds	833	2,893			3,726
Administrative expenses	425				425
Total deductions	6,809	10,034		513	17,356
Change in net assets held in trust for: Individuals, organizations and other governments	(5,496)	(1,319)	1,359	174	(5,282)
Net assets, July 1	95,551	2,760	7,924	1,588	107,823
Net assets, June 30	$ 90,055	$ 1,441	$ 9,283	$ 1,762	$ 102,541

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2008

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	$ 304,581	$ 113,734	$ 22,012	$ 440,327
Receivables:				
Accounts			1,643	1,643
Taxes	355,520			355,520
Due from other funds		10,590		10,590
Due from component units		72		72
Total assets	660,101	124,396	23,655	808,152
Liabilities				
Accounts payable and accruals	660,101	23,705	15,485	699,291
Amounts held in custody for others		100,691	8,170	108,861
Total liabilities	$ 660,101	$ 124,396	$ 23,655	$ 808,152

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

Local Government Fund	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash and cash equivalents	$ 297,646	$ 3,555,993	$ 3,549,058	$ 304,581
Accounts receivable	353,308	407,474	405,262	355,520
Total assets	650,954	3,963,467	3,954,320	660,101
Liabilities				
Accounts payable and accruals	642,947	3,050,957	3,033,803	660,101
Due to other funds	8,007		8,007	
Total liabilities	$ 650,954	$ 3,050,957	$ 3,041,810	$ 660,101
Contingent Revenue Fund				
Assets				
Cash and cash equivalents	$ 110,364	$ 1,228,347	$ 1,224,977	$ 113,734
Due from other funds	10,110	10,729	10,249	10,590
Due from component units	68	72	68	72
Total assets	120,542	1,239,148	1,235,294	124,396
Liabilities				
Accounts payable and accruals	23,165	372,762	372,222	23,705
Amount held in custody for others	97,377	832,854	829,540	100,691
Total liabilities	$ 120,542	$ 1,205,616	$ 1,201,762	$ 124,396
Retiree Health Plans				
Assets				
Cash and cash equivalents	$ 27,737	$ 194,483	$ 200,208	$ 22,012
Accounts receivable	67	2,476	900	1,643
Total assets	27,804	196,959	201,108	23,655
Liabilities				
Accounts payable	4,748	50,753	40,016	15,485
Amount held in custody for others	23,056	30,122	45,008	8,170
Total liabilities	$ 27,804	$ 80,875	$ 85,024	$ 23,655
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	$ 435,747	$ 4,978,823	$ 4,974,243	$ 440,327
Accounts receivable	353,375	409,950	406,162	357,163
Due from other funds	10,110	10,729	10,249	10,590
Due from component units	68	72	68	72
Total assets	799,300	5,399,574	5,390,722	808,152
Liabilities				
Accounts payable and accruals	670,860	3,474,472	3,446,041	699,291
Amount held in custody for others	120,433	862,976	874,548	108,861
Due to other funds	8,007		8,007	
Total liabilities	$ 799,300	$ 4,337,448	$ 4,328,596	$ 808,152

COMPONENT UNITS

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

Community Services Agencies—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 2008, four CSAs merged operations. The five remaining Community Services Agencies (CSAs) are:

Memphis and Shelby County CSA	Southeast CSA
Mid-West CSA	Southwest CSA
Northeast CSA	

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

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

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

UNIVERSITIES

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

COMMUNITY COLLEGES

Chattanooga State Technical Community College, Chattanooga	Nashville State Technical Community College, Nashville
Cleveland State Community College, Cleveland	Pellissippi State Technical Community College, Knoxville
Columbia State Community College, Columbia	Roane State Community College, Harriman
Dyersburg State Community College, Dyersburg	Southwest Tennessee Community College, Memphis
Jackson State Community College, Jackson	Volunteer State Community College, Gallatin
Motlow State Community College, Tullahoma	Walters State Community College, Morristown
Northeast State Technical Community College, Blountville	

TECHNOLOGY CENTERS

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

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

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

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

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

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.

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

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.

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State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2008

(Expressed in Thousands)

	Governmental Fund Types					
	Tennessee Student Assistance Corporation	Northeast	Southeast	Midwest	Southwest	Memphis and Shelby County
Assets						
Cash and cash equivalents	$ 5,934	$ 595	$ 330	$ 210	$ 217	$ 919
Investments						
Investments with fiscal agent						
Receivables, net	7,599	4	552	342	52	300
Due from primary government		248	360	326	203	78
Inventories, at cost						
Prepayments		1	6	3	4	2
Loans receivable						
Deferred charges and other						
Restricted assets:						
Cash and cash equivalents						
Investments						
Receivables, net						
Capital assets:						
Land, at cost						
Infrastructure						
Structures and improvements, at cost						
Machinery and equipment, at cost		209	78	266	50	97
Less accumulated depreciation		(200)	(75)	(264)	(43)	(66)
Construction in progress						
Total assets	13,533	857	1,251	883	483	1,330
Liabilities						
Accounts payable and accruals	5,667	188	334	518	49	98
Due to primary government	26	24	78	180	22	35
Deferred revenue	147					
Advance from federal government	45					
Other						
Noncurrent liabilities:						
Due within one year	88	28	48	33	26	45
Due in more than one year	174	24	65	57	37	60
Total liabilities	6,147	264	525	788	134	238
Net assets						
Invested in capital assets, net of related debt		9	3	2	7	31
Restricted for:						
Debt service						
Capital projects						
Single family bond programs						
Other						
Permanent and endowment:						
Expendable						
Nonexpendable						
Unrestricted	7,386	584	723	93	342	1,061
Total net assets	$ 7,386	$ 593	$ 726	$ 95	$ 349	$ 1,092

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2008

(Expressed in Thousands)

	Proprietary Fund Types				
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Assets					
Cash and cash equivalents	$ 267,393	$ 68,441	$ 610,431	$ 642,689	$ 14,656
Investments	100,493		376,254	854,396	
Investments with fiscal agent					
Receivables, net	33,509	47,857	189,460	294,539	20
Due from primary government	2		807	1,019	
Inventories, at cost			5,069	8,770	
Prepayments		6,858	3,193	793	
Loans receivable	1,988,696				104,070
Deferred charges and other	12,317		1,111	7,583	462
Restricted assets:					
Cash and cash equivalents	4,996	97			5,395
Investments	195,562	2,437			539
Receivables, net	2,543				
Capital assets:					
Land, at cost			103,053	62,108	
Infrastructure			193,231	67,875	
Structures and improvements, at cost		347	1,745,199	1,500,892	
Machinery and equipment, at cost	238	4,346	425,520	411,033	
Less accumulated depreciation	(159)	(2,605)	(1,058,605)	(897,080)	
Construction in progress			199,658	259,942	
Total assets	2,605,590	127,778	2,794,381	3,214,559	125,142
Liabilities					
Accounts payable and accruals	58,081	42,131	122,441	141,708	1,085
Due to primary government	117	80,699	4,562	4,331	
Unearned revenue	2,016	1,076	47,731	71,810	
Advance from federal government					
Other			14,524	13,642	
Noncurrent liabilities:					
Due within one year	105,161	434	30,003	60,463	60,593
Due in more than one year	1,947,753	3,341	478,256	645,147	51,965
Total liabilities	2,113,128	127,681	697,517	937,101	113,643
Net assets					
Invested in capital assets, net of related debt	79	2,088	1,219,990	868,014	
Restricted for:					
Debt service			15,071	566	
Capital projects			12,317	91,229	
Single family bond programs	478,807				
Other	13,386	97	105,062	320,225	205
Permanent and endowment:					
Expendable			68,967	216,820	
Nonexpendable			256,583	452,917	
Unrestricted	190	(2,088)	418,874	327,687	11,294
Total net assets	$ 492,462	$ 97	$ 2,096,864	$ 2,277,458	$ 11,499

Proprietary Fund Types				
Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 2,995	$ 29,124	$ 4,825	$ 59,245	$ 1,708,004
				1,331,143
	14			14
3,751	5,565	33		583,583
750		600		4,393
324				14,163
77				10,937
	893,291			2,986,057
45	7,390	2,223		31,131
2,996	14,268			27,752
	12,012			210,550
				2,543
402				165,563
676				261,782
29,056				3,275,494
4,437				846,274
(6,575)				(1,965,672)
1,364				460,964
40,298	961,664	7,681	59,245	9,954,675
1,615	5,251	65	10,069	389,300
496				90,570
1,040	8,994			132,814
				45
623				28,789
600	33,726	2,606		293,854
6,308	905,843	6,688		4,045,718
10,682	953,814	9,359	10,069	4,981,090
23,130				2,113,353
305				15,942
				103,546
				478,807
1,434				440,409
				285,787
				709,500
4,747	7,850	(1,678)	49,176	826,241
$ 29,616	$ 7,850	$ (1,678)	$ 49,176	$ 4,973,585

