Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2013

Comprehensive Annual Financial Report • For the Fiscal Year Ended June 30, 2013

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2013

BILL HASLAM, Governor

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

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

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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2013

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

LARRY B. MARTIN
COMMISSIONER

December 13, 2013

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

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Tennessee for the fiscal year ended June 30, 2013. This report is prepared and submitted by the Department of Finance and Administration as part of its responsibility under Tennessee Code Annotated 4-3-1007 to maintain a system of general accounts embracing all the financial transactions of state government.

The CAFR has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed in pronouncements by the Governmental Accounting Standards Board and is presented in three sections: *Introductory*, *Financial* and *Statistical*. The *Introductory Section* is designed to provide the background and context that readers need to benefit fully from the information contained in the *Financial Section*, and includes this transmittal letter and an organization chart. The *Financial Section* includes the auditor's report, management's discussion and analysis (MD&A), audited government-wide and fund financial statements and related notes thereto, required supplementary information, and the underlying combining and individual fund financial statements and supporting schedules. The *Statistical Section* contains selected unaudited financial, economic and demographic data on a multi-year basis that is useful in evaluating the economic condition of the government.

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

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

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

Profile of the State of Tennessee

The State of Tennessee is rooted in the Watauga Association, a 1772 frontier pact generally regarded as the first constitutional government west of the Appalachians. What is now Tennessee was initially part of North Carolina, and later part of the Southwest Territory. Tennessee was admitted to the Union as the 16th state on June 1, 1796. It was the first state created from territory under the jurisdiction of the United States federal government. Tennessee shares a border with eight states and divides naturally into three "grand divisions", upland, often mountainous, East Tennessee, Middle Tennessee with its foothills and basin, and the low plain of West Tennessee. These geographical divisions correspond to the distinctive political and economic cultures of the state's three regions. The state constitution allows no more than two justices of the five-member Tennessee Supreme Court to be from one grand division and a similar rule applies to certain commissions and boards.

Nicknamed the "Volunteer State" following the War of 1812, and the prominent role played by the volunteer soldiers from Tennessee, the state's current population of 6.5 million is made of a diverse group of people with one common denominator, they are down to earth and quite friendly.

The powers of state government are by state constitution divided into three distinct branches, the legislative, the executive and the judicial. The legislative authority of the state is vested in a General Assembly. In the case of the executive branch, the constitution places the "Supreme Executive Power" of the state with the governor. "Executive" means empowered to administer or to carry out certain duties or functions. The governor and his executive branch agencies "execute" or administer laws, mandates and new programs created by the General Assembly by statute. The judicial branch, serves as a check on the powers of both the legislative and executive branches.

Tennessee's legislative branch of government consists of a bicameral General Assembly with a Senate and House of Representatives. This structure has existed since the Assembly's first meeting in Knoxville in the winter of 1796, just before Tennessee's statehood. Members of the General Assembly, or Legislature, are elected by popular vote from districts across the state. Legislators are part-time lawmakers who live in their district and know the local issues. The Constitution specifies the size of the legislature, requiring 99 members in the House and prohibiting the Senate membership from exceeding one-third of the House membership. Thus, the Senate has 33 members. The primary function of the General Assembly is lawmaking. The Legislature enacts laws, provides a forum for debate and secures financing for the operation of state government.

The state and its component units provide a full range of services to its citizens, including education, health and welfare, transportation, public safety, economic development, culture and recreation, conservation and general government services. The financial statements present information on the financial position and operations of state government associated with these services as a single comprehensive reporting entity. Accordingly, the various agencies, departments, boards, commissions, authorities, and funds and accounts of the state that have been identified as part of the primary government or a component unit have been included in this report.

The component units are legally separate entities for which the state's elected officials are financially accountable, or for which the nature and significance of their relationship are such that exclusion would cause the state's financial statements to be misleading. These include state funded colleges and universities, and other legally separate entities that provide services and benefits to local governments and the citizens of the State of Tennessee. Further information about the financial reporting entity can be found in Note 1 to the financial statements.

State legislation grants the governor the authority and duty to develop and submit to the General Assembly a recommended budget. (Annual budgets are adopted for the general, special revenue (except Fraud and Economic Crime and the Agricultural Promotion Boards), and the debt service funds.) The law directs the Commissioner of Finance and Administration to prepare the budget in accordance with the governor's directives. After receipt of operational and capital budget requests, the Department of Finance and Administration's Division of Budget begins the process of balancing expenditures against estimated revenues. Within this constraint, funds must be provided for administration initiatives of high priority, activities mandated by state or federal statute, and the day-to-day operation of state government. The budget must be presented to the General Assembly prior to February 1, except at the beginning of a gubernatorial term, when the deadline is prior to March 1, unless the General Assembly by joint resolution authorizes a later date. At the time the budget is presented, the appropriation process is initiated.

Invariably, there are changes to the budget presented by the governor to the General Assembly. These changes are made by amending the appropriations act during its adoption process. The Division of Budget establishes an annual allotment for each agency using the appropriations act. This annual allotment, called the official work program, is used for budgetary control. Budgetary control is maintained at the program level by the individual departments and agencies, acting in conjunction with the Department of Finance and Administration. The budget details the separation between payroll and operational funds by program. Any movement of funds between the payroll and operational funds requires approval and a revision to the budget by the Division of Budget on behalf of the Commissioner of Finance and Administration and the governor. Other budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, require certain executive and legislative branch approval, pursuant to law. Agencies may not expand programs or implement new programs on their own authority. In Tennessee, as in other states, appropriation of funds is a legislative power, not an executive power. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law.

Information Useful in Assessing Tennessee's Economic Condition

Local economy

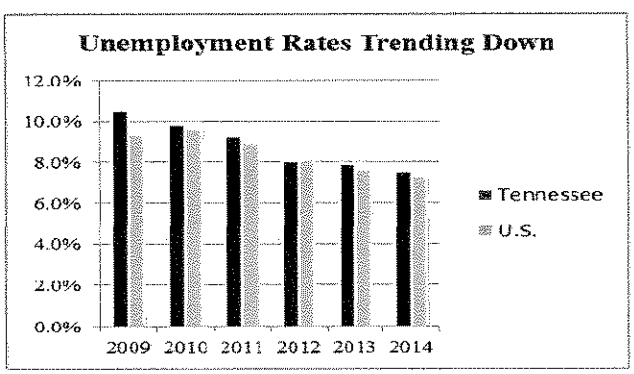
In addition to scenic views and country music, Tennessee is known for its pro-business climate, infrastructure, low business costs and a highly qualified workforce; and, is consistently ranked among the best places to do business. With a goal of becoming the No. 1 state in the southeast for high quality jobs, Tennessee state government has been successful in coming together to attract job-creators, inspire entrepreneurs, and put Tennesseans back to work.

2012 Annual Employment	**18th largest in the US: 2,715,208**
2012 Employment Growth Rate	**12th highest in the US: 1.89%**
2012 Manufacturing Employment	**13th largest in the US: 313,717**
2012 Manufacturing Employment Growth Rate	**6th highest in the US: 3.64%**
2012 GDP	**18th largest GDP in the US: 240,523,000,000**
2012 GDP Growth Rate	**9th highest in the US: 2.28%**

Source: US Bureau of Labor Statistics and Bureau of Economic Analysis

Having experienced well over three years of growth following the 2009 end to the "great recession", Tennessee has recovered considerable ground, but more growth will be needed to erase all of the losses that took place over the course of that recession.

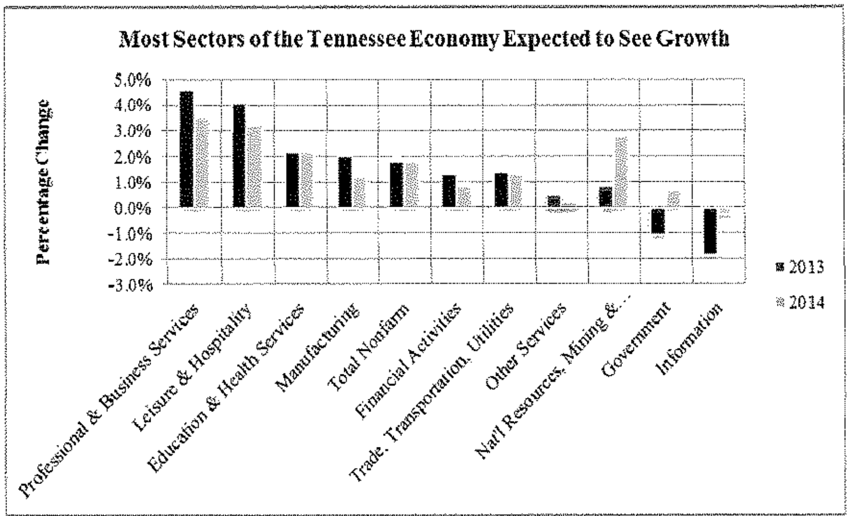
While current state economic activity has slowed as a result of the slowdown in the global and national economies, the good news is that the state economy has been able to continue its expansion and the process of rebuilding from the trough of the recession. The short term economic outlook for the state largely mirrors that of the nation. State personal income and output growth should see some acceleration in 2014 compared to 2013, and nonfarm employment growth is expected to come in at about 1.8 percent in both 2013 and 2014. Manufacturing employment is anticipated to see continued growth, but the pace of growth will slow because the state's industrial sector has largely restored and in some instances surpassed pre-recession levels of production. The state unemployment rate should continue to edge down, but is expected to remain slightly above the nation's rate of unemployment.



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

Tennessee's long-term outlook will include the ongoing rebound from the depths of the great recession as well as a return to trend growth later in the decade. Tennessee's gross domestic product should be up at a 2.7 percent rate between 2012 and 2022 while inflation-adjusted personal income is projected to rise at a 2.8 percent rate. Nonfarm employment in Tennessee will advance at a 1.2 percent compound annual growth rate. The state's manufacturing sector will continue to see employment gains through 2017, and is expected to benefit from the further development of advanced manufacturing.

The near-term outlook for the broad sectors of the state economy is portrayed in the chart below. Most sectors will see some acceleration in growth in 2014. Natural resources, mining and construction will see stronger growth as the outlook for business structures and residential housing investment improves.



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

Tennessee's automotive sector, the largest in the South in terms of employment, has led the state's post-recession economic recovery having generated over 12 percent of the state's job creation since the recession and more than one-third of the manufacturing sector's output growth since 2010. The automotive industry includes 910 companies employing 113,148 Tennesseans and investing $31.5 billion. Reaping the benefits of a strategic focus on the automotive sector Tennessee is home to Nissan, Volkswagen and General Motors production hubs.

Long-term financial planning and relevant financial policies

- Tennessee recently enacted the Tennessee Governmental Accountability Act of 2013. Intended to create a new approach to measuring the strategic functions and operations of each department, the act requires a system of strategic planning, program performance measures and performance audits to be implemented to measure the effectiveness and efficiency of governmental services. The new system will generate information to inform the public fully and for the general assembly to make meaningful decisions about the allocation of scarce resources in meeting vital needs.

- Over the years, Tennessee has consistently maintained a relatively low debt burden. This has been accomplished through the use of sound, prudent, and conservative debt management practices adopted by the executive and legislative branches of government.

  Such practices include funding a portion of the state's capital program with surplus cash, cancellation of bond authorizations in lieu of issuing debt, creating and maintaining a "rainy day fund" to offset unanticipated revenue shortfalls, and the adoption of state statutes designed to control the issuance of excessive debt. The state continues to maintain a relative low debt burden, and access to the capital markets remains strong.

  Recently, one of the country's top bond rating agencies analyzed debt ratios in all 50 states and concluded that Tennessee's ratio is the lowest. The study used a metric that is calculated by combining the state's net tax-supported debt and unfunded pension liabilities and then measuring it against the state's personal income level. Tennessee's ratio of debt and pension liabilities to personal income was 1.8 percent. No other state had a ratio below 2.2 percent. The rating agency plans to use the debt ratios as a factor in evaluating states' credit ratings. Favorable ratings translate to lower interest rates when the state borrows money, resulting in savings for taxpayers.

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

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

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

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

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

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

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

Major initiatives

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

- With the second largest increase in state K-12 expenditures in all 50 states in fiscal year 2012, and the first state to fund higher education institutions based on outcomes instead of enrollment, Tennessee is working to create a seamless path between high school, post-secondary education and entering the workforce. Along with strategic investments and reform initiatives focusing on high levels of achievement and continuous growth, Tennessee has set out to become the fastest-improving educational system in the country by raising student performance each year. A current key policy objective is the Drive to 55 initiative, which is aimed at ensuring that 55 percent of Tennesseans hold an advanced degree by 2025.

- A recent initiative to not only improve the quality of life, but reduce the cost of healthcare and the cost of doing business in Tennessee, brings employers, healthcare providers, health insurance companies, schools, and community organizations together in a coordinated way to encourage and promote healthier behaviors. The Healthier Tennessee initiative leverages health and wellness programs that are already happening in Tennessee communities through common goals, consistent measurement and reporting of results, and the use of proven, best-practice programs and tools in workplaces, schools, places of worship, and neighborhoods throughout the state.

- The Select Tennessee Certified Sites program was launched in June 2012 with the goal of helping Tennessee communities prepare available sites for investment and expansion. Developed as a rigorous process aimed at elevating Tennessee's sites to the level of preparedness necessary for corporate investment, the program sets a consistent standard upon which companies can rely in making critical location decisions. It acknowledges that companies looking to expand or relocate their operations often eliminate less prepared sites and addresses this issue by ensuring sites meet a specific standard. A grant program has been established to assist communities with expenses incurred in the process of receiving certification for a site. The program markets the sites to a targeted group of site selection consultants and business leaders in Tennessee's key industry clusters.

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, 2012. This was the thirty-third year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The state also received GFOA's Distinguished Budget Presentation Award for its Annual Budget beginning July 1, 2012. Prepared by the Department of Finance and Administration's Division of Budget, this was the twenty first time the state's budget publications have received this award by meeting program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

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

Respectfully submitted,

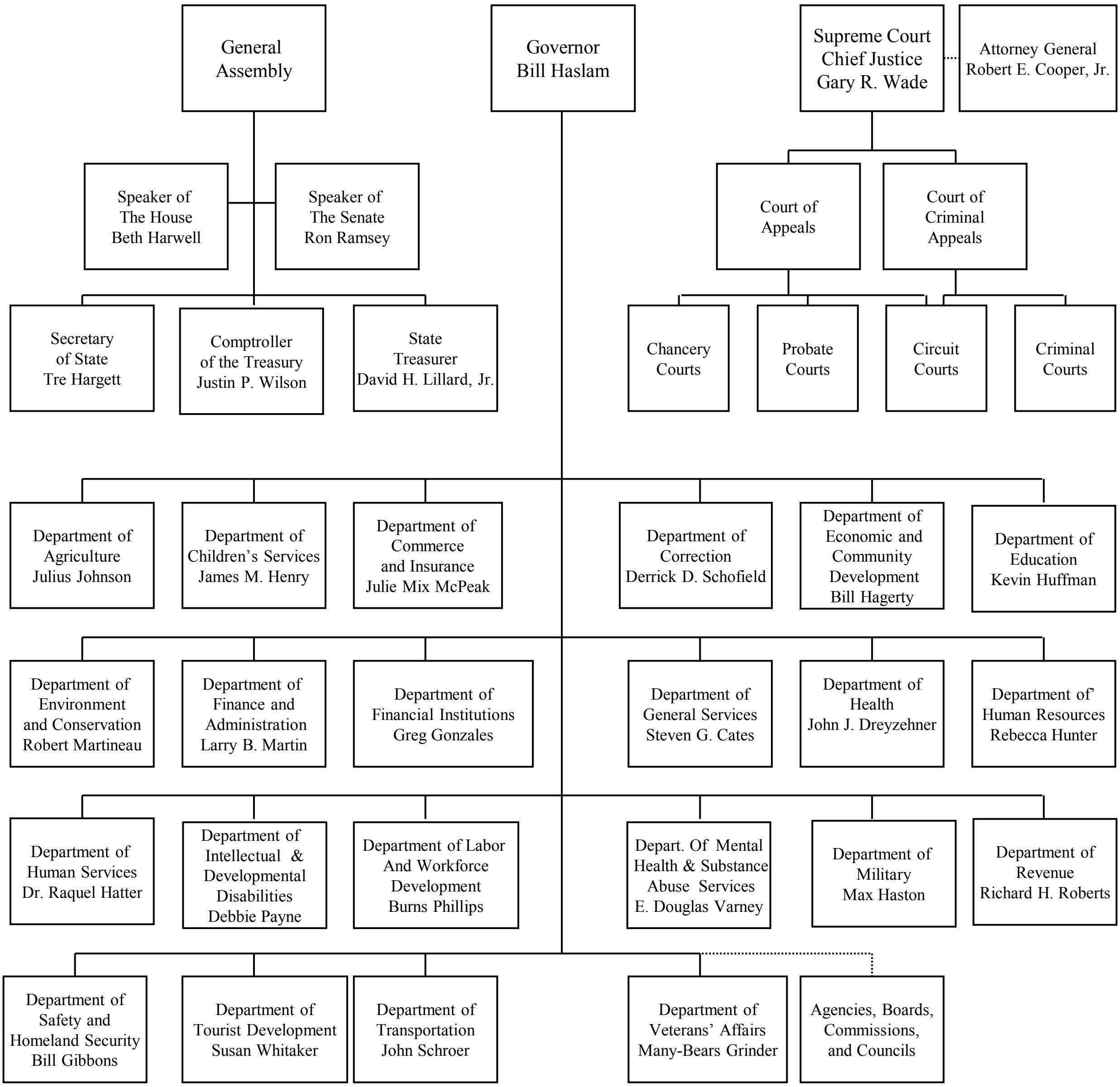
Larry B. Martin

Larry B. Martin
Commissioner

Jan I. Sylvis

Jan I. Sylvis
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2013



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2012

Executive Director/CEO

FINANCIAL SECTION

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

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2013, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 3, the State of Tennessee implemented Governmental Accounting Standards Board Statement 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Our opinion is not modified with respect to this matter.

As discussed in Note 4, the financial statements of the Tennessee Consolidated Retirement System, pension trust funds, include investments valued at $2.1 billion (5.62 percent of pension and other employee benefit trust funds net position), and the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $410.8 million (6.06 percent of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 13, 2013, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Tennessee's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 13, 2013

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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, 2013. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-8 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Position–The assets and deferred outflows of the state exceeded its liabilities at June 30, 2013, by $31.1 billion (net position). Of this amount, $3.6 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $26.3 billion represents *net investment in capital assets*.

  Changes in Net Position–The state's net position increased by $1.3 billion. This increase was largely the result of an increase in capital assets.

  Component units–Component units reported total net position of $6.8 billion, an increase of $293.3 million.

- **Fund Level:**

  At June 30, 2013, the state's governmental funds reported combined ending fund balances of $4.6 billion, an increase of $177.5 million (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately $3.39 billion is spendable unrestricted (committed, assigned or unassigned fund balance) and is available for spending at the government's discretion or upon legislative approval; however, $356 million of this amount is set aside in a revenue fluctuation account (rainy day fund).

- **Long-Term Debt:**

  The state's total debt decreased by $3.803 million during the fiscal year to total $2.388 billion. This change primarily results from the state's decision to not issue as much general obligation bonds during the fiscal year to obtain long-term financing for capital projects as in years past.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The s*tatement of net position and the statement of activities* (on pages 27 and 28-29) provide information about the activities of the state as a whole (government-wide statements) and present a longer-term view of the state's finances. Fund financial statements start on page 32. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the state's operations in more detail than the government-wide statements by providing information about the state's most significant funds. The remaining statements provide financial information about activities for which the state acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the State's Most Significant Funds

Fund financial statements

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

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

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

Notes to the financial statements. Notes to the financial statements are also included and provide essential information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units. The notes to the financial statements can be found on pages 48-120.

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the state, assets and deferred outflows of resources exceeded liabilities by $31.11 billion as of June 30, 2013.

By far, the largest portion of the state's net position (84.6 percent) reflects its net investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment, construction in progress and software in development), less any related debt and deferred outflows of resources used to acquire those assets that is still outstanding. The state uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	$ 7,473,344	$ 6,958,540	$ 2,250,689	$ 1,972,458	$ 9,724,033	$ 8,930,998
Capital assets	26,893,395	26,146,734			26,893,395	26,146,734
Total assets	34,366,739	33,105,274	2,250,689	1,972,458	36,617,428	35,077,732
Deferred outflow of resources	73,266	81,207			73,266	81,207
Current and other liabilities	1,909,567	1,714,121	108,301	81,098	2,017,868	1,795,219
Noncurrent liabilities	3,552,355	3,527,510	7,464	7,172	3,559,819	3,534,682
Total liabilities	5,461,922	5,241,631	115,765	88,270	5,577,687	5,329,901
Net position:						
Net investment in capital assets	26,326,451	25,602,085			26,326,451	25,602,085
Restricted	1,193,341	1,172,812			1,193,341	1,172,812
Unrestricted	1,458,291	1,169,953	2,134,924	1,884,188	3,593,215	3,054,141
Total net position	$ 28,978,083	$ 27,944,850	$ 2,134,924	$ 1,884,188	$ 31,113,007	$ 29,829,038

An additional portion of the state's net position (3.84 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position ($3.59 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted.

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

The state's net position increased by $1.28 billion during the year ended June 30, 2013. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

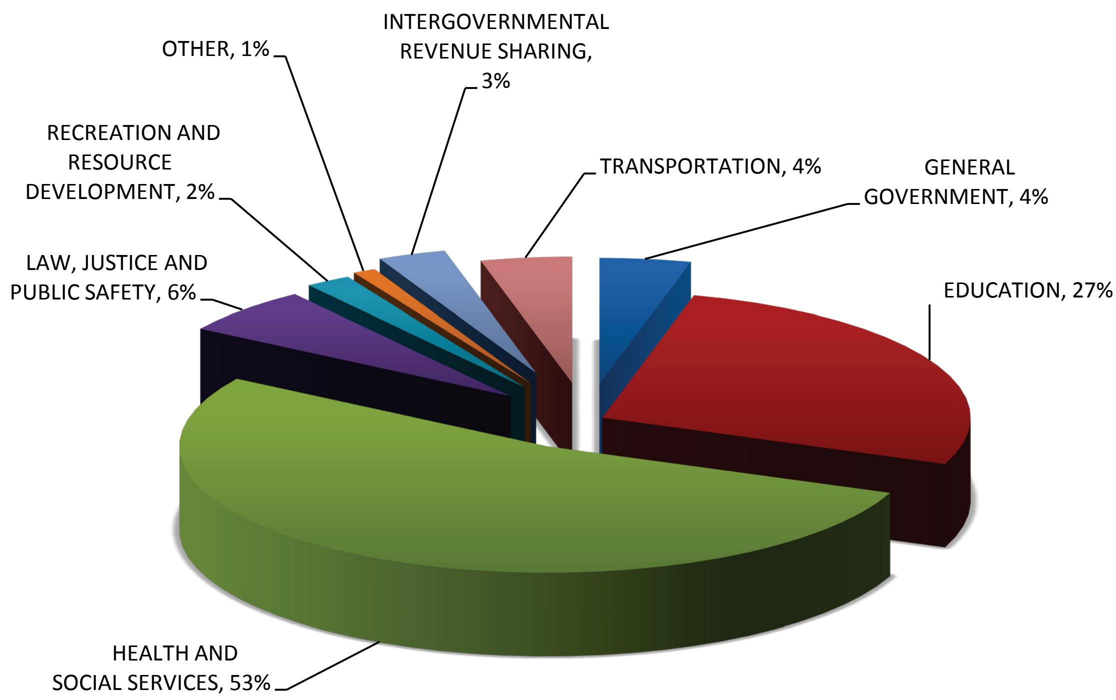
State of Tennessee
Changes in Net Position
For the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities 2013	Governmental Activities 2012	Business-Type Activities 2013	Business-Type Activities 2012	Total Primary Government 2013	Total Primary Government 2012
Revenues:						
Program revenues:						
Charges for services	$ 2,061,055	$ 1,979,308	$ 1,215,071	$ 1,327,935	$ 3,276,126	$ 3,307,243
Operating grants and contributions	11,697,733	11,912,818	327,928	744,345	12,025,661	12,657,163
Capital grants and contributions	772,061	903,281			772,061	903,281
General revenues:						
Sales Taxes	7,018,128	6,884,762			7,018,128	6,884,762
Other taxes	5,605,963	5,377,461			5,605,963	5,377,461
Other	286,849	254,261			286,849	254,261
Total revenues	27,441,789	27,311,891	1,542,999	2,072,280	28,984,788	29,384,171
Expenses:						
General government	987,800	942,465			987,800	942,465
Education	7,083,806	7,047,241			7,083,806	7,047,241
Health and social services	14,079,899	13,952,342			14,079,899	13,952,342
Law, justice and public safety	1,539,288	1,567,730			1,539,288	1,567,730
Recreation and resources development	554,421	646,494			554,421	646,494
Regulation of business and professions	158,228	126,395			158,228	126,395
Transportation	1,062,091	1,038,914			1,062,091	1,038,914
Intergovernmental revenue sharing	844,628	851,535			844,628	851,535
Interest on long-term debt	71,933	62,119			71,933	62,119
Payments to fiduciary funds	22,386	58,453			22,386	58,453
Employment security			750,529	1,224,288	750,529	1,224,288
Insurance programs			544,250	540,746	544,250	540,746
Loan programs			1,577	1,757	1,577	1,757
Other			163	620	163	620
Total expenses	26,404,480	26,293,688	1,296,519	1,767,411	27,700,999	28,061,099
Increase in net position before contributions and transfers	1,037,309	1,018,203	246,480	304,869	1,283,789	1,323,072
Transfers	(4,256)	(4,655)	4,256	4,655		
Contributions to permanent funds	180	174			180	174
Increase (decrease) in net position	1,033,233	1,013,722	250,736	309,524	1,283,969	1,323,246
Net position, July 1	27,944,850	26,931,128	1,884,188	1,574,664	29,829,038	28,505,792
Net position, June 30	$ 28,978,083	$ 27,944,850	$ 2,134,924	$ 1,884,188	$ 31,113,007	$ 29,829,038

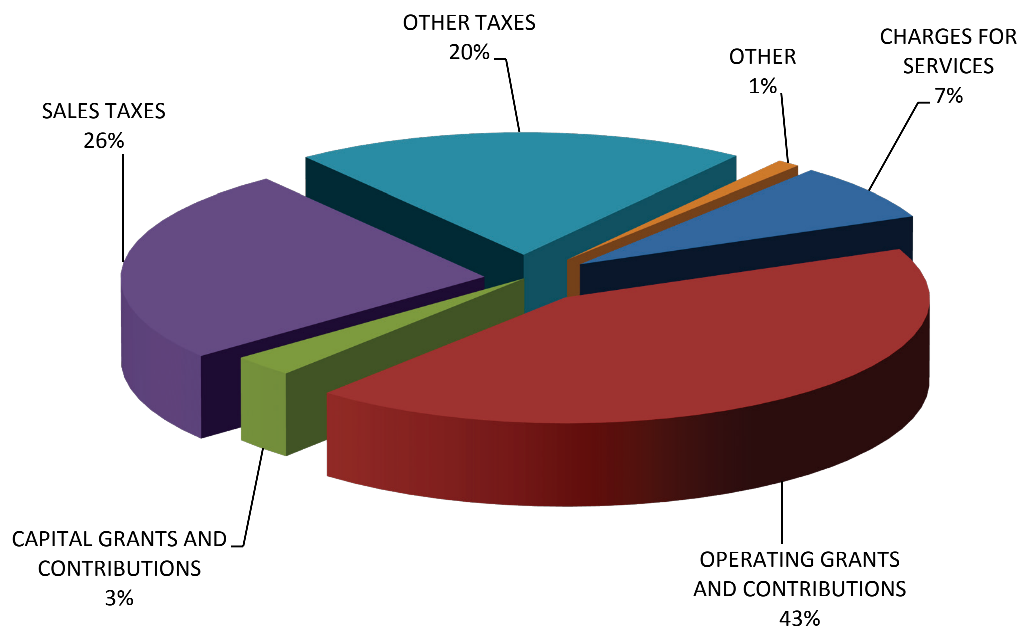
Governmental activities. Net position of the state's governmental activities increased by $1.03 billion (4 percent). This increase accounts for 80.5 percent of the total increase in net position of the primary government and is primarily the result of the use of funds to increase capital assets and a $394.5 million increase in tax revenues. The primary tax revenue increase was from an increase in sales and business tax collections.

See notes to the financial statements, note 3, on page 57 for an explanation on prior year net position adjustments.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net position of the state's business-type activities increased by $250.74 million (13 percent). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net position of $211.42 million. The Employment Security fund increase is due to a decrease in unemployment benefits paid combined with a smaller decrease in operating grants received. The Sewer Treatment Loan program increase is primarily due to low nonoperating expenses compared to the loan revenues received. The Nonmajor Enterprise funds' activity resulted in a $39.3 million increase in net position which in large part, is attributable to increases in premiums charged to participants' of the Teacher and Local Government Group Insurance funds. Expenses remained relatively unchanged in these two enterprise funds.

THE STATE'S FUNDS

At June 30, 2013, governmental funds reported a decrease in total revenues and in total expenditures. Details are in the following paragraphs. The revenue fluctuation account (rainy day fund) reported as unassigned fund balance has been increased to $356 million or 2 percent of the general fund's expenditures.

The general fund reported a $194.4 million increase in fund balance. Increases in franchise taxes ($64.3 million), excise taxes ($80.5 million) and insurance premium taxes ($45.2 million) contributed to this increase. These tax collections all increased primarily as a result of continued improvements in economic conditions. Furthermore, general fund expenditures decreased specifically in the Department of Military primarily the result of a decrease in disaster relief payments.

The education fund revenues decreased overall approximately by $64 million while expenditures increased slightly overall by $17.6 million. The decrease in revenue was primarily the result of expired American Recovery and Reinvestment Act funding. The decrease in revenue was offset by an increase in tax revenues of $64.5 million. The increase in state funded expenditures was offset by the decrease in federal funding. The increase in state funded expenditures was due to the standard growth in the Basic Education Program (BEP) and Pre-K program, the outcome formula growth in higher education, and the state's share of salary and insurance premium increases. The increase in these expenditures was funded with the increase in tax revenues, transfer from the general fund, and existing reserves.

Capital projects fund revenues and outlay expenditures increased by approximately $85.6 million and $32.7 million respectively primarily as a result of improving budget conditions.

Overall revenues and expenditures decreased $46.3 million and $90.3 million, respectively for the highway fund. Revenues and expenditures decreased primarily as a result of a decrease in federal funds. The excess of expenditures over revenues was funded with state reserves in the highway fund.

The total plan net position of the pension trust funds were $37.6 billion, an increase of approximately $2.7 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $3.3 billion.

General Fund Budgetary Highlights

A significant variance occurred in tax revenues in the general fund between budgeted final and actual amounts primarily because of the overcollection of franchise and excise taxes. Total tax collections were $332.5 million over estimates. Federal revenue collections were significantly below estimated levels due to the timing difference of the actual expenditures and appropriation of multi–year projects in Community Development programs, TennCare, the Department of Military, and the Department of Environment and Conservation. The Department of Human Services federal revenue was less than expected due to the reorganization of the rehabilitation program. A departmental assessment of planned initiatives in the Labor and Workforce Development department resulted in scope and approach modifications impacting the timing of expenditures and receipt of associated federal funding. TennCare' s revenues were also below estimates due to a decline in pharmacy activities.