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2008

(Expressed in Thousands)

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Program Revenues
Component units					
Higher education institutions:					
Board of Regents	$ 2,084,050	$ 694,173	$ 514,820	$ 104,688	$ (770,369)
University of Tennessee	1,632,630	477,841	568,049	110,637	(476,103)
Total higher education institutions	3,716,680	1,172,014	1,082,869	215,325	(1,246,472)
Loan programs:					
Tennessee Student Assistance Corporation	79,861	24,750	7,062		(48,049)
Housing Development Agency	314,497	125,607	224,202		35,312
Local Development Authority	5,652	4,220	1,109		(323)
State School Bond Authority	36,054	34,991	1,356		293
Total loan programs	436,064	189,568	233,729		(12,767)
Lottery program	996,441	994,038	40		(2,363)
Other programs:					
Northeast	2,255	576	1,280		(399)
Southeast	4,600	2,078	1,956		(566)
Midwest	3,359	1,651	1,393		(315)
Southwest	2,192	1,093	556		(543)
Memphis and Shelby County	2,891	2,088	412		(391)
Access Tennessee Insurance Plan	45,536	19,820			(25,716)
Veterans' Homes Board	31,336	29,721	189	1,476	50
Certified Cotton Growers'	6,644	4,889	3,991		2,236
Total other programs	98,813	61,916	9,777	1,476	(25,644)
Total	$ 5,247,998	$ 2,417,536	$ 1,326,415	$ 216,801	$ (1,287,246)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
$ 786,962	$ 40,553	$ 26,810	$ 20,281	$ 12,279	$ 116,516	$ 1,980,348	$ 2,096,864
534,615	1,294	23,441	6,521	27,944	117,712	2,159,746	2,277,458
1,321,577	41,847	50,251	26,802	40,223	234,228	4,140,094	4,374,322
48,785					736	6,650	7,386
		(242)			35,070	457,392	492,462
25					(298)	11,797	11,499
					293	7,557	7,850
48,810		(242)			35,801	483,396	519,197
		2,329			(34)	131	97
		48			(351)	944	593
335		30			(201)	927	726
23					(292)	387	95
		28			(515)	864	349
		52			(339)	1,431	1,092
23,049		2,027	347		(293)	49,469	49,176
1,650	64		14		1,778	27,838	29,616
3,890		250			6,376	(8,054)	(1,678)
28,947	64	2,435	361		6,163	73,806	79,969
$ 1,399,334	$ 41,911	$ 54,773	$ 27,163	$ 40,223	$ 276,158	$ 4,697,427	$ 4,973,585

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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, 2008

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Northeast	Southeast	Midwest	Southwest	Memphis and Shelby County	Total Governmental Fund Type Component Units
Revenues							
Interest on investments	$ 630	$ 48	$ 31	$ 23	$ 28	$ 52	$ 812
Federal	6,432		456				6,888
Departmental services	73,535	1,856	3,912	3,044	1,649	2,500	86,496
Other							
Total revenues	80,597	1,904	4,399	3,067	1,677	2,552	94,196
Expenditures							
Education	79,783						79,783
Health and social services		2,265	4,562	3,342	2,180	2,849	15,198
Total expenditures	79,783	2,265	4,562	3,342	2,180	2,849	94,981
Excess (deficiency) of revenues over (under) expenditures	814	(361)	(163)	(275)	(503)	(297)	(785)
Fund balances, July 1	6,834	997	999	458	908	1,463	11,659
Fund balances, June 30	$ 7,648	$ 636	$ 836	$ 183	$ 405	$ 1,166	$ 10,874
Reconciliation to net assets:							
Fund balances per above	$ 7,648	$ 636	$ 836	$ 183	$ 405	$ 1,166	$ 10,874
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		9	3	2	7	31	52
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(262)	(52)	(113)	(90)	(63)	(105)	(685)
Net assets on Statement of Net Assets	$ 7,386	$ 593	$ 726	$ 95	$ 349	$ 1,092	$ 10,241

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 125,607	$ 993,585	$ 871,336	$ 857,628	$ 4,220
Investment income	38,756		6,028	4,685	1,109
Other		453	62,160	47,237	
Total operating revenues	164,363	994,038	939,524	909,550	5,329
Operating expenses					
Personal services	13,562	10,427	1,280,333	1,146,975	
Contractual services	2,659	96,109			225
Mortgage service fees	6,867				
Materials and supplies	788		506,111	348,738	
Rentals and insurance	1,180	1,826			
Interest	97,328				4,581
Depreciation and amortization	790	668	81,748	77,648	36
Lottery prizes		588,560			
Nursing home services					
Scholarships and fellowships			195,215	28,304	
Benefits					
Other	4,088	12,637			310
Total operating expenses	127,262	710,227	2,063,407	1,601,665	5,152
Operating income (loss)	37,101	283,811	(1,123,883)	(692,115)	177
Nonoperating revenues (expenses)					
Grant income	182,204		320,043	130,237	
Grant expense	(187,235)				
Interest expense			(16,217)	(22,968)	
Interest income		2,329	25,637	11,084	
Payments from primary government	3,000		789,052	534,615	25
Grants and contributions				5,019	
Gifts			5,422	8,701	
Payments to primary government		(286,140)			(500)
Other		(34)	3,193	(1,476)	
Total nonoperating revenues (expenses)	(2,031)	(283,845)	1,127,130	665,212	(475)
Income (loss) before capital grants and contributions	35,070	(34)	3,247	(26,903)	(298)
Capital payments from primary government			92,078	69,592	
Capital grants and gifts			7,253	41,045	
Additions to permanent endowments			12,279	27,944	
Other			1,659	6,034	
Change in net assets	35,070	(34)	116,516	117,712	(298)
Net assets, July 1	457,392	131	1,980,348	2,159,746	11,797
Net assets, June 30	$ 492,462	$ 97	$ 2,096,864	$ 2,277,458	$ 11,499

Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 24,790	$ 34,991	$ 4,889	$ 19,820	$ 2,936,866
	1,356			51,934
32			348	110,230
24,822	36,347	4,889	20,168	3,099,030
19,582				2,470,879
	681	5,997	1,759	107,430
				6,867
				855,637
				3,006
	33,629			135,538
1,509	561			162,960
				588,560
9,892				9,892
				223,519
			42,707	42,707
	1,183	4	1,071	19,293
30,983	36,054	6,001	45,537	4,626,288
(6,161)	293	(1,112)	(25,369)	(1,527,258)
4,900				637,384
				(187,235)
(298)		(643)		(40,126)
189		250	2,027	41,516
1,649		3,890	23,049	1,355,280
		1,547		6,566
64				14,187
				(286,640)
(41)		2,444		4,086
6,463		7,488	25,076	1,545,018
302	293	6,376	(293)	17,760
511				162,181
965				49,263
				40,223
				7,693
1,778	293	6,376	(293)	277,120
27,838	7,557	(8,054)	49,469	4,686,224
$ 29,616	$ 7,850	$ (1,678)	$ 49,176	$ 4,963,344

State of Tennessee
Statement of Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
June 30, 2008

(Expressed in Thousands)

Assets	
Cash and cash equivalents	$ 95,639
Receivables:	
Due from other governments	7,085
Loans	7,085
Total receivables	14,170
Total assets	109,809
Liabilities	
Accounts payable and accruals	36
Total liabilities	36
Net assets	
Held in trust for student loans	$ 109,773

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
For the Fiscal Year Ended June 30, 2008

(Expressed in Thousands)

Additions	
Federal revenue	$ 32,004
Interest income	3,847
Other	781
Total additions	36,632
Deductions	
Collection costs	5,124
Administrative expenses	16,336
Total deductions	21,460
Change in net assets held in trust	15,172
Net assets, July 1	94,601
Net assets, June 30	$ 109,773

SUPPLEMENTARY SCHEDULES

Schedule 1

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2008

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1) Principal	Interest	Total Require-ments	State Loan Program Fund Debt (Note 2) Principal	Interest	Total Require-ments	Facilities Revolving Fund Debt (Note 3) Principal	Interest	Total Require-ments
2009	$ 87,036	$ 44,229	$ 131,265	$ 929	$ 51	$ 980	$ 15,526	$ 7,032	$ 22,558
2010	84,479	40,128	124,607	759	17	776	15,248	6,313	21,561
2011	84,740	35,699	120,439				14,803	5,523	20,326
2012	80,976	31,735	112,711				14,756	4,829	19,585
2013	80,792	27,697	108,489				14,965	4,100	19,065
2014	75,061	23,944	99,005				14,436	3,404	17,840
2015	70,635	20,252	90,887				10,861	2,721	13,582
2016	66,570	16,929	83,499				9,694	2,324	12,018
2017	62,370	14,089	76,459				8,688	1,929	10,617
2018	54,234	12,394	66,628				7,633	1,735	9,368
2019	46,163	10,541	56,704				6,263	1,500	7,763
2020	42,625	8,651	51,276				5,846	1,253	7,099
2021	35,647	7,311	42,958				5,021	1,068	6,089
2022	35,693	5,776	41,469				5,011	859	5,870
2023	28,286	4,266	32,552				4,213	652	4,865
2024	28,041	3,283	31,324				4,200	483	4,683
2025	19,958	2,273	22,231				3,882	310	4,192
2026	20,040	1,472	21,512				3,857	166	4,023
2027	14,459	826	15,285				2,001	65	2,066
2028	9,683	414	10,097				1,286	16	1,302
2029	3,565	172	3,737						
2030									
TOTALS	$ 1,031,053	$ 312,081	$ 1,343,134	$ 1,688	$ 68	$ 1,756	$ 168,190	$ 46,282	$ 214,472

Note 1: General obligtion bonds principal is more than that presented in the accompanying financial statements by $20.195 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by $33 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 3: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by $3.645 million, which is a deduction from bonds payable for the deferred amount on refunding.