Actual expenditures in the Tenncare program, Labor and Workforce Development, Economic and Community Development and Human Services were significantly less than was projected in the final budget primarily due to unexpended reserved amounts and multi–year projects that were appropriated in the current year. Unspent allotments were non–lapsing and carried forward into the next fiscal year. Miscellaneous Appropriations were underspent due to various line items not being necessary such as deferred compensation, rent adjustments, and a severance benefits plan. Environment and Conservation expenditures were less than projected due to constraints imposed on spending caused by a reduction in the amount of fees collected. Human Services expenditures were also less than projected due to underspending in the Child Care Benefits, Vocational Rehabilitation and Disability Determination program. Military expenditures were less than projected due to fewer than expected reimbursement requests for disaster relief.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets at June 30, 2013, of $26.9 billion, net of $1.6 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government

(Expressed in Thousands)

	Governmental Activities	
	2013	2012
Land	$ 2,012,356	$ 1,939,324
Infrastructure	22,275,204	21,289,577
Construction in progress	819,029	1,253,337
Structures and improvements	2,484,288	2,299,712
Machinery and equipment	906,311	871,310
Software in development	27,397	56,631
Subtotal	28,524,585	27,709,891
Accumulated depreciation	(1,631,190)	(1,563,157)
Total	$ 26,893,395	$ 26,146,734

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

Capital assets, including those under construction, increased from fiscal year 2012 to 2013 by approximately 2.86 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $985.6 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $720.4 million and decreased (projects completed and capitalized) by $1.0 billion. Infrastructure right-of-way acreage increased the land classification by $72.5 million. The structures and improvements increase of $184.6 million consisted largely of the completion of a new prison facility in Bledsoe County for $168 million. The change in machinery and equipment of $35 million resulted primarily from an $18.1 million mobile equipment upgrade for the Department of Transportation. During fiscal year 2013, the state had several system projects in the application development stage, resulting in the capitalization of $26.85 million in new software development costs and there were $16.53 million in system projects that were placed in operation and are now classified as equipment. In addition, there were $28.1 million in canceled software development projects.

In accordance with generally accepted accounting principles, the state is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The state is responsible for approximately 14,000 miles of roadway and 8,306 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 121), indicated that bridges were rated at 8 points above the state's established condition level and roadways were 13 points above the state's benchmark level. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the 2012-2013 fiscal year reflects an $82.8 million increase from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $25 million for the continuance of the infrastructure development at the West TN Mega-site, $23.2 million for the new construction of a veterans' community living facility in Bradley County, and various upgrades to the state's veterans' cemeteries and state parks.

Debt Administration

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

Purpose	Unissued June 30, 2013
Highway	$ 984,000
Higher Education	452,288
Environment and Conservation	12,077
Economic and Community Development	43,757
General Government	474,106
Total	$ 1,966,228

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

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

	Governmental Activities	
	June 30, 2013	June 30, 2012
Bonds, net	$ 2,172,630	$ 2,193,809
Commercial Paper	215,146	197,770
Total	$ 2,387,776	$ 2,391,579

The state issued $140 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis, and to directly finance other capital projects. The state also issued $30.525 million of tax-exempt general obligation refunding bonds to provide for the advance refunding of $27.040 million of general obligation bonds. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The state has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 4H to the financial statements.

The state's bonds are rated AAA, Aaa, and AA+ by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2013, the state's annual debt service limit of $686.29 million was well above the debt service required $243.78 million, with a legal debt service margin of $442.51 million.

FACTORS THAT WILL AFFECT THE FUTURE

Governor Haslam's administration continues to focus its priorities to move Tennessee forward by creating jobs and economic development and improving education and workforce development.

Strategies developed and carried out in alignment with these priorities have resulted in attracting new corporate investment and have facilitated expansion and economic growth among existing Tennessee companies.

- Del Conca, the Italian ceramic floor tile manufacturer, will build a $70 million facility in Loudon County, creating 178 new jobs.

- J.M. Smucker, a leading marketer and manufacturer of food products, will convert its Memphis facility to a peanut butter manufacturing plant, investing $55 million and providing 125 jobs.

- ProNova, a medical sciences company, will locate its headquarters and research/commercialization laboratory in Alcoa investing $50 million and creating 525 new jobs. ProNova develops next-generation proton therapy technology to treat cancer.

- Eastman Chemical Company will invest $1.6 billion in its Kingsport site and add 300 new jobs over the next few years in safety and environmental projects.

- Jack Daniel Distillery, maker of its Tennessee Whiskey, will invest $103 million in additional stills and barrel warehouses while creating 94 new jobs in Lynchburg.

- Unilever, one of the world's leading suppliers of food, home and personal care products, will invest $108.7 million to expand its ice cream facility in Covington and provide 428 additional jobs.

- Hankook Tire Company, producer of superior quality and high performance radial tires, will invest $800 million in a state-of-the-art manufacturing facility and create 1,800 new jobs in Clarksville.

- Great Lakes Cheese Company will invest $100 million and create over 200 new jobs in Coffee County with a new manufacturing facility in Manchester.

Tennessee has also developed an international strategy focused on increasing the exports of Tennessee goods to certain markets around the world. Efforts will be led with new Export Development Offices in Mexico, the United Kingdom, and Germany serving the entire European Union, and China. During the last decade, Tennessee's total export volume has more than tripled. In 2011 alone, Tennessee businesses sold nearly $30 billion worth of products around the world, ranking Tennessee the 14th largest exporting state in the U.S.

Tennessee had the largest academic growth on the 2013 National Assessment of Educational Progress (NAEP) of any state, making Tennessee the fastest improving state in the nation. Commonly known as "the nation's report card," NAEP assesses students in fourth- and eighth-grade reading and math. All 50 states have taken NAEP since 2003, and the results are regarded across the country as the best way to compare educational outcomes across states. Tennessee students' combined growth on all four tests in 2013 exceeded the growth of all other states.

Governor Haslam has indicated his commitment to investing in Tennessee's educators to improve their salaries by improving teacher pay at twice the national average, according to National Education Association statistics, so far during his term.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Position
June 30, 2013

(Expressed in Thousands)

	Primary Government			Total
Assets	Governmental Activities	Business-Type Activities	Total	Component Units
Cash and cash equivalents	$ 4,061,136	$ 739,618	$ 4,800,754	$ 2,645,707
Cash on deposit with fiscal agent		774,776	774,776	
Investments	572,172		572,172	1,522,538
Receivables, net	2,476,767	205,000	2,681,767	617,201
Internal balances	(398)	398		
Due from primary government				30,961
Due from component units	112,732	9	112,741	
Inventories, at cost	28,319		28,319	9,226
Prepayments	334		334	18,029
Loans receivable, net	13,806	530,888	544,694	3,646,818
Net investment in capital leases	12,469		12,469	
Fair value of derivatives				357
Other				10,771
Restricted assets:				
Cash and cash equivalents	196,007		196,007	62,030
Investments				314,838
Receivables, net				6,883
Capital assets:				
Land, at cost	2,012,356		2,012,356	210,711
Infrastructure	22,275,204		22,275,204	460,394
Structures and improvements, at cost	2,484,288		2,484,288	4,707,530
Machinery and equipment, at cost	906,311		906,311	1,052,864
Less-accumulated depreciation	(1,631,190)		(1,631,190)	(2,719,997)
Construction in progress	819,029		819,029	770,010
Software in development	27,397		27,397	
Total assets	34,366,739	2,250,689	36,617,428	13,366,871
Deferred outflows of resources	73,266		73,266	31,117
Liabilities				
Accounts payable and other current liabilities	1,604,250	92,615	1,696,865	397,029
Due to primary government				112,741
Due to component units	30,961		30,961	
Unearned revenue	271,391	15,686	287,077	164,525
Payable from restricted assets	2,965		2,965	
Fair value of derivatives				66
Other				37,478
Noncurrent liabilities:				
Due within one year	280,551		280,551	430,747
Due in more than one year	3,271,804	7,464	3,279,268	5,471,000
Total liabilities	5,461,922	115,765	5,577,687	6,613,586
Deferred inflows of resources				988
Net position				
Net investment in capital assets	26,326,451		26,326,451	3,110,676
Restricted for:				
Education	435,477		435,477	
Health and social services	29,275		29,275	
Public protection and regulation	106,192		106,192	
Single family bond programs				472,570
Recreation and resource development	99,410		99,410	
Transportation	21,530		21,530	
Capital projects	193,042		193,042	92,682
Other purposes	5,836		5,836	595,813
Permanent:				
Expendable	161,892		161,892	138,973
Nonexpendable	140,687		140,687	877,349
Unrestricted	1,458,291	2,134,924	3,593,215	1,495,351
Total net position	$ 28,978,083	$ 2,134,924	$ 31,113,007	$ 6,783,414

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, 2013

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 987,800	$ 775,135	$ 60,855	$ 3,732
Education	7,083,806	85,722	1,521,223	
Health and social services	14,079,899	714,788	9,626,433	
Law, justice and public safety	1,539,288	139,622	141,955	5,662
Recreation and resources development	554,421	155,422	130,777	1,519
Regulation of business and professions	158,228	154,896	2,307	
Transportation	1,062,091	35,470	214,183	761,148
Intergovernmental revenue sharing	844,628			
Interest	71,933			
Payments to fiduciary fund	22,386			
Total governmental activities	26,404,480	2,061,055	11,697,733	772,061
Business-type activities:				
Employment security	750,529	632,408	316,409	
Insurance programs	544,250	569,982	37	
Loan programs	1,577	12,450	11,479	
Other	163	231	3	
Total business-type activities	1,296,519	1,215,071	327,928	
Total primary government	$ 27,700,999	$ 3,276,126	$ 12,025,661	$ 772,061
Component units:				
Higher education institutions	$ 4,407,805	$ 1,575,164	$ 1,588,099	$ 225,993
Loan programs	687,911	221,514	381,631	
Lottery program	1,280,458	1,280,299	35	
Other	76,930	60,211	3,246	
Total component units	$ 6,453,104	$ 3,137,188	$ 1,973,011	$ 225,993

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

Total general revenues, contributions, and transfers

Change in net position
Net position, July 1

Net position, June 30

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

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (148,078)		$ (148,078)	
(5,476,861)		(5,476,861)	
(3,738,678)		(3,738,678)	
(1,252,049)		(1,252,049)	
(266,703)		(266,703)	
(1,025)		(1,025)	
(51,290)		(51,290)	
(844,628)		(844,628)	
(71,933)		(71,933)	
(22,386)		(22,386)	
(11,873,631)		(11,873,631)	
	$ 198,288	198,288	
	25,769	25,769	
	22,352	22,352	
	71	71	
	246,480	246,480	
(11,873,631)	246,480	(11,627,151)	
			$ (1,018,549)
			(84,766)
			(124)
			(13,473)
			(1,116,912)
7,018,128		7,018,128	
834,956		834,956	
4,122,814		4,122,814	
648,193		648,193	
			1,162,893
			151,202
4,144		4,144	37,727
282,705		282,705	4,884
180		180	53,507
(4,256)	4,256		
12,906,864	4,256	12,911,120	1,410,213
1,033,233	250,736	1,283,969	293,301
27,944,850	1,884,188	29,829,038	6,490,113
$ 28,978,083	$ 2,134,924	$ 31,113,007	$ 6,783,414

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

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

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

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

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

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2013

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
Assets				
Cash and cash equivalents	$ 2,153,867	$ 12	$ 269,261	$ 523,439
Investments		316,046		
Receivables, net	1,552,045	503,133	321,897	16,825
Due from other funds	338,469			7,192
Due from component units	303	102,668		9,679
Inventories, at cost	13,088	87	9,805	
Prepayments	174	193		
Loans receivable, net	2,956		1,637	
Net investment in capital leases	516			
Restricted assets:				
Cash and cash equivalents				196,007
Total assets	$ 4,061,418	$ 922,139	$ 602,600	$ 753,142
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable and accruals	$ 1,204,780	$ 87,439	$ 111,843	$ 43,693
Due to other funds	8,760	297,944	858	431
Due to component units	15,351	4,833	54	8,321
Payable from restricted assets				2,965
Unearned revenue	222,928	5,395	3,184	2
Total liabilities	1,451,819	395,611	115,939	55,412
Deferred inflows of resources	97,130	63,132	145,467	
Fund balances:				
Nonspendable				
Inventories	13,088	87	9,805	
Long term portion of accounts receivable	8,261			
Permanent fund corpus				
Restricted	73,346	435,477	21,530	193,042
Committed	355,546	7,440	268,619	
Assigned	1,585,964	20,392	41,240	504,688
Unassigned	476,264			
Total fund balances	2,512,469	463,396	341,194	697,730
Total liabilities, deferred inflows of resources and fund balances	$ 4,061,418	$ 922,139	$ 602,600	$ 753,142

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

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

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

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

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

Net position of governmental activities

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 385,738	$ 3,332,317
256,126	572,172
24,822	2,418,722
	345,661
82	112,732
	22,980
	367
9,213	13,806
	516
	196,007
$ 675,981	$ 7,015,280
$ 50,862	$ 1,498,617
430	308,423
1,967	30,526
	2,965
8	231,517
53,267	2,072,048
9,974	315,703
	22,980
	8,261
140,687	140,687
340,268	1,063,663
122,805	754,410
8,980	2,161,264
	476,264
612,740	4,627,529
$ 675,981	
	26,393,856
	315,783
	803,778
	(3,162,863)
	$ 28,978,083

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
Revenues				
Taxes:				
Sales	$ 2,867,413	$ 4,033,007	$ 60,903	
Fuel	12,486		697,053	
Business	3,597,962	281,046	6,431	
Other	601,009	127		
Licenses, fines, fees, and permits	306,847	1,563	222,115	
Investment income	12,166	18		
Federal	9,901,314	1,156,110	984,200	$ 3,413
Departmental services	1,665,049	44,098	57,642	151,148
Other	283,140	338,120	5,823	1,690
Total revenues	19,247,386	5,854,089	2,034,167	156,251
Expenditures				
Current:				
General government	514,648			
Education		6,867,985		
Health and social services	14,668,483			
Law, justice and public safety	1,492,998			
Recreation and resources development	476,207			
Regulation of business and professions	88,516			
Transportation			1,864,946	
Intergovernmental revenue sharing	557,102		287,526	
Debt service:				
Principal				134,676
Interest				
Debt issuance costs				
Capital outlay				515,999
Total expenditures	17,797,954	6,867,985	2,152,472	650,675
Excess (deficiency) of revenues over (under) expenditures	1,449,432	(1,013,896)	(118,305)	(494,424)
Other financing sources (uses)				
Bonds and commercial paper issued				290,178
Refunding bond proceeds				
Refunding payment to escrow				
Bond premium				
Insurance claims recoveries	127			934
Proceeds from pledge of future revenues	22,183			
Transfers in	73,544	976,850	101,600	203,445
Transfers out	(1,350,876)		(1,806)	
Total other financing sources (uses)	(1,255,022)	976,850	99,794	494,557
Net change in fund balances	194,410	(37,046)	(18,511)	133
Fund balances, July 1	2,318,059	500,442	359,705	697,597
Fund balances, June 30	$ 2,512,469	$ 463,396	$ 341,194	$ 697,730

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

Nonmajor Governmental Funds	Total Governmental Funds
$ 49,709	$ 7,011,032
125,418	834,957
243,344	4,128,783
29,263	630,399
195,260	725,785
23,803	35,987
40,148	12,085,185
15,204	1,933,141
1,582	630,355
723,731	28,015,624
23,595	538,243
7,340	6,875,325
	14,668,483
6,254	1,499,252
178,961	655,168
76,157	164,673
	1,864,946
	844,628
140,182	274,858
76,041	76,041
2,659	2,659
	515,999
511,189	27,980,275
212,542	35,349
	290,178
25,713	25,713
(25,473)	(25,473)
11,672	11,672
	1,061
	22,183
6,421	1,361,860
(192,386)	(1,545,068)
(174,053)	142,126
38,489	177,475
574,251	4,450,054
$ 612,740	$ 4,627,529