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

Schedule 2

(Expressed in Thousands)

	June 30				
	2004	2005	2006	2007	2008
Enterprise Funds:					
State Loan Program General Obligation Bonds	$ 8,071	$ 5,232	$ 3,378	$ 2,534	$ 1,655
Internal Service Funds:					
General Obligation Commercial Paper	12,684	51,650	22,899	15,541	39,819
Facilities Revolving Fund General Obligation Bonds	140,875	127,717	151,829	152,191	164,545
	153,559	179,367	174,728	167,732	204,364
General Long-Term Debt:					
General Obligation Bonds	1,000,151	917,112	944,936	963,297	1,010,858
General Obligation Commercial Paper	70,091	116,925	121,726	115,283	200,807
	1,070,242	1,034,037	1,066,662	1,078,580	1,211,665
Totals for Primary Government	$ 1,231,872	$ 1,218,636	$ 1,244,768	$ 1,248,846	$ 1,417,684

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2008

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	$ 223,886
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	
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	16,740
Total Outstanding	$ 240,626

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

(Expressed in Thousands)

	June 30				
	2004	2005	2006	2007	2008
Component units:					
Mid-Cumberland Community Services Agency notes	$ 23	$ 19	$ 13		
Certified Cotton Growers' notes	24,853	21,540	19,073	$ 16,725	$ 9,294
Local Development Authority notes	48,134	45,970	35,401	57,773	56,998
Local Development Authority bonds	32,774	29,966	62,053	58,806	55,410
Tennessee Housing Development Agency bonds	1,489,299	1,433,430	1,568,472	1,812,267	1,952,295
Tennessee Housing Development Agency notes	273,240	311,900	262,395	247,675	88,720
Veterans' Homes Board loan	4,053	4,197	6,265	6,283	6,231
Tennessee State School Bond Authority bonds	527,385	520,087	582,815	604,747	696,340
Tennessee State School Bond Authority commercial paper	32,156	74,242	129,046	164,195	243,229
University of Tennessee notes	75	66	307	284	260
University of Tennessee bonds	147,561	148,995	148,333	146,471	86,518
Board of Regents notes	746	350	300	250	200
Board of Regents bonds	80				
Board of Regents commercial paper					1,668
	$ 2,580,356	$ 2,590,762	$ 2,814,473	$ 3,115,476	$ 3,197,163

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2008 and 2007

Schedule 5

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2008	June 30, 2007
Taxes:		
Sales and use	$ 2,796,552	$ 2,790,970
Gasoline	9,393	9,291
Motor fuel	3,468	3,524
Gasoline inspection	699	701
Total fuel taxes	13,560	13,516
Franchise	619,878	618,972
Excise	815,299	972,239
Gross receipts	289,050	273,315
Beer	15,676	15,718
Alcoholic beverage	42,602	40,998
Mixed drink	27,460	26,828
Tobacco	30,504	1,040
Business	138,157	133,773
Insurance companies premium	382,506	359,548
Retaliatory	7,628	5,763
Workers compensation premium	49,859	47,759
Medicaid provider	12,049	100,937
Other	2,868	1,890
Total business taxes	2,433,536	2,598,780
Income	292,027	247,567
Privilege	278,875	313,660
Inheritance and estate	112,797	112,392
Other	2,402	2,253
Total other taxes	686,101	675,872
Total taxes	5,929,749	6,079,138
Licenses, fines, fees and permits:		
Motor vehicle registration	46,187	51,337
Motor vehicle title registration fees	8,692	8,405
Drivers licenses	24,499	24,953
Arrests, fines and fees	9,121	9,483
Regulatory board fees	121,995	35,149
Other	72,233	64,902
Total licenses, fines, fees and permits	282,727	194,229
Interest on investments	122,008	128,292
Federal - earned by state departments	7,202,766	7,046,587
Departmental services:		
Charges to the public	374,632	363,717
Interdepartmental charges	1,436,406	1,389,265
Charges to cities, counties, etc.	336,323	255,822
Total departmental services	2,147,361	2,008,804
Other	255,299	222,447
Total revenues by source	$ 15,939,910	$ 15,679,497

State of Tennessee
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2008 and 2007

Schedule 6

(Expressed in Thousands)

	For the Year Ended	
Expenditures by function and department	June 30, 2008	June 30, 2007
General government:		
Legislative	$ 36,930	$ 34,812
Secretary of State	58,589	38,555
Comptroller	83,754	77,521
Treasurer	50,760	44,715
Governor	3,746	8,084
Commissions	75,192	66,385
Finance and Administration	103,878	82,715
Personnel	14,168	13,424
General Services	21,481	20,530
Revenue	107,533	102,600
Miscellaneous Appropriations	35,769	30,061
Total general government	591,800	519,402
Health and social services:		
Veterans Affairs	4,851	4,052
Labor and Workforce Development	219,007	191,944
TennCare	7,498,387	7,124,847
Mental Health	315,899	252,900
Mental Retardation	866,640	839,844
Health	559,128	555,612
Human Services	2,038,082	1,954,689
Cover Tennessee	97,352	78,835
Children's Services	697,782	659,753
Total health and social services	12,297,128	11,662,476
Law, justice and public safety:		
Judicial	273,053	251,568
Correction	623,345	646,573
Probation and Paroles	79,337	71,697
Military	71,808	99,835
Bureau of Criminal Investigation	64,992	59,836
Safety	159,963	140,551
Total law, justice and public safety	1,272,498	1,270,060
Recreation and resources development:		
Agriculture	92,802	66,041
Tourist Development	18,570	16,902
Environment and Conservation	325,760	206,836
Economic and Community Development	89,963	75,627
Total recreation and resources development	527,095	365,406
Regulation of business and professions:		
Commerce and Insurance	74,262	71,908
Financial Institutions	13,474	12,662
Total regulation of business and professions	87,736	84,570
Intergovernmental revenue sharing	546,572	521,171
Total expenditures by function and department	$ 15,322,829	$ 14,423,085

STATISTICAL SECTION

STATISTICAL SECTION

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

Contents	**Page**

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

Schedule 1

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

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,						
	2002	2003	2004	2005	2006	2007	2008
Expenses							
Governmental activities:							
General government	$ 514,419	$ 510,674	$ 546,996	$ 596,016	$ 705,897	$ 738,897	$ 837,250
Education	4,326,480	4,520,624	4,692,605	5,158,369	5,449,613	5,884,841	6,464,564
Health and social services	8,499,713	9,507,209	10,583,726	11,522,061	10,170,957	10,448,373	11,125,967
Law, justice, and public safety	918,970	968,859	1,032,302	1,090,779	1,214,957	1,221,175	1,325,500
Recreation and resources development (2)	362,068	376,734	479,251	423,342	466,689	485,852	613,902
Regulation of business and professions	59,493	64,109	81,940	113,902	86,945	129,107	123,391
Transportation	683,229	726,476	787,646	698,450	671,641	835,751	808,591
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925	738,349	815,832	842,096
Interest on long-term debt	55,114	50,610	51,819	42,902	49,460	50,003	51,086
Payments to fiduciary fund						25,950	
Total governmental activities expenses	16,106,001	17,366,566	18,903,939	20,329,746	19,554,508	20,635,781	22,192,347
Business-type activities:							
Employment security	739,008	767,202	639,993	476,646	452,043	467,327	541,573
Insurance programs	353,534	379,661	416,871	430,568	471,032	413,483	469,491
Loan programs	2,585	2,273	1,737	1,909	1,487	1,473	1,655
Other	1,410	1,802	2,037	2,498	2,496	2,595	2,744
Total business-type activities expenses	1,096,537	1,150,938	1,060,638	911,621	927,058	884,878	1,015,463
Total primary government expenses	$ 17,202,538	$ 18,517,504	$ 19,964,577	$ 21,241,367	$ 20,481,566	$ 21,520,659	$ 23,207,810
Program Revenues							
Governmental activities:							
Charges for services:							
General government	$ 281,379	$ 273,503	$ 342,154	$ 380,679	$ 375,640	$ 524,306	$ 672,892
Education	10,155	15,922	16,966	13,568	26,785	34,819	35,405
Health and social services (1)	282,095	277,184	943,040	1,027,602	692,186	521,508	548,570
Law, justice, and public safety	341,615	336,115	313,386	316,337	374,715	130,885	117,536
Recreation and resources development	110,033	114,618	124,105	140,227	138,970	153,048	142,128
Regulation of business and professions	86,468	95,953	107,355	115,556	124,435	142,805	143,646
Transportation	13,045	13,339	13,636	15,494	15,118	22,542	18,778
Operating grants and contributions	6,454,927	7,452,665	8,095,087	8,777,283	8,314,981	8,481,473	8,612,838
Capital grants and contributions	560,074	568,221	503,539	520,090	615,584	708,384	600,404
Total governmental activities program revenues	8,139,791	9,147,520	10,459,268	11,306,836	10,678,414	10,719,770	10,892,197
Business-type activities:							
Charges for services:							
Employment security	335,723	437,378	523,372	463,385	381,600	356,064	413,741
Insurance programs	338,085	385,384	422,584	462,441	479,515	438,275	480,803
Loan programs	13,449	12,590	12,733	12,878	12,970	13,803	15,137
Other	1,368	1,998	2,111	2,593	2,803	2,644	2,324
Operating grants and contributions	342,469	256,444	208,296	100,536	131,043	116,569	124,576
Total business-type activities program revenues	1,031,094	1,093,794	1,169,096	1,041,833	1,007,931	927,355	1,036,581
Total primary government program revenues	$ 9,170,885	$ 10,241,314	$ 11,628,364	$ 12,348,669	$ 11,686,345	$ 11,647,125	$ 11,928,778
Net (Expense)/Revenue							
Governmental activities	$ (7,966,210)	$ (8,219,046)	$ (8,444,671)	$ (9,022,910)	$ (8,876,094)	$ (9,916,011)	$ (11,300,150)
Businesss-type activities	(65,443)	(57,144)	108,458	130,212	80,873	42,477	21,118
Total primary government net expens	$ (8,031,653)	$ (8,276,190)	$ (8,336,213)	$ (8,892,698)	$ (8,795,221)	$ (9,873,534)	$ (11,279,032)

Schedule 1

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

(continued from previous page)

	FOR THE FISCAL YEAR ENDED JUNE 30,						
	2002	2003	2004	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets							
Governmental activities:							
Taxes							
Sales and use	$ 4,656,105	$ 5,478,642	$ 5,806,268	$ 6,099,159	$ 6,540,224	$ 6,819,570	$ 6,851,481
Fuel	787,132	813,554	829,372	846,826	851,362	867,520	865,181
Business	1,696,812	1,981,099	2,099,081	2,311,448	2,507,653	2,799,751	2,913,227
Other	490,958	425,099	526,573	514,938	598,827	734,026	734,029
Grants and contributions not restricted to specific programs	159,511	149,746	152,676	46,807			
Unrestricted investment earnings	37,802	11,582	12,079	30,361	81,287	113,940	120,523
Miscellaneous	281,952	230,770	207,653	209,226	185,466	250,344	275,499
Contributions to permanent funds	354	381	351	468	369	270	239
Transfers	(16,819)	(18,881)	(18,829)	(21,062)	(22,783)	(5,028)	(4,110)
Total governmental activities	8,093,807	9,071,992	9,615,224	10,038,171	10,742,405	11,580,393	11,756,069
Business-type activities:							
Transfers	16,819	18,881	18,829	21,062	22,783	5,028	4,110
Total business-type activities	16,819	18,881	18,829	21,062	22,783	5,028	4,110
Total primary government general revenues and other changes in net assets	$ 8,110,626	$ 9,090,873	$ 9,634,053	$ 10,059,233	$ 10,765,188	$ 11,585,421	$ 11,760,179
Changes in Net Assets							
Governmental activities	$ 127,597	$ 852,946	$ 1,170,553	$ 1,015,261	$ 1,866,311	$ 1,664,382	$ 455,919
Businesss-type activities	(48,624)	(38,263)	127,287	151,274	103,656	47,505	25,228
Total primary government	$ 78,973	$ 814,683	$ 1,297,840	$ 1,166,535	$ 1,969,967	$ 1,711,887	$ 481,147

(1) The increase in program revenues of the health and social services function between fiscal years 2003 and 2004 resulted from the reclassification of certain revenues from operating grants and contributions to charges for services. The effect of the decrease in operating grants and contributions was neutralized by an increase in federal funding to the Tenncare program to compensate for rising healthcare costs.

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

Schedule 2

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

	FOR THE FISCAL YEAR ENDED JUNE 30,						
	2002	2003	2004	2005	2006	2007	2008
Governmental activities							
Invested in capital assets, net of related debt	$ 17,457,541	$ 18,119,735	$ 18,691,308	$ 19,406,978	$ 20,204,007	$ 21,078,481	$ 21,796,151
Restricted	665,673	703,010	843,889	580,840	725,209	792,542	864,270
Unrestricted (1), (2)	69,056	288,523	743,586	1,306,226	2,204,315	2,964,957	2,631,478
Total governmental activities net assets	18,192,270	19,111,268	20,278,783	21,294,044	23,133,531	24,835,980	25,291,899
Business-type activities							
Invested in capital assets, net of related debt							51
Restricted	1,239,236	1,181,636	1,288,353	1,389,261	1,459,045	1,472,523	1,479,166
Unrestricted	31,655	50,992	71,562	121,928	155,800	171,183	189,717
Total business-type activities net assets	1,270,891	1,232,628	1,359,915	1,511,189	1,614,845	1,643,706	1,668,934
Primary Government							
Invested in capital assets, net of related debt	17,457,541	18,119,735	18,691,308	19,406,978	20,204,007	21,078,481	21,796,202
Restricted	1,904,909	1,884,646	2,132,242	1,970,101	2,184,254	2,265,065	2,343,436
Unrestricted	100,711	339,515	815,148	1,428,154	2,360,115	3,136,140	2,821,195
Total primary government net assets	$ 19,463,161	$ 20,343,896	$ 21,638,698	$ 22,805,233	$ 24,748,376	$ 26,479,686	$ 26,960,833

(1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004 fewer funds were restricted for lottery scholarships when compared to fiscal year 2005.

(2) The increase in unrestricted net assets between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net assets resulting from governmental activities, specifically those activities associated with the General Fund, which had a $698 million and a $662 million increase in fund balance for 2006 and 2007, respectively.

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,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	$ 322,362	$ 571,236	$ 534,116	$ 435,600	$ 486,319	$ 693,371	$ 594,405	$ 960,229	$ 1,143,163	$ 1,112,212
Unreserved	224,923	371,477	461,964	195,941	202,603	658,055	737,779	1,070,124	1,549,399	1,097,767
Total general fund(1), (2)	$ 547,285	$ 942,713	$ 996,080	$ 631,541	$ 688,922	$ 1,351,426	$ 1,332,184	$ 2,030,353	$ 2,692,562	$ 2,209,979
All Other Governmental Funds										
Reserved	$ 647,182	$ 617,191	$ 659,095	$ 876,919	$ 922,258	$ 1,061,453	$ 1,307,412	$ 1,166,534	$ 1,079,672	$ 1,179,711
Unreserved, reported in:										
Special revenue funds	367	58	103	50	50	50	50	345,143	569,041	461,832
Debt service fund	1,335	2,750	3,407					5,377	5,398	7,131
Capital projects fund	48,221	62,243	131,833					49,749	123,205	489,173
Total all other governmental funds	$ 697,105	$ 682,242	$ 794,438	$ 876,969	$ 922,308	$ 1,061,503	$ 1,307,462	$ 1,566,803	$ 1,777,316	$ 2,137,847

(1) The increase in the fund balance of the general fund between fiscal years 2003 and 2004 resulted from higher revenue collections. A favorable economy caused increases in sales, excise, franchise, business, and income tax collections. However, expenditures in fiscal year 2004 did not increase at the same rate. The result was an increase of $625 million in the General Fund total fund balance. A majority of the increase in the *reserved* component was from the Reserve for Unencumbered Balance and the Reserve for Federal Tax Relief. The largest part of the increase in the *unreserved* component resulted in the Reserve for Supplemental Appropriations and the Reserve for Future Requirements.