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, 2013

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	177,475
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.		840,457
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		(40,845)
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(31,477)
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.		(60,222)
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.		147,845
Changes in net position of governmental activities	$	1,033,233

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

State of Tennessee
Statement of Net Position
Proprietary Funds
June 30, 2013

(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	$ 471,400	$ 4,214	$ 264,004	$ 739,618	$ 728,819
Cash on deposit with fiscal agent		774,776		774,776	
Receivables:					
Accounts receivable		194,345	4,509	198,854	17,671
Interest		6,146		6,146	
Loans receivable	22,246		13,345	35,591	
Due from other funds		398		398	120
Due from component units		9		9	
Inventories, at cost					5,339
Prepayments					140
Total current assets	493,646	979,888	281,858	1,755,392	752,089
Noncurrent assets:					
Due from other funds					116
Loans receivable	350,066		145,231	495,297	
Net investment in capital leases					11,873
Capital assets:					
Land, at cost					63,058
Structures and improvements, at cost					570,527
Machinery and equipment, at cost					368,354
Less-accumulated depreciation					(505,127)
Construction in progress					2,184
Software in development					543
Total capital assets, net of accumulated depreciation					499,539
Total noncurrent assets	350,066		145,231	495,297	511,528
Total assets	843,712	979,888	427,089	2,250,689	1,263,617
Deferred outflows of resources					9,367
Liabilities					
Current liabilities:					
Accounts payable and accruals	7	54,501	38,107	92,615	75,212
Due to other funds					7,341
Due to component units					435
Lease obligations payable					161
Bonds payable					19,217
Unearned revenue		15,452	234	15,686	39,874
Other					31,286
Total current liabilities	7	69,953	38,341	108,301	173,526
Noncurrent liabilities:					
Lease obligations payable					210
Commercial paper payable					40,591
Bonds payable, net					177,974
Other noncurrent liabilities	4,894		2,570	7,464	76,905
Total noncurrent liabilities	4,894		2,570	7,464	295,680
Total liabilities	4,901	69,953	40,911	115,765	469,206
Net position					
Net investment in capital assets					270,752
Unrestricted	838,811	909,935	386,178	2,134,924	533,026
Total net position	$ 838,811	$ 909,935	$ 386,178	$ 2,134,924	$ 803,778

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 Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

(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	$ 10,205		$ 2,532	$ 12,737	$ 501,153
Investment income	530		94	624	
Premiums		$ 632,408	569,926	1,202,334	703,856
Other					495
Total operating revenues	10,735	632,408	572,552	1,215,695	1,205,504
Operating expenses					
Personal services					76,171
Contractual services	1,130		25,969	27,099	257,677
Materials and supplies					120,217
Rentals and insurance					52,471
Depreciation and amortization					47,347
Benefits		750,529	510,611	1,261,140	648,379
Other			8,280	8,280	12,521
Total operating expenses	1,130	750,529	544,860	1,296,519	1,214,783
Operating income (loss)	9,605	(118,121)	27,692	(80,824)	(9,279)
Nonoperating revenues (expenses)					
Taxes					3
Operating grants	3,759	300,757	12,212	316,728	
Insurance claims recoveries					206
Interest income		15,652	46	15,698	471
Interest expense					(8,385)
Other	(3,854)		(1,268)	(5,122)	
Total nonoperating revenues (expenses)	(95)	316,409	10,990	327,304	(7,705)
Income (loss) before contributions and transfers	9,510	198,288	38,682	246,480	(16,984)
Capital contributions					8,263
Transfers in	3,622		1,872	5,494	156,566
Transfers out			(1,238)	(1,238)	
Change in net position	13,132	198,288	39,316	250,736	147,845
Net position, July 1	825,679	711,647	346,862	1,884,188	655,933
Net position, June 30	$ 838,811	$ 909,935	$ 386,178	$ 2,134,924	$ 803,778

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, 2013

(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		$ 658,377	$ 577,583	$ 1,235,960	$ 359,950
Receipts from interfund services provided		3,388		3,388	872,222
Payments to suppliers			(543,863)	(543,863)	(1,051,983)
Payments to employees			(3)	(3)	(75,092)
Payments for unemployment benefits		(774,414)		(774,414)	
Payments for interfund services used	$ (1,130)		(8,608)	(9,738)	(59,429)
Net cash from (used for) operating activities	(1,130)	(112,649)	25,109	(88,670)	45,668
Cash flows from noncapital financing activities					
Operating grants received	3,759	313,652	12,212	329,623	
Transfers in	3,622		1,872	5,494	156,566
Transfers out			(1,238)	(1,238)	
Tax revenues received					3
Net cash from (used for) noncapital financing activities	7,381	313,652	12,846	333,879	156,569
Cash flows from capital and related financing activities					
Purchase of capital assets					(29,955)
Bond and commercial paper proceeds					16,035
Proceeds from sale of capital assets					3,108
Insurance claims recoveries					206
Principal payments					(33,144)
Interest paid					(8,612)
Capital contributions					453
Net cash from (used for) capital and related financing activities					(51,909)
Cash flows from investing activities					
Loans issued and other disbursements to borrowers	(46,108)		(13,911)	(60,019)	
Collection of loan principal	107,106		17,951	125,057	
Interest received	10,742	15,652	2,306	28,700	471
Net cash from (used for) investing activities	71,740	15,652	6,346	93,738	471
Net increase (decrease) in cash and cash equivalents	77,991	216,655	44,301	338,947	150,799
Cash and cash equivalents, July 1	393,409	562,335	219,703	1,175,447	578,020
Cash and cash equivalents, June 30	$ 471,400	$ 778,990	$ 264,004	$ 1,514,394	$ 728,819

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

(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)	$ 9,605	$ (118,121)	$ 27,692	$ (80,824)	$ (9,279)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					47,347
Loss on disposal of capital assets					1,248
Bond issuance cost					88
Investment income			(2,305)	(2,305)	
Charges for services			(4)	(4)	
Interest income	(10,735)			(10,735)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		(3,884)	(1,148)	(5,032)	(1,080)
(Increase) decrease in due from other funds		(177)		(177)	286
(Increase) decrease in due from component units		1		1	(12)
(Increase) decrease in inventories					2,189
(Increase) decrease in prepaids					(43)
Increase (decrease) in accounts payable		7,611	784	8,395	(2,932)
Increase (decrease) in due to other funds		(2)		(2)	7,007
Increase (decrease) in due to component units		(38)		(38)	412
Increase (decrease) in unearned revenue		1,961	90	2,051	437
Total adjustments	(10,735)	5,472	(2,583)	(7,846)	54,947
Net cash provided by (used for) operating activities	$ (1,130)	$ (112,649)	$ 25,109	$ (88,670)	$ 45,668
Noncash investing, capital and financing activities					
Capital contributions					$ 8,263
Bond refunding proceeds					4,452
Bond refunding premium					316
Bond refunding proceeds to escrow					(4,768)
Capital asset disposed of by capital lease					11,352
Total noncash investing, capital and financing activities					$ 19,615

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 Position
Fiduciary Funds
June 30, 2013

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 733,930	$ 489,734	$ 59,490	$ 494,529
Receivables:				
Accounts				2,345
Taxes			40	393,516
Interest and dividends	149,221	3,140	173	
Due from sale of investments	669,192	54,274		
Derivative instruments	1,031,729			
Due from other governments	59,478			
Real estate income	1,391			
Investments sold			1,530	
Other	27,369		2	
Total receivables	1,938,380	57,414	1,745	395,861
Due from other funds	9,844			
Due from component units	8,910			
Investments, at fair value:				
Short-term securities	74,880	1,792,566		
Government bonds	8,379,278			
Corporate bonds	5,020,650			
Corporate stocks	21,038,198			
Mutual funds			91,074	
Derivative instruments	31			
Private equities	272,739			
Real estate	1,839,898			
Total investments	36,625,674	1,792,566	91,074	
Capital assets, at cost				
Software in development	10,320			
Machinery and equipment	12,040			
Accumulated depreciation	(473)			
Total assets	39,338,625	2,339,714	152,309	890,390
Liabilities				
Accounts payable and accruals	689,578		1,417	757,811
Due to other funds	40,311		64	
Derivative instruments	1,042,650			
Amounts held in custody for others				132,579
Total liabilities	1,772,539		1,481	890,390
Net position				
Restricted for:				
Pension benefits	37,564,905			
Employees' flexible benefits	1,181			
Pool participants		2,339,714		
Individuals, organizations and other governments			150,828	
Total net position	$ 37,566,086	$ 2,339,714	$ 150,828	$ -

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

State of Tennessee
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 275,742		
Employers	1,010,425		
Federal			$ 5,449
Private			6,633
State			22,386
Other			5,931
Total contributions	1,286,167		40,399
Investment income:			
Net increase in fair value of investments	2,334,384		4,448
Interest	467,177	$ 4,133	1,487
Dividends	494,757		
Real estate income	85,790		
Total investment income	3,382,108	4,133	5,935
Less: Investment expenses	37,519		
Administrative fee		1,139	
Net investment income	3,344,589	2,994	5,935
Capital share transactions:			
Shares sold		4,013,382	
Less: Shares redeemed		3,828,565	
Net capital share transactions		184,817	
Total additions	4,630,756	187,811	46,334
Deductions			
Annuity benefits	1,918,686		
Death benefits	5,057		
Other	7,217		44,351
Refunds	39,518		3,326
Administrative expenses	7,705		4,334
Depreciation expense	473		
Total deductions	1,978,656		52,011
Change in net position restricted for:			
Pension benefits	2,652,132		
Employees' flexible benefits	(32)		
Individuals, organizations and other governments		187,811	(5,677)
Net position, July 1	34,913,986	2,151,903	156,505
Net position, June 30	$ 37,566,086	$ 2,339,714	$ 150,828

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, 2013
INDEX FOR THE NOTES

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

A. Financial reporting entity

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

Discretely presented component units

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

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

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

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

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

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

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

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

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

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

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

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

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

Tennessee Housing Development Agency
1200 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

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

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

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

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

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

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

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The state reports the following major governmental funds:

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

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

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

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

The state reports the following major proprietary funds:

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

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

Additionally, the state reports the following fund types:

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

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the employee pension plan and a flexible benefits plan. Also included is *College Savings Plans*, that accounts for two separate education savings programs, Baccalaureate Education and TNStars, created under Section 529 of the Internal Revenue Code. *Children in State Custody* is a fund used to hold monies for the benefit of children in state custody. *Oak Ridge Monitoring* is a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage. *TNInvestco* is a fund that accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act. Three agency funds account for 1) funds distributed to local governments in the state, 2) refundable deposits and other receipts held in trust until the state is authorized to disburse the funds, and 3) premiums and claims expense of retired employees who participate in the state's healthcare plans.

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

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

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

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

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

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

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

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

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

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

3. Inventories and prepaid items—Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a special revenue fund) and Motor Vehicle Management, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2013, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect

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

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

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

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

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

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

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

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

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

6. Deferred outflows/inflows—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The primary government only has one item, deferred charge on refunding of debt, that qualifies for reporting in this category. The state reported in the governmental activities column of the government-wide statement of net position, $73 million as deferred outflows of resources for this purpose.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. The state has only one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($147.062 million), federal grants ($154.795 million), and other sources ($13.846 million) as deferred inflows of resources.

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

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

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

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

   Restricted net position consists of net position in which constraints are placed on the use of those net position either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.193 billion restricted by the primary government, $600.3 million was by enabling legislation.

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

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

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

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

    - *Committed* fund balance represents amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.

The General Assembly is the highest level of decision-making authority for the state that can, by adoption of legislation prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the legislation remains in place until the same action is taken (i.e., adoption of other legislation) to remove or revise the limitation.

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

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

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

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

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $3,162.863 million difference are as follows (expressed in thousands):

Bonds payable	$ 1,797,894
Plus: premium on bonds issued (to be amortized as interest expense)	177,544
Deferred outflows of resources for bond refundings (to be amortized as interest expense)	(63,899)
Commercial paper payable	174,555
Accrued interest payable	23,238
Capital leases payable	13,420
Claims and judgments	117,843
Compensated absences	234,201
Other postemployment benefits	542,558
Pollution remediation	40,916
Other long-term liabilities and accounts payable	104,593
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$ 3,162,863

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 position 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 $840.457 million difference are as follows (expressed in thousands):

Capital outlay	$ 919,491
Depreciation expense	(79,034)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 840,457

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 position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities." The details of this $31.477 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	$ 25,713
Issuance of general obligation bonds	131,644
Issuance of commercial paper	162,778
Bond premium capitalized	11,673
Debt reduced:	
General obligation bonds/payments to escrow	(25,473)
General obligation debt	(140,182)
Commercial paper redeemed	(134,676)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 31,477

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 $60.222 million difference are as follows (expressed in thousands):

Compensated absences	$ 3,525
Claims and judgments	(24,541)
Accrued interest	1,329
Capital lease	(755)
Other postemployment benefits	79,940
Pollution remediation	(20,261)
Pledged tax credits	(30,370)
Amortization of other charges	665
Loss on disposal of capital assets	56,614
Amortization of bond premiums	(13,703)
Amortization of deferred outflows of resources	7,779
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 60,222

NOTE 3 – **Accounting changes**

Prior period adjustments

Primary government

- Governmental activities—$13.751 million, a net decrease in net position, is a correction of an error resulting from the misstatement of revenues and expenditures in the previous year in the education fund (a special revenue fund).

- Governmental activities—approximately $26.515 million, a net decrease in net position, is a correction of an error resulting from the misstatement of expenditures relating to construction in progress for infrastructure in the previous years.

- Business-type activities—$3.376 million, net increase in net position, is a correction of an error resulting from the misstatement of revenues and expenditures in the previous year in the employment security fund (an enterprise fund).

Component units

- Tennessee Housing Development Agency recorded a prior period adjustment for a net decrease to net position in the amount of $14.417 million for the implementation of GASBS 65.

- Institutions of the Tennessee Board of Regents recorded prior period adjustments for a net increase to net position of $1.969 million for various misstatements in capital assets, revenues and expenses.

- Tennessee State School Bond Authority recorded a prior period adjustment for a net increase to net position in the amount of $2.431 million for the implementation of GASBS 65.

- Tennessee Local Development Authority recorded a prior period adjustment for a net decrease to net position in the amount of $99 thousand for the implementation of GASBS 65.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2013, (expressed in thousands):

	6/30/2012 Net Position As Reported	Adjustments to Net Position	6/30/2012 Net Position As Restated
Government-wide statements:			
Primary government			
Governmental activities	$ 27,985,116	$ (40,266)	$ 27,944,850
Business-type activities	1,880,812	3,376	1,884,188
Total primary government	$ 29,865,928	$ (36,890)	$ 29,829,038
Component units	$ 6,500,229	$ (10,116)	$ 6,490,113
Total component units	$ 6,500,229	$ (10,116)	$ 6,490,113

Fund reclassification

The state reclassified Records Management, previously reported in Warehousing and Distribution, an internal service fund, to a separate internal service fund.

During the fiscal year ended June 30, 2013, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASBS 60, *Accounting and Financial Reporting for Service Concession Arrangements*, establishes recognition, measurement, and disclosure requirements for service concession arrangements (SCAs). These arrangements are often referred to as public private partnerships or public public partnerships (PPP). The implementation of this standard did not have an impact on the financial statements.

GASBS 61, *The Financial Reporting Entity Omnibus,* is an amendment of GASB Statements 14 and 34. It modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (blending) in certain circumstances. In addition, it clarifies the reporting of equity interest in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The implementation of this standard required modification to the note disclosures.

GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The implementation of this standard required modification to the note disclosures.

GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. Concepts Statement 4, *Elements of Financial Statements,* also identifies net position as the residual of all other elements presented in a statement of financial position. GASBS 63 amends the net asset reporting requirements in GASB Statement 34, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of required components of residual measure and by renaming that measure as net position rather than net assets. The implementation of this standard replaces the statement of net assets with the statement of net position for accrual basis financial statements.