(2) The increase in the fund balance of the general fund between fiscal years 2005 and 2006 and between 2006 and 2007 resulted from higher revenue collections. A favorable economy caused increases in sales, excise, and franchise tax collections.

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,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes	$ 6,681,324	$ 7,240,297	$ 8,010,722	$ 7,631,768	$ 8,608,984	$ 9,272,267	$ 9,819,155	$ 10,488,650	$ 11,249,773	$ 11,333,507
Licenses, fines, fees, and permits	293,675	307,803	325,974	547,594	567,243	590,627	624,694	637,522	660,888	672,486
Interest on investments	47,683	53,819	92,127	36,618	28,429	34,102	46,222	102,075	178,080	127,152
Federal	5,124,273	5,537,353	6,184,126	6,694,648	7,646,384	8,417,534	8,988,687	8,568,732	8,763,302	8,807,036
Departmental services	1,282,634	1,512,483	1,748,165	1,607,251	1,716,159	2,071,252	2,360,891	2,238,968	2,233,450	2,339,870
Other	40,155	352,183	356,029	444,450	384,536	488,769	502,074	491,064	537,816	570,634
Total revenues	13,469,744	15,003,938	16,717,143	16,962,329	18,951,735	20,874,551	22,341,723	22,527,011	23,623,309	23,850,685
Expenditures										
Current:										
General government	345,746	330,255	349,278	358,523	392,747	400,069	425,243	530,637	555,545	617,056
Education (1)	2,859,303	2,947,577	3,059,538	4,218,637	4,432,071	4,630,294	5,100,147	5,353,167	5,775,363	6,318,858
Health and social services	6,596,034	7,446,923	8,641,777	9,250,026	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128
Law, justice, and public safety	825,010	872,353	897,805	914,307	970,042	1,042,510	1,109,819	1,216,756	1,275,402	1,278,752
Recreation and resources development	382,614	429,389	419,423	446,137	442,915	479,243	491,681	544,744	525,885	707,866
Regulation of business and professions	46,346	49,325	57,988	65,040	71,109	88,580	119,620	92,888	134,955	129,688
Transportation	1,164,776	1,271,170	1,269,773	1,311,654	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231
Intergovernmental revenue sharing			681,151	686,515	641,271	647,654	683,925	738,349	815,832	842,096
Debt service:	111,530	123,783	122,221							
Principal				68,304	78,108	80,243	89,474	86,532	81,790	79,107
Interest				54,121	47,964	49,956	43,455	49,319	50,363	51,872
Debt issuance costs				1,282	650	1,945	2,159	1,082	1,173	980
Capital outlay	105,889	70,866	55,679	145,590	132,949	128,167	119,730	253,229	343,712	359,118
Total expenditures	12,437,248	13,541,641	15,554,633	17,520,136	18,910,449	20,176,445	22,115,456	21,617,892	22,764,346	24,141,752
Revenues over (under) expenditures	1,032,496	1,462,297	1,162,510	(557,807)	41,286	698,106	226,267	909,119	858,963	(291,067)
Other Financing Sources (Uses)										
Capital lease										
Bonds and commercial paper issued	253,150	263,146	223,408	168,017	95,195	206,933	52,979	228,409	196,290	340,021
Notes/Commercial paper redeemed	(60,978)	(197,728)	(79,160)	(152,091)	(3,900)	(155,796)		(109,908)	(103,498)	(129,333)
Insurance claim recoveries								1,670	4,013	2,361
Premium on bond sale	1,522		586	5,149		6,485		2,485	2,049	2,760
Refunding bonds issued	207,085						355,053			
Refunding bond premium							31,929			
Refunding payment to escrow	(205,624)						(386,261)			
Transfers in (2)	565,885	472,275	567,901	766,097	679,743	661,064	812,886	733,813	898,244	1,526,581
Transfers out (2)	(1,693,625)	(1,619,425)	(1,748,989)	(787,813)	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)
Total other financing sources (uses)	(932,585)	(1,081,732)	(1,036,254)	(641)	62,786	26,957	450	48,391	13,680	169,015
Net Change in Fund Balances	$ 99,911	$ 380,565	$ 126,256	$ (558,448)	$ 104,072	$ 725,063	$ 226,717	$ 957,510	$ 872,643	$ (122,052)
Debt Service as a Percentage of Noncapital Expenditures				0.6720%	0.6937%	0.6691%	0.6241%	0.6566%	0.6055%	0.5620%

(1) The increase in expenditures in the Education function between 2001 and 2002 resulted primarily from implementing GASB Statement 34. Amounts reported as a transfer to component units in fiscal year 2001 were recorded as expenditures in fiscal year 2002.

(2) 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.

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,									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Auto dealers	$ 7,127	$ 8,111	$ 8,378	$ 8,650	$ 8,838	$ 9,430	$ 9,439	$ 9,422	$ 9,380	$ 9,539
Purchases from manufacturers	4,276	4,238	4,201	3,956	3,652	3,934	4,153	4,809	4,683	4,732
Miscellaneous durable goods	11,287	12,833	13,013	12,359	12,271	12,892	14,183	15,846	17,211	17,492
Eating and drinking places	5,478	5,864	6,205	6,446	6,564	6,913	7,454	7,959	8,462	8,912
Food stores	7,574	7,891	8,132	8,095	7,983	7,852	7,938	8,197	8,421	8,867
Liquor stores	338	366	385	397	408	433	458	495	548	594
Hotels and motels	1,669	1,753	1,830	1,785	1,777	1,821	1,881	2,044	2,220	2,356
Other retail and service	19,149	20,654	21,493	21,401	21,996	23,174	42,439	25,763	27,088	28,645
Miscellaneous nondurable goods	5,430	6,169	6,335	6,310	6,261	6,282	6,563	7,066	7,333	7,774
Transportation, communication	3,929	4,448	4,683	5,135	5,722	6,016	6,016	6,674	7,345	7,596
Total taxable sales	$ 66,257	$ 72,327	$ 74,655	$ 74,534	$ 75,472	$ 78,747	$ 100,524	$ 88,275	$ 92,691	$ 96,507

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,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	6.00%	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services: Retail sale of food and food ingredients for human consumption (except vending machines)	N/A	N/A	N/A	N/A	6.00%	6.00%	6.00%	6.00%	6.00%	5.50%
Energy fuels used by manufacturers and nurserymen	N/A	N/A	N/A	N/A	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	N/A	N/A	N/A	N/A	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	N/A	N/A	N/A	N/A	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	N/A	N/A	N/A	N/A	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	N/A	N/A	N/A	N/A	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	N/A	N/A	N/A	N/A	3.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding $100,000 sales price	N/A	N/A	N/A	N/A	3.00%	N/A	N/A	N/A	N/A	N/A
Cable and wireless TV (between $15 and $27.50) and satellite services	N/A	N/A	N/A	N/A	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	N/A	N/A	N/A	N/A	N/A	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,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retail:										
Building materials	$ 225,753	$ 239,702	$ 224,268	$ 233,385	$ 271,969	$ 328,562	$ 363,952	$ 405,812	$ 423,160	$ 391,271
General merchandise	494,498	529,829	543,088	575,230	654,071	712,426	735,074	767,584	820,549	829,576
Food stores	454,136	465,827	469,960	465,911	478,857	485,947	494,466	508,497	526,981	529,977
Auto dealers and service stations	583,488	630,662	622,544	645,670	751,167	820,454	815,985	817,689	856,109	835,035
Apparel and accessory stores	136,055	134,972	137,616	137,851	160,688	177,017	185,683	194,946	200,131	200,745
Furniture and home furnishings	148,101	163,763	169,378	162,401	189,506	209,525	222,089	238,475	246,569	244,312
Eating and drinking places	333,506	349,475	362,716	379,566	435,505	486,680	518,689	547,547	585,490	605,544
Miscellaneous retail stores	335,915	360,992	372,632	378,101	443,114	491,443	508,694	550,340	580,936	597,649
Total retail	2,711,452	2,875,222	2,902,202	2,978,115	3,384,877	3,712,054	3,844,632	4,030,890	4,239,925	4,234,109
Services:										
Hotels and lodging places	100,535	104,569	104,794	102,036	118,247	124,795	131,675	142,333	154,081	160,909
Personal services	38,196	38,981	39,316	41,982	47,623	51,845	49,818	49,375	51,099	51,151
Business services	191,845	185,286	184,803	167,634	189,019	199,677	218,799	234,810	245,387	254,506
Auto repair, services, and parking	130,392	137,716	140,215	137,546	153,418	163,687	159,935	163,710	174,680	173,481
Miscellaneous repair services	21,559	21,454	20,282	19,809	21,914	23,606	24,873	27,100	28,387	28,441
Motion pictures	14,717	15,624	16,105	17,320	20,868	23,244	22,851	22,282	22,178	21,498
Amusement services	36,503	40,149	39,660	41,477	45,116	49,106	50,854	54,629	59,578	59,636
Health services	9,591	7,376	9,459	8,951	9,137	10,818	11,139	11,710	13,123	13,676
Other services	12,884	13,958	20,833	19,002	23,503	26,747	31,025	34,282	34,400	37,740
Total services	556,222	565,113	575,467	555,757	628,845	673,525	700,969	740,231	782,913	801,038
Non-retail, non-services:										
Agriculture, forestry, fishing	4,696	4,829	4,797	4,774	5,133	5,812	5,968	6,920	7,261	7,451
Mining	6,752	4,011	4,981	4,341	4,126	5,286	5,073	5,635	6,302	7,117
Construction	45,211	50,770	40,689	41,851	38,168	42,275	42,640	48,540	54,075	59,119
Manufacturing	241,857	233,960	232,558	209,366	236,163	261,260	289,494	312,570	305,558	299,223
Transportation	23,280	25,798	24,678	5,991	22,856	26,895	36,239	42,825	46,688	53,866
Communications	210,972	247,479	257,754	308,184	361,677	398,105	385,544	442,837	457,116	475,675
Electric, gas, and sanitary services	117,122	119,574	133,325	128,072	149,710	163,358	174,794	194,574	203,789	215,552
Wholesale trade	279,024	299,784	292,179	243,826	280,882	321,014	349,023	418,607	451,777	450,898
Finance, insurance, real estate	19,690	19,497	14,167	11,998	12,376	11,396	11,037	12,899	17,830	17,908
Total non-retail, non-services	948,604	1,005,702	1,005,128	958,403	1,111,091	1,235,401	1,299,812	1,485,407	1,550,396	1,586,809
County Clerk	69,364	75,020	76,608	82,391	94,705	108,781	112,753	114,767	126,081	125,355
Consumer Use Tax	N/A	N/A	N/A	N/A	104,786	4,647	5,313	7,545	5,071	4,641
Grand Total	$ 4,285,642	$ 4,521,057	$ 4,559,405	$ 4,574,666	$ 5,324,304	$ 5,734,408	$ 5,963,479	$ 6,378,840	$ 6,704,386	$ 6,751,952

Source: Revenue Collections Reports, Tennessee Department of Revenue

Note: N/A means not available.

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Governmental activities debt:										
General obligation bonds	$ 1,062,850	$ 983,721	$ 1,049,456	$ 1,134,881	$ 1,047,531	$ 1,141,026	$ 1,044,830	$ 1,096,765	$ 1,115,488	$ 1,175,403
General obligation bond anticipation notes	177,300									
General obligation commercial paper		248,500	250,000	110,700	201,800	82,775	168,575	144,625	130,824	240,626
Capital leases	543	496	562	483	788	1,008	1,229	3,619	3,943	11,743
Total governmental activities debt	1,240,693	1,232,717	1,300,018	1,246,064	1,250,119	1,224,809	1,214,634	1,245,009	1,250,255	1,427,772
Business-type activities debt:										
General obligation bonds	23,551	20,347	17,213	13,924	11,070	8,071	5,232	3,378	2,534	1,655
Total business-type activities debt	23,551	20,347	17,213	13,924	11,070	8,071	5,232	3,378	2,534	1,655
Total primary government debt	$ 1,264,244	$ 1,253,064	$ 1,317,231	$ 1,259,988	$ 1,261,189	$ 1,232,880	$ 1,219,866	$ 1,248,387	$ 1,252,789	$ 1,429,427
Debt Ratios										
Personal income	$ 140,395,000	$ 148,834,000	$ 154,416,000	$ 159,173,000	$ 165,402,000	$ 174,741,000	$ 184,637,000	$ 195,085,000	$ 205,112,000	N/A
Ratio of total debt to personal income	0.90%	0.84%	0.85%	0.79%	0.76%	0.71%	0.66%	0.64%	0.61%	
Population	N/A	5,689	5,747	5,790	5,842	5,893	5,963	6,039	6,157	N/A
Net general bonded debt per capita	N/A	$ 220	$ 229	$ 218	$ 216	$ 209	$ 205	$ 206	$ 203	
General Bonded Debt:										
General obligation bonds	$ 1,086,401	$ 1,004,068	$ 1,066,669	$ 1,148,805	$ 1,058,601	$ 1,149,097	$ 1,050,062	$ 1,100,143	$ 1,118,022	$ 1,177,058
General obligation bond anticipation notes	177,300									
General obligation commercial paper		248,500	250,000	110,700	201,800	82,775	168,575	144,625	130,824	240,626
Total net bonded debt	$ 1,263,701	$ 1,252,568	$ 1,316,669	$ 1,259,505	$ 1,260,401	$ 1,231,872	$ 1,218,637	$ 1,244,768	$ 1,248,846	$ 1,417,684
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	50.01%	69.48%	60.91%	61.03%	65.48%	70.45%	73.21%	75.68%	80.92%	71.22%

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)

Calculation of 2008 pledged revenues:	Portion Pledged	Collections for Fiscal Year 2008 All Governmental Fund Types	Fiscal Year 2008 Pledged Amount
Gasoline tax	29.3%	$ 617,081	$ 180,805
Petroleum products fee	100%	65,161	65,161
Motor vehicle registration fee	50%	251,521	125,761
Franchise tax	100%	637,878	637,878
		$ 1,571,641	$ 1,009,605

Pledged amount	$ 1,009,605
Legal debt service limit (pledged amount/150%)	673,070
Less: 2008 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds	145,721
Legal debt service margin	$ 527,349

FOR THE FISCAL YEAR ENDED JUNE 30,

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit	$ 421,360	$ 580,201	$ 534,682	$ 512,464	$ 550,211	$ 578,609	$ 594,778	$ 628,010	$ 673,748	$ 673,070
Total net debt service applicable to limit	125,924	138,481	131,593	142,075	148,079	143,702	155,215	148,033	145,975	145,721
Legal debt service margin	$ 295,436	$ 441,720	$ 403,089	$ 370,389	$ 402,132	$ 434,907	$ 439,563	$ 479,977	$ 527,773	$ 527,349
Legal debt service margin as a percentage of the debt limit	70.11%	76.13%	75.39%	72.28%	73.09%	75.16%	73.90%	76.43%	78.33%	78.35%

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,									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population	N/A	N/A	5,689	5,747	5,790	5,842	5,893	5,963	6,039	6,157
Total personal income	$ 133,620,000	$ 140,395,000	$ 148,834,000	$ 154,416,000	$ 159,173,000	$ 165,622,000	$ 174,727,000	$ 184,567,000	$ 195,656,000	$ 205,112,000
Per capita personal income	$ 24,567	$ 25,437	$ 26,168	$ 26,842	$ 27,434	$ 28,377	$ 29,761	$ 31,127	$ 32,474	$ 33,746
Unemployment rate	4.5%	4.0%	4.0%	4.6%	5.2%	5.5%	5.4%	5.6%	4.5%	5.3%

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

Schedule 11

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

	2007			1998		
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	6,135,000	1	21.86%	5,699,000	1	21.60%
Government	4,160,000	2	14.83%	3,856,000	3	14.61%
Manufacturing	3,902,000	3	13.91%	5,038,000	2	19.09%
Education and Health Services	3,463,000	4	12.34%	2,753,000	4	10.43%
Professional and Business Services	3,207,000	5	11.43%	2,710,000	5	10.27%
Leisure and Hospitality	2,784,000	6	9.92%	2,255,000	6	8.55%
Financial Activities	1,446,000	7	5.15%	1,380,000	7	5.23%
Construction	1,387,000	8	4.94%	1,227,000	8	4.65%
Other Services	1,019,000	9	3.63%	897,000	9	3.40%
Information	516,000	10	1.84%	517,000	10	1.96%
Natural Resources and Mining	42,000	11	0.15%	54,000	11	0.21%
Total	28,061,000		100.00%	26,386,000		100.00%
	Calendar Year 2007			Calendar Year 1998		
Total State Employment	2,918,400			2,709,600		