GASBS 65, *Items Previously Reported as Assets and Liabilities,* specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources or inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board. GASBS 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows or resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statements presentations. The implementation of this standard required the reclassification of financial statement elements that would have previously been reported as deferred revenue to deferred inflows of resources, financial statement elements that would have previously been reported as a deferred amount on refunding (a component of bonds payable) to deferred outflows of resources, and unamortized cost of issuances to expenses.

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NOTE 4 – **Detailed notes on all funds**

A. **Deposits and investments**

Primary Government

The state's cash includes deposits in demand accounts, petty cash and monies in cash management pools. State statutes provide that funds in the state treasury be invested by the State Treasurer. The State Pooled Investment Fund (SPIF) is established by *Tennessee Code Annotated*, Section 9-4-603 "for the purpose of receiving and investing any money in the custody of any officer or officers of the state unless prohibited by statute to be 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 College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); the Lottery for Education Fund, a part of the education fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

State statutes governing the COE Trust investments and the COE Trust's investment policy authorize the COE Trust to invest in certain Exchange Traded Funds (ETFs). By way of reference to the state statutes governing investments for the Tennessee Consolidated Retirement System, which in turn reference the state statutes governing investments for domestic life insurance companies, the COE Trust's investment policy and state statutes governing investments for the COE Trust require ETFs to be considered an equity interest in a business entity for the purpose of determining compliance with the policy and statutes' investment restrictions. As a result of this reference, a one percent (1%) limitation on the percentage of assets that can be invested in a single business entity exists for the COE Trust. While the COE Trust's investment policy provides for the investment in certain ETFs as an effective and efficient alternative to selecting individual securities for the equity portfolio, the COE Trust's investment in two ETFs did exceed the one percent (1%) limitation on the percentage of assets that can be invested in a single business entity, as referenced within the domestic life insurance statutes. As of June 30, 2013, 13 percent of COE's total assets were invested in one equity ETF (an ETF that replicates all the stocks in the MSCI EAFE index), and 40 percent of its total assets were invested in another equity ETF (an ETF that replicates all the stocks in the S&P 500 index). During the year ended June 30, 2013, the COE Trust's equity investments were within the overall limits on equity securities per statutory and policy provisions.

As of June 30, 2013, 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	AAA	AA
Debt Investments				
U.S. Government				
U.S. Government Treasuries, Notes, Bonds	$ 4,197,471	$ 4,197,471		
U.S. Government Inflation Indexed	2,823,288	2,823,288		
U.S. Government Agencies	4,610,896	2,312	$ 1,026,700	$ 2,059,541
U.S. Government Asset-Backed	67,787	67,787		
Municipal Bonds	156,823		2,746	101,336
Mortgage-Backed				
Government Pass-through	3,557,985	414,027		12,739
Corporate Pass-through	407,475		331,709	73,179
Collateralized Mortgage Obligations				
Corporate CMO's	160,649			
Corporate				
Corporate Bonds	3,986,120		71,158	91,400
Corporate Asset-Backed	591,055		379,107	97,914
Non-U.S. - Government/Sovereign	17,068			
Short Term				
Commercial Paper	1,484,317			
Agencies	116,334			
Total Debt Investments	22,177,268	$ 7,504,885	$ 1,811,420	$ 2,436,109
Other Investments				
Equity				
U.S.	13,386,439			
Non-U.S.	7,711,681			
Derivatives	31			
Real Estate	1,839,898			
Private Equities	272,739			
Commingled Funds				
U.S. Equity	147,557			
U.S. Fixed Income	51,807			
Non-U.S. Equity	35,349			
Money Market Funds (rated AAA)	13,872			
Money Market Funds (rated NR)	3,007			
Escrow Claim	3,656			
Total Other Investments	23,466,036			
Total Investments	$ 45,643,304			

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

Credit Quality Rating								
A	BBB	BB	B	CCC	CC	D	A1[2]	Not Rated[3]
								$ 1,522,343
$ 52,741								
								3,131,219
	$ 2,587							
544			$ 1,335	$ 104,360	$ 24,389	$ 30,021		
1,108,984	2,329,031	$ 337,466	17,648					30,433
43,287	40,635	15,276				7,837		6,999
	17,068							
							$ 1,484,317	
								116,334
$ 1,205,556	$ 2,389,321	$ 352,742	$ 18,983	$ 104,360	$ 24,389	$ 37,858	$ 1,484,317	$ 4,807,328

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

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, 2013, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the state. The SPIF's investment policy requires an AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net position in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2013, the state had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

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

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

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

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

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed fifty percent (50%) of the total book value of the pool on such date.

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

As of June 30, 2013, the combined SPIF, TCRS, COE Trust, College Savings Plans, Lottery for Education Fund, and other state funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

Issuer Organization	Fair Value	Percentage
Federal National Mortgage Association	$ 2,850,871	6.25

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed one hundred twenty (120) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days From July 1, 2012, to July 4, 2012, the weighted average maturity for the pool was greater than one hundred twenty (120) days, which was a violation of the investment policy. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates.

Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 7 to 270 days at June 30, 2013. Interest rates on certificates of deposit held at June 30, 2013, ranged from 0.20 percent to 0.30 percent. The days to maturity on U.S. Government Agencies ranged from 12 to 397 days at June 30, 2013. Interest rates on U.S. Government Agencies held at June 30, 2013 ranged from 0.02 percent to 5.25 percent. The days to maturity on commercial paper ranged from 3 to 45 days at June 30, 2013. Interest rates on commercial paper held at June 30, 2013, ranged from 0.015 percent to 0.15 percent.

As of June 30, 2013, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Months)
U.S. Government Agencies	$ 4,349,368	4.7
U.S. Government Treasuries	2,466,871	4.8
Commercial paper	839,978	0.4

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, 2013	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 201,383	8.64
Government Bonds	1,689,459	13.10
Government Inflation Indexed	2,796,073	8.64
Government Mortgage-Backed	3,485,765	4.62
Government Asset-Backed	56,918	5.48
Municipal Bonds	149,678	10.02
Corporate Fixed Income		
Collateralized Mortgage Obligations	160,649	1.73
Commercial Mortgage Backed	398,696	2.00
Asset Backed Securities	590,035	1.60
Corporate Bonds	3,807,694	8.16
Short Term		
Commercial Paper	644,339	0.03
Short Term Bills and Notes	116,334	0.63
Total Debt Investments	$ 14,097,023	

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

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2013	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 6,192	4.12
U.S. TIPS	27,214	8.37
U.S. Agencies	5,728	4.20
Government Mortgage-Backed	34,578	4.62
Government Asset-Backed	2,817	1.34
Municipal Bonds	4,358	7.11
Corporate Fixed Income		
Corporate Mortgage-Backed	2,711	1.02
Corporate Bonds	32,589	6.82
Corporate Asset-Backed	1,020	4.67
Total Debt Investments	$ 117,207	

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

LOTTERY FOR EDUCATION
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2013	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 54,417	4.49
Government Bonds	52,017	6.73
Government Mortgage-Backed	37,644	6.79
Government Asset-Backed	8,052	4.52
Municipal Bonds	2,787	9.41
Corporate Fixed Income		
Commercial Mortgage-Backed	6,068	7.08
Corporate Bonds	145,836	5.62
Total Debt Investments	$ 306,821	

The investment policy for College Savings Plans states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The average duration for the funds that BEST utilizes was 5.49 years at June 30, 2013. The weighted average maturity for the fixed income investment that TNStars utilizes was 7.44 years at June 30, 2013.

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 25 percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2013, was as follows (expressed in thousands):

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	$ 281,116		$ 280,971	$ 145
British Pound Sterling	917,788		916,850	938
Canadian Dollar	1,553,299	$ 1,467	1,548,611	3,221
Danish Krone	78,322		78,304	18
Euro Currency	1,179,772		1,154,129	25,643
Hong Kong Dollar	127,953		127,700	253
Japanese Yen	1,152,368		1,144,096	8,272
New Israeli Shekel	14,616		14,571	45
New Zealand Dollar	7,434		7,373	61
Norwegian Krone	45,473		45,351	122
Singapore Dollar	85,610		85,360	250
Swedish Krona	111,727		111,672	55
Swiss Franc	412,766		412,751	15
Total	$ 5,968,244	$ 1,467	$ 5,927,739	$ 39,038

5. Derivatives

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

The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2013, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into an agreement to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in the derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2013			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts						
		$ (29)		$ (29)	35,685	CHF
		23		23	21,212	DKK
		183		183	25,750	EUR
		286		286	8,212	GBP
		(12)		(12)	1,603	HKD
		(906)		(906)	14,899,846	JPY
		10		10	570	SGD
	Investment Income	$ (445)	Derivative Instruments Payable	$ (445)		
Future Contracts	Investment Income	$ (51,331)	Derivative Instruments Receivable	$ 6,153	$ 1,248,457	
Option Contracts	Investment Income	$ (221)	Derivative Instruments	$ 31	$ 31	
TBA Mortgage-Backed Securities	Investment Income	$ (10,476)	Derivative Instruments Payable	$ (10,476)	$ 473,078	

6. Custodial Credit Risk

Custodial Credit Risk—Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2013, the TCRS had uninsured and uncollateralized cash deposits of $39,038,045 in foreign currency held by our master custodian, Northern Trust, in Northern Trust's name. These deposits were used for investments pending settlement.

Component Units

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

1. University of Tennessee

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

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2013, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating US Treasury/ Agency	Aaa	Aa1
U.S. Treasuries	$ 3,481	$ 3,481		
U.S. Agencies	8,932		$ 8,932	
U.S. Agencies (in pool)	92,551		92,551	
Commercial Paper (in pool)	129,842			
Corporate Bonds	15,068			
Municipal Bonds	4,719			$ 942
Mutual Funds – Bonds	28,808		1,907	
Mortgages and Notes	15			
Money Market Mutual Fund	5,876			
Total	$ 289,292	$ 3,481	$ 103,390	$ 942

(Continued)

Rated Debt Instruments	Credit Quality Rating Aa2	Aa3	A1	A2
U.S. Treasuries				
U.S. Agencies				
U.S. Agencies (in pool)				
Commercial Paper (in pool)			$ 129,842	
Corporate Bonds	$ 488	$ 378	1,126	$ 1,202
Municipal Bonds	900	741	408	204
Mutual Funds – Bonds				1,544
Mortgages and Notes				
Money Market Mutual Fund				
Total	$ 1,388	$ 1,119	$ 131,376	$ 2,950

(Continued)

Rated Debt Instruments	Credit Quality Rating A3	Baa1	Baa2	Baa3
U.S. Treasuries				
U.S. Agencies				
U.S. Agencies (in pool)				
Commercial Paper (in pool)				
Corporate Bonds	$ 3,127	$ 3,947	$ 4,130	$ 159
Municipal Bonds	198			
Mutual Funds – Bonds			123	
Mortgages and Notes				
Money Market Mutual Fund				
Total	$ 3,325	$ 3,947	$ 4,253	$ 159

(Continued)

Rated Debt Instruments	Credit Quality Rating Ba1	Ba2	B2	Unrated
U.S. Treasuries				
U.S. Agencies				
U.S. Agencies (in pool)				
Commercial Paper (in pool)				
Corporate Bonds	$ 435			$ 76
Municipal Bonds				1,326
Mutual Funds – Bonds		$ 4,373	$ 74	20,787
Mortgages and Notes				15
Money Market Mutual Fund				5,876
Total	$ 435	$ 4,373	$ 74	$ 28,080

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2013, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
Investments					
U.S. Treasuries	$ 3,481	$ 86	$ 2,454	$ 245	$ 696
U.S. Agencies	8,932	1,162	5,810	888	1,072
U.S. Agencies (in pool)	92,551			1,263	91,288
Commercial Paper (in pool)	129,842	129,842			
Corporate Bonds	15,068	1,343	10,157	3,441	127
Municipal Bonds	4,719	114	2,870		1,735
Mortgages and Notes	15		15		
Bond Mutual Funds	28,808		2,007	22,763	4,038
	$ 283,416	$ 132,547	$ 23,313	$ 28,600	$ 98,956

University foundations' investments in the amount of $173.120 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 ninety limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2013, the estimated fair value of these assets is $410.764 million and total capital contributions, less returns of capital, equal $336.619 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents System

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2013, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

		Credit Quality Rating						
Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	AAA	AA	A	BBB	BB	Not Rated
U.S. Treasuries	$ 42,273	$ 42,273						
U. S. Agencies	69,621	2,667	$ 221	$ 66,648				$ 85
Commercial Paper	750				$ 750			
Corporate Bonds	16,966		263	3,399	10,256	$ 2,973		75
Mutual Funds—Bonds	27,371		11,249	1,067	2,510	1,601	$ 1,225	9,719
Mortgage Backed Securities	729			729				
Collateralized Mortgage Obligation	877		509	366				2
Money Market Mutual Fund	1,573							1,573
Total Debt Instruments	$ 160,160	$ 44,940	$ 12,242	$ 72,209	$ 13,516	$ 4,574	$ 1,225	$ 11,454

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

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2013, 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	$ 42,273	$ 19,710	$ 19,249	$ 3,290	$ 24
U.S. Agencies	69,621	4,976	54,913	6,866	2,866
Commercial Paper	750	750			
Corporate Bonds	16,966	4,956	10,244	1,666	100
Mutual Funds—Bonds	27,371	1,967	6,872	4,797	13,735
Mortgage Backed Securities	729			83	646
Collateralized Mortgage Obligation	877		85	444	348
Total Debt Investments	$ 158,587	$ 32,359	$ 91,363	$ 17,146	$ 17,719

The investments of certain foundations of the System are not included in these disclosures because these foundations utilize private-sector accounting standards. These foundations reported investments at fair value in the amount of $239.941 million.

3. Tennessee Housing Development Agency (THDA)

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

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

Credit Risk

The Agency's investments as of June 30, 2013, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

			Credit Quality Rating			
Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	AA+	A-1	AA-2	Not Rated
U.S. Agency Coupon	$ 183,618		$ 167,220	$	5,115	$ 11,283
U.S. Treasury Coupon	85,575	$ 85,575				
U.S. Treasury Discount	151,647			131,647		20,000
Total Debt Instruments	$ 420,840	$ 85,575	$ 167,220	$ 131,647	5,115	$ 31,283

Concentration of Credit Risk

At June 30, 2013, more than 5 percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 173,050	41.12
Federal National Mortgage Association	95,870	22.78
Federal Home Loan Mortgage Corp	42,892	10.19

Interest Rate Risk

As of June 30, 2013, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 183,618	2.660
U.S. Treasury Coupon	85,575	3.899
U.S. Agency Discount	151,647	0.051
Total	$ 420,840	

B. **Receivables**

Receivables at June 30, 2013, for the state's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Due From Other Governments	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:							
General	$ 165,338	$ 837,316	$ 665,519	$ 48,208	$ 1,716,381	$ (123,962)	$ 1,592,419
Education	1,245	510,662	31,746	3,324	546,977	(43,844)	503,133
Highway	304	69,527	237,479	14,597	321,907	(10)	321,897
Capital projects			16,825		16,825		16,825
Nonmajor governmental funds	1,011	11,957	8,891	3,552	25,411	(589)	24,822
Internal service funds	6,182		10,707	954	17,843	(172)	17,671
Total-governmental activities	$ 174,080	$ 1,429,462	$ 971,167	$ 70,635	$ 2,645,344	$ (168,577)	$ 2,476,767
Amounts not expected to be collected within one year		$ 124,913					$ 124,913
Business-type activities:							
Employment security	$ 183,831	$ 136,432	$ 1,385	$ 6,146	$ 327,794	$ (127,303)	$ 200,491
Nonmajor enterprise funds	4,592		29		4,621	(112)	4,509
Total-business-type activities	$ 188,423	$ 136,432	$ 1,414	$ 6,146	$ 332,415	$ (127,415)	$ 205,000

C. Capital assets

Capital asset activity for the year ended June 30, 2013, was as follows (expressed in thousands):

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,939,324	$ 82,233	$ (9,201)	$ 2,012,356
Infrastructure	21,289,577	1,000,991	(15,364)	22,275,204
Construction in progress	1,253,337	765,114	(1,199,422)	819,029
Software in development	56,631	15,444	(44,678)	27,397
Total capital assets, not being depreciated	24,538,869	1,863,782	(1,268,665)	25,133,986
Capital assets, being depreciated:				
Structures and improvements	2,299,712	200,208	(15,632)	2,484,288
Machinery and equipment	871,310	100,437	(65,436)	906,311
Total capital assets being depreciated	3,171,022	300,645	(81,068)	3,390,599
Less accumulated depreciation for:				
Structures and improvements	(995,022)	(51,530)	2,275	(1,044,277)
Machinery and equipment	(568,135)	(74,631)	55,853	(586,913)
Total accumulated depreciation	(1,563,157)	(126,161)	58,128	(1,631,190)
Total capital assets, being depreciated, net	1,607,865	174,484	(22,940)	1,759,409
Governmental activities capital assets, net	$ 26,146,734	$ 2,038,266	$ (1,291,605)	$ 26,893,395

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

Governmental activities:	
General government	$ 2,878
Education	1,208
Health and social services	15,232
Law, justice and public safety	28,346
Recreation and resource development	12,987
Regulation of business and professions	647
Transportation	17,736
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	47,127
Total depreciation expense – governmental activities	$ 126,161

Highway construction commitments — At June 30, 2013, the Department of Transportation had contractual commitments of approximately $762.7 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($653.9 million) and general obligation bond proceeds ($108.8 million).