Source: An Economic Report to the Governor of the State of Tennessee January 2008
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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government	4,123	4,045	4,150	4,114	4,163	4,254	4,394	4,671	4,964	5,040
Education	943	941	979	955	966	1,014	1,028	1,025	1,070	1,206
Health and social services (1)	17,327	17,564	18,147	18,852	19,144	19,255	20,431	21,246	21,208	20,990
Law, justice and public safety	9,836	10,079	10,406	10,681	10,569	10,691	10,922	10,987	10,843	11,004
Recreation and resources development	3,734	3,681	3,718	3,586	3,689	3,762	3,757	3,846	3,885	3,901
Regulation of business and professions	590	600	624	646	668	680	718	738	776	754
Transportation	4,791	4,620	4,620	4,559	4,528	4,460	4,454	4,448	4,380	4,294
Total	41,344	41,530	42,644	43,393	43,727	44,116	45,704	46,961	47,126	47,189

Source: Department of Personnel

(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	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Motor pool vehicles				7,587	7,701	7,785	6,689	7,067	7,276	7,392
Buildings			62	62	61	61	108	107	107	107
Machinery and equipment			3,282	3,233	3,581	3,861	3,634	3,637	3,586	3,528
Education										
Number of residential schools			4	4	4	4	4	4	4	4
Machinery and equipment			210	167	223	228	244	219	209	240
Health and social services										
Buildings			417	397	391	388	342	340	339	329
Machinery and equipment			2,014	1,916	1,973	1,964	2,031	2,142	2,303	2,443
Law, justice and public safety										
Correctional facilities			19	19	19	19	19	19	19	19
Armories			89	90	90	86	86	86	86	83
Machinery and equipment			1,728	1,739	1,882	2,009	2,352	2,532	2,586	3,103
Recreation and resources development										
Acreage of state parks	155,153	156,643	156,643	158,252	158,581	158,723	164,251	164,399	164,537	165,486
Machinery and equipment			1,991	1,884	2,093	2,185	2,295	2,476	2,543	2,729
Regulation of business and professions										
Machinery and equipment			72	59	68	82	93	104	138	147
Transportation										
State highways (in miles)	14,056	14,073	14,111	14,107	14,107	14,289	14,151	14,163	13,835	13,887
Bridges, state highways	19,201	19,403	19,453	19,453	19,493	19,621	19,646	19,432	19,515	19,563
Facilities			122	120	120	120	122	122	122	122
Buildings			631	629	671	682	710	713	717	708

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

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government										
Tax returns processed (1)	2,075,559	2,077,000	2,148,643	2,125,072	1,999,458	2,225,891	2,013,809	2,398,453	2,502,248	2,802,574
New corporate charters registered	10,996	11,471	12,162	11,716	11,563	11,826	12,103	11,807	11,726	10,745
Investment return on total portfolio	5.22%	5.66%	5.94%	2.67%	1.64%	1.11%	2.12%	4.11%	5.30%	2.00%
Residential and commercial property reappraisals completed	426,098	130,668	1,435,746	475,539	256,916	265,373	1,441,168	554,798	336,050	255,250
Education										
Number of public schools (K-12)	1,589	1,611	1,623	1,646	1,659	1,677	1,693	1,699	1,714	1,718
Enrollment of public schools (K-12)	967,556	992,031	984,015	958,496	973,170	973,626	976,574	991,489	925,898	929,543
Number of high school graduates from public schools	44,597	45,825	44,873	44,622	48,341	50,203	51,436	53,960	54,191	57,486
Health and social services										
TennCare enrollees	1,332,300	1,340,500	1,445,900	1,428,600	1,287,600	1,336,700	1,213,800	1,187,500	1,191,233	1,208,871
Food stamp recipients	517,900	496,435	504,443	578,144	692,300	791,695	833,687	870,304	861,979	902,500
Percentage of population (4)		8.73%	8.78%	9.99%	11.85%	13.43%	13.98%	14.41%	14.00%	
Temporary assistance recipients	146,928	144,393	153,845	163,840	68,300	73,158	72,676	70,108	64,684	60,000
Percentage of population (4)		2.54%	2.68%	2.83%	1.17%	1.24%	1.22%	1.16%	1.05%	
Children in state custody (2)	11,755	11,217	10,819	10,259	10,345	10,869	10,467	9,700	9,048	8,149
Percentage of population (4)		0.20%	0.19%	0.18%	0.18%	0.18%	0.18%	0.16%	0.15%	
Mental health institutes average daily census	934	928	985	941	958	960	888	845	808	
Law, justice and public safety										
Correctional institutions average daily census	15,712	16,547	16,920	17,372	18,170	19,117	19,141	19,119	26,573	26,998
Department of Safety citations issued	377,161	406,523	415,928	415,030	388,356	423,305	453,630	472,465	403,363	380,586
Drivers licenses issued	1,200,000	1,261,467	1,402,735	1,281,106	1,271,141	1,334,417	1,351,241	1,711,655	1,632,164	1,600,000 (est.)
Recreation and resources development										
Hunting/fishing licenses and boats registered	803,201	761,689	735,941	722,949	718,307	723,305	733,554	690,426 (est.)	718,397 (est.)	690,313
Wetland acres acquired	2,426	7,160	10,873	4,798	74,831	6,369	782	3,308 (est.)	891 (est.)	3,602
Number of visitors to state parks	31,833,942	30,182,137	28,824,110	28,821,110	26,878,838	26,702,434	27,604,112	28,859,399	29,408,099	30,672,700
Air pollution monitoring sites	107	109	104	99	92	91	86	87	86	78
Regulation of business and professions										
Fire safety inspections	17,982	15,189	20,087	12,574		41,402		18,418	34,976	39,518
Consumer affairs written complaints	5,300	5,111	5,017	4,660		4,747		5,528	5,420	5,797
Transportation										
Lane miles resurfaced (3)	2,694	2,412	2,748	3,483	2,194	2,238	2,188	1,632	2,408	1,968
HELP program services provided		50,451	85,267	150,086	123,809	137,615	148,805	154,362	128,006	130,062

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, and unruly.
(3) Amounts are reported on a calendar year basis; the 2008 amount is through October 2008.
(4) Population figures used in calculating percentages are from schedule 10.
(5) Blank lines indicate that data is unavailable.

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

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1999	$ 622,109	$ 373,207	$ 21	$ 28,657
2000	410,086	375,872	21	24,431
2001	401,918	408,671	21	16,874
2002	438,956	406,146	21	18,628
2003	413,632	409,612	-	24,804
2004	417,191	406,033	75	24,507
2005	448,955	430,412	66	25,317
2006	484,786	440,014	56	23,897
2007	532,582	471,730	45	26,652
2008	565,963	510,261	35	33,561

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1999	$ 93,593	$ 93,576	-	$ 2,991
2000	102,186	94,289	-	3,054
2001	114,031	97,499	-	2,356
2002	120,196	99,786	-	3,777
2003	127,638	102,139	-	6,334
2004	140,957	100,602	-	6,291
2005	151,536	106,393	-	5,608
2006	166,652	108,395	-	4,993
2007	177,082	116,006	-	6,013
2008	188,462	123,719	-	6,280

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)
1999	$ 23,188	$ 27,444	$ 48	$ 672
2000	28,387	28,001	48	651
2001	31,087	28,051	48	649
2002	38,957	30,484	48	649
2003	42,577	31,100	48	1,516
2004	40,120	30,712	48	1,515
2005	44,332	32,216	-	2,242
2006	50,818	32,684	-	2,104
2007	56,119	34,977	-	2,253
2008	61,033	37,180	-	2,581

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)
1999	$ 70,530	$ 70,576	-	$ 1,872
2000	78,317	73,273	-	3,357
2001	86,328	76,159	-	4,886
2002	98,031	77,990	-	5,472
2003	108,974	82,144	-	6,537
2004	126,161	81,057	-	6,539
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

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)
1999	$ 64,652	$ 70,814	-	$ 1,588
2000	64,386	72,837	$ 258	1,743
2001	66,727	75,937	261	1,954
2002	72,774	77,965	261	1,916
2003	76,414	79,735	319	2,608
2004	85,854	79,247	315	2,609
2005	92,599	83,221	312	2,824
2006	100,454	86,173	2,242	2,221
2007	107,798	91,709	2,070	2,895
2008	121,820	98,619	1,889	5,172

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1999	$ 46,423	$ 35,597	$ 66	$ 1,257
2000	52,156	36,337	66	1,469
2001	54,979	34,843	66	2,056
2002	45,119	35,067	-	2,193
2003	47,326	34,988	-	3,137
2004	54,375	34,569	-	3,010
2005	57,504	37,110	-	3,001
2006	59,847	37,864	-	2,893
2007	60,537	39,913	-	2,911
2008	61,058	46,407	-	3,506

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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)
1999	$ 31,616	$ 39,259	-	$ 1,145
2000	33,791	38,938	-	1,075
2001	37,065	39,933	-	844
2002	41,311	40,392	-	639
2003	45,293	40,790	-	415
2004	47,194	40,165	-	897
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