Impairments— During the fiscal year ended, June 30, 2013, an impairment loss of $28.1 million is included in the general government and health and social services functions due to computer software development stoppages.

Discretely presented component units

Capital asset activity for the year ended June 30, 2013, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 184,780	$ 11,575	$ (1,661)	$ 194,694
Construction in progress	607,722	400,473	(238,185)	770,010
Total capital assets, not being depreciated	792,502	412,048	(239,846)	964,704
Capital assets, being depreciated:				
Infrastructure	429,462	29,862	(62)	459,262
Structures and improvements	4,321,683	249,931	(3,438)	4,568,176
Machinery and equipment	987,337	76,926	(43,651)	1,020,612
Total capital assets being depreciated	5,738,482	356,719	(47,151)	6,048,050
Less accumulated depreciation for:				
Infrastructure	(194,041)	(20,299)		(214,340)
Structures and improvements	(1,705,785)	(114,850)	1,380	(1,819,255)
Machinery and equipment	(590,184)	(86,715)	40,120	(636,779)
Total accumulated depreciation	(2,490,010)	(221,864)	41,500	(2,670,374)
Total capital assets, being depreciated, net	3,248,472	134,855	(5,651)	3,377,676
Total capital assets, net	$ 4,040,974	$ 546,903	$ (245,497)	$ 4,342,380

The University of Tennessee foundations, and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2013, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Land	$ 16,017
Total capital assets, not being depreciated	16,017
Capital assets, being depreciated:	
Infrastructure	1,132
Structures and improvements	139,354
Machinery and equipment	32,252
Total capital assets being depreciated	172,738
Less: total accumulated depreciation	(49,623)
Total capital assets, being depreciated, net	123,115
Total capital assets, net	$ 139,132

D. Interfund balances

1. Interfund balances at June 30, 2013, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

DUE FROM

		General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Fiduciary Funds	Total
D	General		$ 297,600		$ 431	$ 50	$ 13	$ 40,375	$ 338,469
U	Capital projects	$ 96				102	6,994		7,192
E	Employment security	398							398
T	Internal service								
O	funds	236							236
	Fiduciary funds	8,030	344	$ 858		278	334		9,844
	Total	$ 8,760	$ 297,944	$ 858	$ 431	$ 430	$ 7,341	$ 40,375	$ 356,139

Of the $297.6 million due to the general fund from the education fund, $297.498 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund.

2. COMPONENT UNITS PAYABLES

Component units accounts payable to the primary government at June 30, 2013, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

PAYABLE TO	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
PRIMARY GOVERNMENT:						
General		$ 9	$ 153	$ 29	$ 112	$ 303
Education		102,668				102,668
Capital projects			9,679			9,679
Employment security					9	9
Nonmajor governmental funds				82		82
Fiduciary funds	$ 71		4,354	4,377	108	8,910
Total	$ 71	$ 102,677	$ 14,186	$ 4,488	$ 229	$ 121,651

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2013, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

RECEIVABLE TO	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
COMPONENT UNITS:							
Tennessee Board of Regents	$ 5,284	$ 3,593	$ 24		$ 881	$ 23	$ 9,805
University of Tennessee	8,695	1,240	30	$ 8,321	1,086	412	19,784
Nonmajor component units	1,372						1,372
Total	$ 15,351	$ 4,833	$ 54	$ 8,321	$ 1,967	$ 435	$ 30,961

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2013, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds
General		$ 976,850		$ 183,280	$ 6,421
Highway	$ 1,806				
Nonmajor governmental funds	70,500		$ 101,600	20,165	
Nonmajor enterprise funds	1,238				
Totals	$ 73,544	$ 976,850	$ 101,600	$ 203,445	$ 6,421

(Continued) **Transfers In**

Transfers Out	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General	$ 3,622	$ 1,872	$ 156,445	$ 22,386	$ 1,350,876
Highway					1,806
Nonmajor governmental funds			121		192,386
Nonmajor enterprise funds					1,238
Totals	$ 3,622	$ 1,872	$ 156,566	$ 22,386	$ 1,546,306

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, 2013, the general fund transferred $1.4 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $976.9 million to subsidize the activities of the education fund, $183.2 million for capital outlay expenditures, $141.2 million to provide appropriations to internal service funds, $30.2 million to provide appropriations to finance various programs in other funds, $15.2 million for payments for interfund services used, and $4.1 million to provide for debt service payments.

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

F. **Lease obligations**

Operating lease obligations — The state has entered into various operating leases for land, buildings and equipment. Most leases contain termination clauses providing for cancellation after 30, 60 or 90 days' written notice to lessors. In addition, most leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business most of these leases will be replaced by similar leases. The state has also entered into various operating leases, which have non-cancelable lease terms. Below is a schedule of future minimum lease payments under these leases (expressed in thousands).

For the Year(s) Ended June 30	Noncancelable Operating Leases
2014	$ 15,041
2015	9,556
2016	4,191
2017	3,006
2018	2,177
2019-2021	2,826
Total minimum payments required	$ 36,797

Expenditures for rent under leases for the year ended June 30, 2013, amounted to $65.4 million.

Capital lease obligations – The state leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 14 years. The effective interest rates for these leases range from 4.48 percent to 5 percent. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

			Governmental Activities
Assets:			
Land			$ 350
Buildings	$	31,110	
Less: accumulated depreciation		4,141	26,969
			$ 27,319

At June 30, 2013, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2014	$ 1,562
2015	1,522
2016	1,431
2017	1,362
2018	1,364
2019-2023	6,848
2024-2027	4,439
Total	18,528
Less - interest	4,695
Less - executory costs	43
Present value of net minimum lease payments	$ 13,790

G. **Lease receivables**

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

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

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

Minimum future lease payments to be received as of June 30, 2013 (expressed in thousands):

Year Ended June 30	Total
2014	$ 992
2015	980
2016	705
2017	689
2018	673
2019-2023	2,739
2024-2028	1,916
2029-2033	1,703
Total minimum future lease payments	$ 10,397
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 10,397
Less: executory costs	(1,256)
Plus: unamortized loss on leases	4,282
Net investment in direct financing lease	$ 13,423

H. **Long-term liabilities**

1. General obligation bonds – Bonds Payable at June 30, 2013, are shown below (expressed in thousands):

Governmental activities:	Amount
General obligation bonds, .56% to 5.59%, due in generally decreasing amounts of principal and interest from $138.527 million in 2014 to $7.105 million in 2033	$ 1,068,393
General obligation refunding bonds, 1999 Series A, 4.63% to 5%, principal and interest due in amounts from $14.237 million in 2014 to $5.398 million in 2015	18,470
General obligation refunding bonds, 2004 Series C, 5% to 5.25%, principal and interest due in amounts from $32.997 million in 2014 to $11.388 million in 2018	103,095
General obligation refunding bonds, 2005 Series A, 5% to 5.25%, principal and interest due in amounts from $15.713 million in 2014 to $17.950 million in 2017	59,295
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $11.417 million in 2014 to $7.544 million in 2022	89,680
General obligation refunding bonds, 2009 Series D, 2.58% to 5.59%, principal and interest due in amounts from $3.816 million in 2014 to $3.889 million in 2029	41,887
General obligation refunding bonds, 2010 Series B, 3% to 4%, principal and interest due in amounts from $1.223 million in 2014 to $7.375 million in 2024	37,135
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $3.094 million in 2014 to $187.775 thousand in 2026	62,085
General obligation refunding bonds, 2011 Series C, .56% to 3.53%, principal and interest due in amounts from $1.231 million in 2014 to $1.175 million in 2024	19,240
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $19.598 million in 2014 to $7.334 million in 2028	449,070
General obligation refunding bonds, 2012 Series C, .40% to 1.60%, principal and interest due in amounts from $1.246 million in 2014 to $7.021 million in 2020	30,060
Total bonds outstanding	1,978,410
Plus unamortized bond premium	194,220
Total bonds payable	$ 2,172,630

General obligation bonds issued during the year ended June 30, 2013:

November 2012	Bond Series 2012B in the amount of $140 million Refunding Bond Series 2012C in the amount of $30.525 million

The November 2012, bond series 2012B, general obligation bond issuance in the amount of $140 million represents tax-exempt bonds maturing serially through 2032 at interest rates ranging from 2 percent to 5 percent. The bonds were sold at a premium of $12.385 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In November 2012, the state issued general obligation refunding bonds, series 2012C, in the amount of $30.525 million to provide for the advance refunding of $27.040 million of general obligation bonds issued in series 2005A. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net position.

The net carrying amount of the refunded bonds was $27.744 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.497 million. This difference, reported in the accompanying financial statements as deferred outflow of resources, is being charged to operations through 2020 using the straight line method. The state completed the refunding to reduce its total debt service payments over the next 8 years by $2.852 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $2.608 million.

Prior-year defeasance of debt

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2013, $579.310 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2013, is shown below (expressed in thousands).

	Commercial paper
General obligation commercial paper, interest rates ranging from .15% to .19% for tax exempt and .17% to .28% for taxable, varying maturities	$ 215,146

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

The state has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2015. At June 30, 2013, $215.146 million of commercial paper was outstanding ($187.747 million tax exempt and $27.399 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Pledged Revenues/Collateralized Borrowing

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

The total amount of proceeds received and remaining to be repaid through the use of the aforementioned tax credits is $104,419,233.97 as of June 30, 2013. For the current year, gross premium tax revenue totaled $668,066,761.06 and credits of $30,369,570.70 were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $571 million per year over the last five years.

General obligation bonds and commercial paper are secured by the full faith and credit of the state. In addition, pursuant to state statue, the state has pledged the annual proceeds of a portion of the gasoline tax, the annual proceeds of the petroleum products fee and franchise tax, and one half of the annual proceeds of the motor vehicle registration fee for the payment of outstanding bonds and obligations. Annual debt service for the current year and total available pledged revenues were $243.779 million and $1.029 billion respectively. For fiscal year 2013, 64.3 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds.

4. Debt service requirements to maturity – Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2013, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2014	$ 160,460	$ 82,639	$ 243,099
2015	152,025	75,376	227,401
2016	146,270	68,738	215,008
2017	140,415	62,385	202,800
2018	131,720	55,828	187,548
2019-2023	572,230	200,232	772,462
2024-2028	469,960	92,468	562,428
2029-2033	205,330	16,004	221,334
	$ 1,978,410	$ 653,670	$ 2,632,080

5. General obligation bonds authorized and unissued – A summary of general obligation bonds authorized and unissued at June 30, 2013, 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, 2012	Authorized	Canceled	Unissued June 30, 2013
Highway	$ 1,033,700	$ 81,000	$ 130,700	$ 984,000
Higher Education	319,049	159,040	25,801	452,288
Environment & Conservation	12,077			12,077
Economic & Community Development	61,267		17,510	43,757
General government	569,813	25,960	121,667	474,106
Totals	$ 1,995,906	$ 266,000	$ 295,678	$ 1,966,228

6. Changes in long-term liabilities – A summary of changes in long-term obligations for the year ended June 30, 2013, follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,391,579	$ 348,410	$ (352,213)	$ 2,387,776	$ 160,460
Capital leases	14,666		(876)	13,790	917
Compensated absences	237,110	149,743	(145,587)	241,266	85,598
Claims and judgments	172,314	39,184	(56,936)	154,562	31,286
Pollution remediation	130,171	4,390	(33,963)	100,598	2,290
Other post employment benefits	469,064	80,880		549,944	
Other long-term liabilities	112,606	22,183	(30,370)	104,419	
Governmental activities Long-term obligations	$ 3,527,510	$ 644,790	$ (619,945)	$ 3,552,355	$ 280,551
Business-type activities					
Deposits payable	$ 7,172	$ 1,171	$ (879)	$ 7,464	
Business-type activities Long-term obligations	$ 7,172	$ 1,171	$ (879)	$ 7,464	

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

I. Payables

Payables as of June 30, 2013, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 894,442	$ 79,460		$ 90,901	$ 148,007	$ 1,212,810
Education	63,585	3,847		1,630	18,721	87,783
Highway	82,788	7,061		22,852		112,701
Capital projects	43,636			57		43,693
Nonmajor governmental funds	16,836	2,125	$ 23,259	31,927	231	74,378
Internal service funds	67,921	2,678	2,286			72,885
Total—governmental activities	$ 1,169,208	$ 95,171	$ 25,545	$ 147,367	$ 166,959	$ 1,604,250
Business-type activities:						
Employment security	$ 16			$ 23,511	$ 30,974	$ 54,501
Sewer treatment loan			$ 7			7
Nonmajor enterprise funds	38,104		3			38,107
Total—business-type activities	$ 38,120		$ 10	$ 23,511	$ 30,974	$ 92,615

J. **Governmental fund balances**

Balances as of June 30, 2013, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General fund			
General government	$ 4,268	$ 30,921	$ 800,100
Health and social services	29,275	182,965	425,863
Law, justice and public safety	21,808	80,044	56,071
Recreation and resources development	9,625	25,561	303,703
Regulation of business and professions	8,370	36,055	227
Total general fund	$ 73,346	$ 355,546	$ 1,585,964
Education fund			
After school program	$ 26,135		
Lottery for education	399,650		
Energy efficient school initiative	9,170		
Other	522	$ 7,440	$ 20,392
Total education fund	$ 435,477	$ 7,440	$ 20,392
Highway fund			
State matching	$ 21,530		
Railway, aeronautics, and waterway program		$ 173,949	
State aid		93,452	
Future highway projects			$ 32,703
Railroad inspection		1,218	
Other			8,537
Total highway fund	$ 21,530	$ 268,619	$ 41,240
Capital projects fund	$ 193,042		$ 504,688
Total capital projects fund	$ 193,042		$ 504,688
Nonmajor governmental funds			
Debt service		$ 16,200	$ 8,980
General government	$ 1,610	16,270	
Education	161,850		
Law, justice and public safety	2,849	3,556	
Recreation and resources development	100,582	83,594	
Regulation of business and professions	73,377	3,185	
Total nonmajor governmental funds	$ 340,268	$ 122,805	$ 8,980

Budget stabilization accounts

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

(a) General fund's Reserve for Revenue Fluctuations

In accordance with *Tennessee Code Annotated*, 9-4-211, the state established a reserve account in the general fund known as the "Reserve for Revenue Fluctuations." Beginning in fiscal year 1999, at least 10 percent of the estimated growth in state tax revenues to be allocated to the general and education funds must be allocated to this account. Once the amount equals 5 percent of the estimated state tax revenues allocated to the general fund and education fund, the following must be allocated to the account:

The lesser of:

(1) At least 10 percent of the estimated growth in state tax revenues to be allocated to the general fund and education fund.
(2) An amount to maintain the account at five percent (5%) of the estimated tax revenues allocated to the general fund and education fund.

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The general fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $356 million as of June 30, 2013.

(b) Education fund's General Shortfall Reserve Account

In accordance with *Tennessee Code Annotated*, 4-51-111, the state transferred one hundred million dollars ($100,000,000) from the Lottery for Education Account to the General Shortfall Reserve Account. The resources of this account may be used when the net lottery proceeds are not sufficient to meet the amount appropriated for educational programs and other purposes consistent with Article XI, Section 5 of the Constitution of Tennessee. In the event this account is drawn upon in any fiscal year, the account shall be brought back to its prior level in subsequent fiscal years. In addition to the one hundred million dollars mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below one hundred million dollars ($100,000,000). As of June 30, 2013, this account has a balance of $100 million and is reported as restricted fund balance in the education fund.

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

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2013 (expressed in thousands):

Condensed Statement of Net Position
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,503,096	$ 159,008	$ 1,766,768	$ 2,079,337	$ 655,726	$ 7,163,935
Due from primary government			9,805	19,784	1,372	30,961
Due from other component units					1,306,712	1,306,712
Restricted assets	223,996	2,803			156,952	383,751
Capital assets, net	194	990	2,314,230	2,140,288	25,810	4,481,512
Total assets	2,727,286	162,801	4,090,803	4,239,409	2,146,572	13,366,871
Deferred outflows	2,287		2,884	6,449	19,497	31,117
Liabilities						
Accounts payable and other current liabilities	43,442	54,120	195,727	263,465	32,928	589,682
Due to primary government	71	102,677	14,186	4,488	229	121,651
Due to other component units			673,696	633,016		1,306,712
Long-term liabilities	2,159,593	5,997	191,279	339,543	1,899,129	4,595,541
Total liabilities	2,203,106	162,794	1,074,888	1,240,512	1,932,286	6,613,586
Deferred inflows			631		357	988
Net position						
Net investment in capital assets	194	990	1,645,296	1,443,475	20,721	3,110,676
Restricted	489,105	7	563,907	1,095,370	28,998	2,177,387
Unrestricted	37,168	(990)	808,965	466,501	183,707	1,495,351
Total net position	$ 526,467	$ 7	$ 3,018,168	$ 3,005,346	$ 233,426	$ 6,783,414

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	$ 377,349	$ 127,023	$ 233,245	
Tennessee Education Lottery	1,280,458	1,280,299	35	
Board of Regents	2,439,901	941,109	718,162	$ 150,286
University of Tennessee	1,967,904	634,055	869,937	75,707
Nonmajor component units	387,492	154,702	151,632	
Total	$ 6,453,104	$ 3,137,188	$ 1,973,011	$ 225,993

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

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

State appropriations from the education fund in the amount of $634.9 million were made to the TBR and $448.0 million to the UT.

Capital project expenditures in the amount of $171 million were made for the TBR and $68 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 $82 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $322 million for the state's Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Position					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ (17,081)					$ (17,081)
	$ (124)				(124)
		$ (630,344)			(630,344)
			$ (388,205)		(388,205)
				$ (81,158)	(81,158)
(17,081)	(124)	(630,344)	(388,205)	(81,158)	(1,116,912)
		634,595	448,259	80,039	1,162,893
		139,082	1,763	10,357	151,202
47	118	4,476	32,876	210	37,727
		4,884			4,884
47	118	783,037	482,898	90,606	1,356,706
		21,974	31,533		53,507
(17,034)	(6)	174,667	126,226	9,448	293,301
543,501	13	2,843,501	2,879,120	223,978	6,490,113
$ 526,467	$ 7	$ 3,018,168	$ 3,005,346	$ 233,426	$ 6,783,414

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, 2013, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 25,076	$ 648,393
University of Tennessee	26,603	606,134
Total	$ 51,679	$ 1,254,527

L. Major component units – long-term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable at June 30, 2013, is shown below (expressed in thousands):

Mortgage finance program revenue bonds, homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 6.13%, due in amounts of principal and interest ranging from $317.118 million in 2014 to $69.367 million in 2044	$ 2,116,905
Plus unamortized bond premium	20,119
Less unamortized bond discount	(218)
Total bonds payable	$ 2,136,806

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

Bond sales during the year ended June 30, 2013, included the following issues:

July 2012—Homeownership program bonds of $133.110 million
November 2012—Homeownership program bonds of $97.625 million

Current refundings

During the year ended June 30, 2013, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10.235 million, in the Homeownership Program in the amount of $199.355 million and in the Housing Finance Program in the amount of $31.315 million. The respective carrying values of the bonds were $10.235 million, $202.502 million and $31.515 million. This resulted in revenue to the Homeownership Program of $3.147 million and to the Housing Finance Program of $200.181 thousand.

On July 19, 2012, the agency issued $133,110,000 in Homeownership Program Bonds, Issue 2012-1. On September 1, 2012, the agency used $43,865,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $43,865,000 early redemption). The carrying amount of these bonds was $43,865,000. The refunding reduced the agency’s debt service by $10,700,210 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $6,206,292.

On November 15, 2012, the agency issued $97,625,000 in Homeownership Program Bonds, Issue 2012-2. On January 1, 2013, the agency used $22,625,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $22,625,000 early redemption). The carrying amount of these bonds was $22,625,000. The refunding reduced the agency’s debt service by $8,510,283 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,758,068.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2013, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2014	$ 238,985	$ 78,133	$ 317,118
2015	53,630	74,673	128,303
2016	52,575	73,392	125,967
2017	53,870	71,970	125,840
2018	55,030	70,361	125,391
2019-2023	230,070	325,553	555,623
2024-2028	302,590	273,929	576,519
2029-2033	228,440	214,564	443,004
2034-2038	289,200	166,610	455,810
2039-2043	544,490	58,617	603,107
2044	68,025	1,342	69,367
	$ 2,116,905	$ 1,409,144	$ 3,526,049

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

Tennessee Local Development Authority (TLDA)

Bonds Payable at June 30, 2013, is shown below (expressed in thousands):

Revenue bonds, 3.5% to 5%, due in generally decreasing amounts of principal and interest from $1.357 million in 2014 to $25 thousand in 2029	$ 6,585
Plus unamortized bond premium	197
Less unamortized bond discount	(14)
Total bonds payable	$ 6,768

The revenue bonds listed above are not obligations of the state. They are secured by pledges of resources from the facilities to which they relate and by certain other revenues, fees and assets of TLDA.
Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2013, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2014	$ 1,065	$ 292	$ 1,357
2015	910	244	1,154
2016	785	203	988
2017	775	166	941
2018	585	129	714
2019-2023	1,665	364	2,029
2024-2028	780	99	879
2029	20	5	25
	$ 6,585	$ 1,502	$ 8,087

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2013, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from $106.029 million in 2014 to $13.683 million in 2042	$ 1,601,480
Plus unamortized bond premium	74,613
Less unamortized bond discount	(30)
Total bonds payable	$ 1,676,063
Commercial paper, interest rates ranging from .10% to .22%, varying maturities	$ 209,429

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 August 1, 2012, the Authority issued three new series of bonds, 2012 Series A, B and C. The 2012 Series A tax-exempt bond proceeds in the amount of $208,295,000 were issued to redeem $129,859,517 of the Authority's tax-exempt commercial paper and $13,659,450 of the Authority's taxable commercial paper. The 2012 Series B taxable bond proceeds in the amount of $103,790,000 were issued to redeem $19,826,419 of the Authority's taxable commercial paper and to advance refund $26,455,000 of the 2004 Series C bonds and $19,595,000 of the 2005 Series B bonds. The 2012 Series C tax-exempt bond proceeds in the amount of $125,635,000 were issued to current refund $13,245,000 of the 1998 Series D bonds, $46,590,000 of the 2004 Series A bonds, $44,545,000 of the 2004 Series B bonds and to advance refund $33,625,000 of the 2006 Series A bonds. The balance of the proceeds of the 2012 Series A and B was used to pay for new construction projects, various costs of issuance and to fund the debt service reserve fund.

The 2012 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5,240,767. This amount is reported as a deferred outflow from resources and is being charged to operations through the year 2028. Proceeds from the refunding were placed an irrevocable refunding trust fund to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption the redemption price then due on the refunded bonds. The 2012 Series B refunding resulted in a reduction of total debt service payments of $5,505,925 over the next 16 years and an economic gain (difference between the present values of the old and new debt service payments) of $4,447,735.

The 2012 Series C refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6,233,558. This amount is reported as a deferred outflow from resources and is being charged to operations through the year 2034. Proceeds related to the advance refundings were placed in an irrevocable refunding trust fund to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption the redemption price then due on the refunded bonds. The 2012 Series C refunding resulted in a reduction of total debt service payments of $22,076,213 over the next 22 years and an economic gain (difference between the present values of the old and new debt service payments) of $18,956,995.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2013, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2014	$ 55,140	$ 50,889	$ 106,029
2015	64,000	48,892	112,892
2016	53,500	46,662	100,162
2017	54,545	44,361	98,906
2018	58,510	42,097	100,607
2019-2023	314,270	172,732	487,002
2024-2028	650,825	111,837	762,662
2029-2033	175,760	59,381	235,141
2034-2038	114,385	27,161	141,546
2039-2042	60,545	5,156	65,701
	$ 1,601,480	$ 609,168	$ 2,210,648

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, 2013, $180.668 million of tax-exempt and $28.761 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 percent. Interest rates vary ranging from .10 percent to .22 percent 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, including 45 days of accrued interest in the amount of $4.594 million, 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.

N. Component units – changes in long-term liabilities

A summary of changes in long-term obligations for the year ended June 30, 2013, follows (expressed in thousands).

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds and loans payable:					
University of Tennessee (UT) loans payable	$ 575,136	$ 322,761	$ (264,883)	$ 633,014	$ 26,603
Tennessee Board of Regents (TBR) loans payable	625,391	267,495	(209,076)	683,810	26,296
Tennessee Housing Development Agency (THDA) bonds payable	2,020,302	456,741	(340,237)	2,136,806	241,320
Nonmajor component units bonds and loans payable	1,706,110	603,172	(412,254)	1,897,028	56,566
Total revenue bonds and loans payable	$ 4,926,939	$ 1,650,169	$ (1,226,450)	$ 5,350,658	$ 350,785
UT compensated absences	79,316	44,543	(41,230)	82,629	41,230
UT other post employment benefits	76,507	11,189		87,696	
UT due to grantors, unearned revenue and annuities payable	67,132	3,380	(1,545)	68,967	
TBR compensated absences	58,847	39,047	(36,004)	61,890	16,066
TBR other post employment benefits	87,800	7,316		95,116	
TBR due to grantors, unearned revenue and other	26,282	1,104	(3,454)	23,932	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	3,731	1,610	(2,706)	2,635	172
THDA compensated absences	1,156	74		1,230	600
THDA other post employment benefits	1,157	146		1,303	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	3,033	2,473	(144)	5,362	352
TELC compensated absences	535	591	(596)	530	530
TELC unearned rent	262	58	(215)	105	105
Nonmajor component units compensated absences	1,263	412	(480)	1,195	685
Nonmajor component units other post employment benefits	808	98		906	
Component units long-term liabilities	$ 5,334,768	$ 1,762,210	$ (1,312,824)	$ 5,784,154	$ 410,525

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 $99.974 million ($2.601 million due within one year).

O. **Endowments – component units**

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2013, net appreciation of $124.237 million is available to be spent, of which $121.691 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, 2013, net appreciation of $14.736 million is available to be spent, of which $14.504 million is restricted to specific purposes.

NOTE 5 – **Other information**

A. **Risk management**

1. Teacher Group Insurance – The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the state. In accordance with *Tennessee Code Annotated* 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2013, included 126 local education agencies and one education cooperative, with 50,716 active teachers and support personnel enrolled in one of two health care options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO). The state does not retain any risk for losses by this fund.

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

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

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

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

	2013	2012
Unpaid claims at beginning of year	$ 30,109	$ 29,070
Incurred claims:		
Provision for insured events of the current year	432,586	414,752
Increase (decrease) in provision for insured events of prior years	(184)	2,939
Total Incurred Claims Expenses	432,402	417,691
Payments:		
Claims attributable to insured events of the current year	402,515	384,734
Claims attributable to insured events of prior years	29,871	31,918
Total payments	432,386	416,652
Total unpaid claims at end of the year	$ 30,125	$ 30,109

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, 2013, included 60 counties, 152 municipalities and 145 quasi-governmental organizations, with 12,217 active employees maintaining coverage through one of three options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the PPO limited plan. The state does not retain any risk for losses by this fund.

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

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

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

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

	2013	2012
Unpaid claims at beginning of year	$ 6,909	$ 6,919
Incurred claims:		
Provision for insured events of the current year	93,862	93,418
Increase (decrease) in provision for insured events of prior years	(405)	(302)
Total incurred claims expenses	93,457	93,116
Payments:		
Claims attributable to insured events of the current year	87,025	86,510
Claims attributable to insured events of prior years	6,457	6,616
Total payments	93,482	93,126
Total unpaid claims at end of the year	$ 6,884	$ 6,909

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

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

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $89,292,000 (discounted at one percent) at June 30, 2013 and $90,030,000 (discounted at 1.5 percent) at June 30, 2012. The accrued liability for incurred property losses was $7,111,133 at June 30, 2013 and $7,950,503 at June 30, 2012. The changes in the balances of the claims liabilities during fiscal years 2012 and 2013 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
2012-2013	$ 97,981	$ 30,572	$ (32,150)	$ 96,403
2011-2012	$ 103,728	$ 41,464	$ (47,211)	$ 97,981

The RMF held $108.5 million in cash at June 30, 2013 and $97.2 million in cash at June 30, 2012 that is designated for payment of these claims.

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

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

Tennessee Code Annotated 8-27-201 all state employees and certain former employees with work related injuries are eligible to participate. Fund members at June 30, 2013, included 62,684 active employees enrolled in one of two options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO).

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

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

	2013	2012
Unpaid claims at beginning of year	$ 42,719	$ 45,911
Incurred claims:		
Provision for insured events of the current year	629,111	610,942
Increase (decrease) in provision for insured events of prior years	(1,295)	(810)
Total incurred claims expenses	627,816	610,132
Payments:		
Claims attributable to insured events of the current year	587,933	568,226
Claims attributable to insured events of prior years	41,369	45,098
Total payments	629,302	613,324
Total unpaid claims at end of the year	$ 41,233	$ 42,719

5. CoverTN – The CoverTN program was established in 2006 to provide an affordable, basic health care option to small businesses and the working uninsured. In accordance with *Tennessee Code Annotated* 56-7-3001, the CoverTN program serves eligible uninsured Tennesseans and their spouses, who work for qualifying businesses, or who are self-employed or work but do not have insurance. There are no deductibles for CoverTN and members pay reasonable co-pays and premiums. CoverTN is portable, allowing individuals to take coverage with them if they change jobs or experience periods of unemployment. As a result of reaching budgetary capacity, new enrollment was suspended November 2009 and remains closed to new members with the exception of the annual open enrollment and at the time of hire to already participating businesses. At June 30, 2013, enrollment was reported at 16,007 covered members.

On January 1, 2012, the CoverTN program moved from being a fully insured program to an administrative services only arrangement with Blue Cross Blue Shield of Tennessee. The CoverTN program provides health care financing based in part upon member premiums, and uses traditional insurance components, including co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. Individual shares of the monthly premium range from $37 to $109. Less than one percent of member's exhausted the maximum benefit limit of $25,000 in fiscal year 2013.