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)
1999	$ 2,859	$ 5,466	-	-
2000	2,918	5,666	-	-
2001	3,127	5,809	-	-
2002	3,762	5,979	-	-
2003	4,010	6,108	-	-
2004	5,219	6,035	-	-
2005	5,490	6,386	-	-
2006	5,451	6,490	-	-
2007	6,032	7,118	-	$ 117
2008	6,141	7,612	-	116

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)
1999	$ 10,453	$ 19,602	$ 69	-
2000	11,074	20,234	72	-
2001	11,650	20,684	69	$ 34
2002	13,947	21,233	70	73
2003	15,034	21,108	60	73
2004	17,297	20,802	65	73
2005	18,216	21,977	-	73
2006	19,084	22,336	-	69
2007	20,832	23,697	-	280
2008	22,190	25,074	-	489

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)
1999	$ 5,809	$ 9,028	-	-
2000	6,376	9,417	-	-
2001	5,468	10,210	-	-
2002	6,773	10,477	-	-
2003	7,173	10,768	-	-
2004	8,290	10,610	-	-
2005	8,958	11,282	-	-
2006	9,280	11,480	-	-
2007	10,614	12,383	-	$ 168
2008	14,329	13,147	-	166

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)
1999	$ 3,484	$ 8,519	-	-
2000	3,726	8,843	-	-
2001	3,952	9,072	-	-
2002	4,544	9,295	-	-
2003	4,757	9,212	-	-
2004	5,631	9,053	-	-
2005	5,737	9,580	-	-
2006	6,249	9,683	-	-
2007	6,422	10,317	-	$ 169
2008	7,206	10,856	-	168

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)
1999	$ 6,615	$ 10,143	-	-
2000	6,836	10,675	-	-
2001	7,294	11,016	-	-
2002	13,136	11,437	-	-
2003	14,921	11,540	-	-
2004	10,799	11,344	-	-
2005	12,133	12,839	-	$ 17
2006	13,027	12,731	-	17
2007	13,829	13,710	-	17
2008	13,829	13,710	-	18

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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)
1999	$ 3,886	$ 7,790	-	-
2000	4,120	8,094	-	-
2001	4,413	8,309	-	-
2002	5,225	8,514	-	-
2003	5,660	8,893	-	-
2004	6,369	8,747	-	-
2005	7,022	9,343	-	-
2006	7,678	9,434	-	-
2007	8,661	10,290	-	$ 171
2008	9,780	10,951	-	170

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)
1999	$ 6,816	$ 11,092	-	-
2000	7,474	11,655	-	-
2001	8,322	12,168	-	-
2002	8,254	12,525	-	-
2003	13,519	13,099	-	$ 13
2004	12,202	12,730	-	13
2005	13,955	13,449	-	13
2006	15,615	14,045	-	13
2007	15,828	15,185	-	13
2008	17,392	16,370	-	85

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)
1999	$ 6,940	$ 14,254	-	-
2000	7,565	14,879	-	-
2001	7,697	15,524	-	-
2002	8,589	15,771	-	-
2003	9,532	15,779	-	-
2004	10,964	15,518	-	-
2005	11,823	16,470	-	-
2006	12,528	16,660	-	-
2007	13,510	17,892	-	$ 330
2008	14,478	18,976	-	323

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)
1999	$ 4,764	$ 8,629	-	-
2000	5,111	8,946	-	-
2001	5,534	9,501	-	-
2002	6,599	9,737	-	-
2003	7,283	10,543	-	-
2004	8,910	10,391	-	-
2005	9,883	10,958	-	-
2006	10,505	11,147	-	-
2007	11,731	12,256	-	$ 212
2008	12,086	13,199	-	209

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)
1999	$ 9,991	$ 18,527	-	-
2000	10,838	18,464	-	$ 56
2001	18,325	34,451	-	146
2002	19,022	35,175	-	146
2003	21,839	34,827	-	179
2004	16,472	34,191	-	179
2005	16,749	36,210	-	179
2006	18,166	36,905	-	169
2007	22,042	38,723	-	174
2008	19,577	40,131	-	175

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)
1999	$ 10,827	$ 16,549	$ 114	-
2000	11,429	17,062	131	-
2001	12,693	17,514	-	-
2002	13,854	18,078	-	-
2003	14,393	18,247	-	-
2004	17,109	17,985	-	-
2005	17,376	18,935	-	-
2006	19,184	19,252	-	-
2007	20,801	20,657	-	$ 293
2008	23,917	22,037	-	375

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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)
1999	$ 6,901	$ 14,233	-	-
2000	7,067	14,853	-	-
2001	7,723	15,297	-	-
2002	9,600	15,689	-	-
2003	10,333	15,641	-	-
2004	12,256	15,417	-	-
2005	13,206	16,303	-	$ 17
2006	14,224	16,548	-	17
2007	14,974	17,995	-	140
2008	15,457	19,245	-	139

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)
1999	$ 8,408	$ 14,265	-	-
2000	9,001	14,767	-	-
2001	8,281	15,173	-	-
2002	9,381	15,595	-	-
2003	9,990	15,909	-	-
2004	11,211	15,689	-	-
2005	11,798	16,643	-	-
2006	12,740	16,860	-	-
2007	14,097	18,249	-	$ 294
2008	15,379	19,429	-	289

Source: Comptroller of the Treasury,
Division of Bond Finance

STATE OF TENNESSEE
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Schedule 16

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 104	$ 6,250	$ 19,208	$ 3,008	$ 3,570
University of Tennessee- Chattanooga	300	5,310	15,870	2,990	3,520
University of Tennessee- Martin	174	5,255	15,897	2,500	2,220
University of Tennessee- Memphis	54	6,630	19,106		3,870
Austin Peay State University	274	5,526	16,418	2,230	4,253
East Tennessee State University		5,201	16,093	2,078	3,480
Middle Tennessee State University		5,700	16,592	2,988	3,828
Tennessee State University	178	5,102	15,994	2,220	2,982
Tennessee Technological University	58	5,244	16,136	2,622	3,620
University of Memphis		6,128	17,714	3,458	3,566
Chattanooga State Technical Community College		2,797	10,297		
Cleveland State Community College		2,769	10,269		
Columbia State Community College		2,747	10,247		
Dyersburg State Community College		2,777	10,277		
Jackson State Community College		2,759	10,259		
Motlow State Community College		2,765	10,265		
Nashville State Technical Community College		2,731	10,231		
Northeast State Technical Community College		2,787	10,287		
Pellissippi State Technical Community College	30	2,799	10,299		
Roane State Community College		2,787	10,287		
Southwest Tennessee Community College		2,791	10,291		
Volunteer State Community College		2,767	10,267		
Walters State Community College		2,775	10,275		

Source: Comptroller of the Treasury,
Division of Bond Finance

STATE OF TENNESSEE
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2008

Schedule 17

Institution	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	$ 4,862	$ 341,313	$ 142,367	$ 35	$ 488,577
Austin Peay State University		34,514	5,226		39,740
East Tennessee State University	62	62,532	34,231	1,889	98,714
Middle Tennessee State University	142	85,140	64,210		149,492
Tennessee State University	503	36,433	5,076		42,012
Tennessee Technological University	37	10,537	7,473		18,047
University of Memphis	70	49,978	19,654		69,702
Chattanooga State Technical Community College		3,043			3,043
Cleveland State Community College		317	448		765
Columbia State Community College		92			92
Dyersburg State Community College		218			218
Jackson State Community College		314			314
Motlow State Community College		321			321
Nashville State Technical Community College		811			811
Northeast State Technical Community College		741			741
Pellissippi State Technical Community College		2,240			2,240
Roane State Community College		1,834			1,834
Southwest Tennessee Community College		1,233	2,150		3,383
Volunteer State Community College		319			319
Walters State Community College		1,360			1,360
	$ 5,676	$ 633,290	$ 280,835	$ 1,924	$ 921,725

Source: Comptroller of the Treasury,
Division of Bond Finance

SECURITIES & EXCHANGE COMMISSION DISCLOSURES

ACKNOWLEDGEMENTS

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DIVISION OF ACCOUNTS

CHIEF OF ACCOUNTS

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LYNN CUMMINGS, CPA
TERRI RACARD

POLICY DEVELOPMENT

JACK HILL
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SUSAN WALKER
PAT ALFORD
JACOB CARRIGAN
SHYAMALI GHOSH
SUZANNE GRADY
MELISSA HACKER
TERRI KING
REGGIE MARABLE
CARL MOSLEY
CAROLYN NIFONG
GLENN PERRY
LYNDA SANDERS
LARRY VOYTA
GUIPING YANG

PAYROLL CALL CENTER

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JOYCE LINDAMOOD
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RHONDA HICKS, CPA
MICKI LINDSLEY, CPA
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