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

	2013	2012
Unpaid claims at beginning of year	$ 2,281	
Incurred claims:		
Provision for insured events of the current year	26,454	$ 15,735
Increase (decrease) in provision for insured events of prior years	(296)	
Total incurred claims expenses	26,158	15,735
Payments:		
Claims attributable to insured events of the current year	24,644	13,454
Claims attributable to insured events of prior years	1,973	
Total payments	26,617	13,454
Total unpaid claims at end of the year	$ 1,822	$ 2,281

6. CoverKids – The CoverKids program was launched in 2007 as part of the federal funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with *Tennessee Code Annotated* 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is place on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 63,129 at June 30, 2013

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

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

	2013	2012
Unpaid claims at beginning of year	$ 7,447	
Incurred claims:		
Provision for insured events of the current year	173,092	$ 56,443
Increase (decrease) in provision for insured events of prior years	1,762	
Total incurred claims expenses	174,854	56,443
Payments:		
Claims attributable to insured events of the current year	160,670	48,996
Claims attributable to insured events of prior years	9,181	
Total payments	169,851	48,996
Total unpaid claims at end of the year	$ 12,450	$ 7,447

7. Component unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state's uninsured. In accordance with *Tennessee Code Annotated* 56-7-2901, the target population is Tennessee residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2013, the plan had 2,717 participants. Three plans exist with deductibles of $1,000, $3,000, and $5,000. The benefit plans are based on PPO plans with an 80 percent in-network benefit and 60 percent 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 2013 assessment determination should be made by the AccessTN Board following the end of fiscal year 2013 at the September 10, 2013, board meeting. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

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

	2013	2012
Unpaid claims at beginning of year	$ 2,371	$ 3,017
Incurred claims:		
Provision for insured events of the current year	33,696	40,071
Increase (decrease) in provision for insured events of prior years	(356)	(579)
Total incurred claims expenses	33,340	39,492
Payments:		
Claims attributable to insured events of the current year	31,591	37,683
Claims attributable to insured events of prior years	1,974	2,455
Total payments	33,565	40,138
Total unpaid claims at end of the year	$ 2,146	$ 2,371

B. **Related organizations**

The state's officials are also responsible for appointing the members of the boards of other organizations, but the state's accountability for these organizations does not extend beyond making appointments. The state appoints the board members of the Beech River Watershed Development Authority, Carroll County Watershed Authority, Watkins Institute Commission, Tennessee Alliance for Fitness and Health, Tennessee Insurance Guaranty Association, Tennessee Life and Health Insurance Guaranty Association, Tennessee Sports Hall of Fame, Local Neighborhood Development Corporations, Tennessee Holocaust Commission, Inc., Tennessee Automobile Insurance Plan, and the Doe Mountain Recreation Authority.

C. **Jointly governed organizations**

The Pest Control Compact is comprised of 38 member states and Puerto Rico.

The Southern Growth Policies Board is comprised of 12 states. Tennessee paid $44,586 for 2013 membership dues.

The Southern Regional Education Compact has 16 member states. Tennessee paid $13,000 for 2013 membership dues.

The Compact for Education has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2013 membership dues.

The Interstate Mining Compact has 21 member states. Tennessee paid $18,174 for 2013 membership dues.

The Southern States Nuclear Compact has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2013 membership dues.

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

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

The Interstate Compact for Juveniles is comprised of 49 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $2,382 for 2013 membership dues.

The Interstate Compact for Supervision of Adult Offenders is comprised of all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands.

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

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):

	2012	2011
Current assets	$ 301	$ 268
Capital assets, less depreciation	355	366
Total assets	656	634
Total liabilities	289	308
Net position	367	326
Total liabilities and net position	$ 656	$ 634
Revenues	$ 338	$ 324
Expenses	297	261
Excess of revenues over expenses	41	63
Beginning net position	326	263
Ending net position	$ 367	$ 326

E. **Other postemployment benefits (OPEB)**

Employer

Plan description

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

Special funding situation

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

Funding policy

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

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

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Annual required contribution	$ 99,003	$ 24,072	$ 16,739	$ 12,204
Interest on the net OPEB obligation	13,612	1,587	2,153	1,410
Adjustment to the ARC	(14,449)	(1,685)	(2,285)	(1,497)
Annual OPEB cost	98,166	23,974	16,607	12,117
Amount of contribution	(41,438)	(17,947)	(5,541)	(5,058)
Increase in net OPEB obligation	56,728	6,027	11,066	7,059
Net OPEB obligation —beginning of year	340,296	39,688	53,825	35,255
Net OPEB obligation —end of year	$ 397,024	$ 45,715	$ 64,891	$ 42,314

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2011	Employee Group	$ 93,288	27%	$ 288,584
6/30/2012	Employee Group	97,048	47%	340,296
6/30/2013	Employee Group	98,166	42%	397,024
6/30/2011	Teacher Group (State Share)	22,545	77%	33,195
6/30/2012	Teacher Group (State Share)	23,725	73%	39,688
6/30/2013	Teacher Group (State Share)	23,974	75%	45,715
6/30/2011	Medicare Supp State	15,912	33%	41,977
6/30/2012	Medicare Supp State	16,381	28%	53,825
6/30/2013	Medicare Supp State	16,607	33%	64,891
6/30/2011	Medicare Supp Teachers	11,780	34%	28,622
6/30/2012	Medicare Supp Teachers	11,941	44%	35,255
6/30/2013	Medicare Supp Teachers	12,117	42%	42,314

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

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 50,494	$ 122
Interest on the net OPEB obligation	6,667	19
Adjustment to the ARC	(7,077)	(20)
Annual OPEB cost	50,084	121
Amount of contribution	(32,257)	(58)
Increase in net OPEB obligation	17,827	63
Net OPEB obligation —beginning of year	166,667	464
Net OPEB obligation —end of year	$ 184,494	$ 527

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2011	Employee Group	$ 53,192	55%	$ 150,510
6/30/2012	Employee Group	49,575	67%	166,667
6/30/2013	Employee Group	50,084	64%	184,494
6/30/2011	Local Government Group	215	26%	374
6/30/2012	Local Government Group	121	26%	464
6/30/2013	Local Government Group	121	48%	527

Funded status and funding progress

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

Primary government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Actuarial valuation date	7/1/2011	7/1/2011	7/1/2011	7/1/2011
Actuarial accrued liability (AAL)	$ 1,023,529	$ 216,600	$ 220,509	$ 163,305
Actuarial value of plan assets				
Unfunded actuarial accrued liablility (UAAL)	$ 1,023,529	$ 216,600	$ 220,509	$ 163,305
Actuarial Value of Assets as a % of the AAL	0%	0%	0%	0%
Covered payroll (active plan members)	$ 1,613,128	N/A	N/A	N/A
UAAL as a percentage of covered payroll	63%	N/A	N/A	N/A

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

Component units

	Employee Group Plan	Local Government Group Plan
Actuarial valuation date	7/1/2011	7/1/2011
Actuarial accrued liability (AAL)	$ 452,669	$ 363
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$ 452,669	$ 363
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	$ 1,445,364	$ 21,458
UAAL as a percentage of covered payroll	31%	2%

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

<u>Actuarial methods and assumptions</u>

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

In the July 1, 2011, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent initially for the Employee Group plan, and the Local Education plan and 6.50 percent for the Medicare Supplement plan. In the Employee Group and Local Education plans, the rate decreased to 8.75 percent in fiscal year 2013, and then will reduce by decrements to an ultimate rate of 5 percent in fiscal year 2021. In the Medicare Supplement plan, the rate decreased to 6.25 percent in fiscal year 2013, and then will reduce by decrements to an ultimate rate of 5 percent in fiscal year 2018. All rates include a 2.5 percent inflation assumption, which also represents the projected salary increase. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

Plan

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

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

1. Retiree health plan—State plan

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

      All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2013, there were 6,884 retirees and disability participants enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The state insurance committee establishes premiums annually.

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

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

2. Retiree health plan—LEA plan

   a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 126 local education agencies and one education cooperative participate in the plan.

      All retired teachers and disability participants of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2013, there were 5,660 retirees and disability participants enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

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

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

3. Retiree health plan—Local plan

    a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 60 counties, 152 municipalities, and 145 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, 2013, there were 128 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

    b. Summary of significant accounting policies—Premiums are recognized when due and benefits are 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 Local Government Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree health plan—Medicare Supplement

    a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2013, there were 26,776 retirees enrolled. The state insurance committee establishes premiums annually.

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

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

5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay-as-you-go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The state covered an average of 575 former employees during fiscal year 2012-2013, and the State Plan paid approximately $8.53 million in benefits to this group.

F. **Pension plans**

1. State Defined Benefit Plan - The departments, agencies, and higher education institutions of the State of Tennessee contribute on behalf of state employees and higher education employees 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). In addition, more than 137 Local Education Agencies (LEAs) contribute to the SETHEEPP on behalf of kindergarten through twelfth grade public school teachers. 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. The TCRS provides death, disability, and retirement benefits to plan members and beneficiaries. Members joining the plan after June 30, 1979 are vested with five years of service. Members joining the plan before July 1, 1979 are vested with four years of service. Benefits are determined by a formula using the member's high five year average salary and years of service. Members joining TCRS before July 1, 2014 are eligible to retire at age 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Beginning July 1, 2014, new members are enrolled in a hybrid plan, a combination of a defined benefit plan (DB) and a defined contribution plan (DC). Members of the hybrid plan may retire from the DB plan under the rule of ninety (any combination of age and service that equals ninety) or at age 65 with five years of service. A reduced benefit is available under the rule of eighty or at age 60 with five years of service. Retirees are eligible for cost-of-living adjustments (COLA) each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent, a COLA of one percent will be granted if the CPI increases between one-half percent and one percent, and a COLA equal to the CPI will be granted for CPI increases of more than one-percent. However, the maximum COLA is capped at three percent each year.

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

State and higher education employees joining TCRS before July 1, 2014 are noncontributory. State and higher education employees joining TCRS after June 30, 2014 contribute five percent of compensation to the DB plan. All teachers contribute five percent of compensation to the DB plan. The departments, agencies, and higher education institutions are required to contribute on behalf of state employees and higher education employees at the actuarially required rate, currently 15.03 percent. LEAs are required to contribute on behalf of teachers at the actuarially required rate, currently 8.88 percent. The employer contribution requirements are established and may be amended by the Board of Trustees of TCRS. The departments, agencies, and higher education institutions of the State of Tennessee made contributions to TCRS on behalf of state and higher education employees for the years ending June 30, 2013, 2012, and 2011 of $393.892 million, $385.435 million, and $383.365 million respectively, amounts equal to the required contributions each year. The LEAs made contributions to TCRS on behalf of teachers for the years ending June 30, 2013, 2012, and 2011 of $341.994 million, $345.880 million, and $339.833 million respectively, amounts equal to the required contributions each year.

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

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 503 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. Political subdivisions determine which plan options to offer to employees. Beginning July 1, 2012, various new plans are available that political subdivisions may implement for future hires. The new plans include expanded retirement eligibility conditions, modified formulas, and are optional to political subdivisions. The vast majority of members are still in the legacy plan that existed prior to July 1, 2012. Under the legacy plan, 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 is available on the TCRS website at http://treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

3. Defined contribution plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base

salary up to the social security wage base and 11 percent above the social security wage base. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $90.2 million for the year ended June 30, 2013. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary.

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

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, therefore, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2013, contributions totaling $146.3 million were made to the plans.

   Under the new hybrid plan provisions for state employees and teachers, employees hired on or after July 1, 2014 will contribute 2 percent of salary to the state's 401(k) plan with the employer contributing an additional 5 percent to the plan. Employees will vest immediately to both the employee and employer contributions.

G. **Investment pool**

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

A copy of the SPIF report can be obtained at http://treasury.tn.gov/ or by calling (615) 741-2956.

H. **Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75 percent of their principal amounts. At June 30, 2013, TSAC was guarantor of $3.068 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. **Contingencies**

1. Litigation

   The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes which could result in future programmatic costs will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $200 million.

2. Tobacco settlement

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement (MSA) includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at $4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, previously settled states and non-participating manufacturers. Some of these adjustments, such as the inflation adjustment, result in the State receiving higher payments. Other factors, such as volume adjustment and the market share adjustment can work to reduce annual payments. Third party lawsuits may also affect future payments. The net effect of potential adjustments, and therefore the amount that Tennessee will actually receive each year from this settlement, remains uncertain.

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

3. Pollution remediation obligations

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

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

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

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

During the fiscal year, the state spent $2 million for remediation activities and had an expected recovery of $17 thousand from responsible parties. At June 30, 2013, the state had a pollution remediation obligation of $100.6 million and an estimated potential recovery of $4.1 million from other responsible parties.

4. Federal grants

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

J. Subsequent events

Primary government

Subsequent to June 30, the state issued $15 million in general obligation commercial paper.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2013-2 in November 2013 in the amount of $121.3 million. The agency used mortgage prepayments and foreclosures proceeds to redeem $183.8 million of outstanding bonds in July 2013, $32.5 million in August 2013, $51.9 million in October 2013, and $43.8 million in December 2013.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $45 million in commercial paper. In November 2013, TSSBA issued 2013 Series A tax-exempt bonds in the amount of $149.1 million at a premium of $14 million. The 2013 Series A was used to redeem commercial paper and finance new construction projects.

REQUIRED SUPPLEMENTARY INFORMATION

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STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

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

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

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

For the Period Ended	Maintenance Rating Index
June 30, 2013	88.10
June 30, 2012	88.90
June 30, 2011	89.20

BRIDGES

Measurement Scale
The state maintains information on its 8,306 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 Funtionally Obsolete
June 30, 2012	83%
June 30, 2010	82%
June 30, 2008	81%

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
2013	$ 391,114	$ 441,582	$ 33,404	$ 42,175
2012	387,204	411,633	36,904	33,332
2011	376,965	482,271	36,904	11,044
2010	259,147	425,681	39,707	44,312
2009	374,003	405,453	40,217	46,815
2008	270,331	310,164	36,224	29,178

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

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	Employee Grp	$ 0	$ 1,104,073	$ 1,104,073	0%	$ 1,729,937	64%
7/1/2010	Employee Grp	0	977,935	977,935	0%	1,560,085	63%
7/1/2011	Employee Grp	0	1,023,529	1,023,529	0%	1,613,128	63%
7/1/2009	Teacher Grp	0	240,919	240,919	0%	N/A	N/A
7/1/2010	Teacher Grp	0	215,202	215,202	0%	N/A	N/A
7/1/2011	Teacher Grp	0	216,600	216,600	0%	N/A	N/A
7/1/2009	MedSupp- State	0	200,080	200,080	0%	N/A	N/A
7/1/2010	MedSupp- State	0	209,622	209,622	0%	N/A	N/A
7/1/2011	MedSupp- State	0	220,509	220,509	0%	N/A	N/A
7/1/2009	MedSupp- Teacher	0	140,464	140,464	0%	N/A	N/A
7/1/2010	MedSupp- Teacher	0	158,789	158,789	0%	N/A	N/A
7/1/2011	MedSupp- Teacher	0	163,305	163,305	0%	N/A	N/A

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2009	Employee Grp	$ 0	$ 577,744	$ 577,744	0%	$ 1,371,949	42%
7/1/2010	Employee Grp	0	518,083	518,083	0%	1,362,560	38%
7/1/2011	Employee Grp	0	452,669	452,669	0%	1,445,364	31%
7/1/2009	Local Govt	0	404	404	0%	20,798	2%
7/1/2010	Local Govt	0	2,166	2,166	0%	21,500	10%
7/1/2011	Local Govt	0	363	363	0%	21,458	2%

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

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

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

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, 2013

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 6,746,399	$ 6,746,399	$ 7,078,870	$ 332,471
Licenses, fines, fees, and permits	311,759	311,760	306,847	(4,913)
Interest on investments	4,010	4,010	12,166	8,156
Federal	10,226,967	10,510,197	9,901,314	(608,883)
Departmental services	1,508,805	1,736,640	1,665,049	(71,591)
Other	175,322	175,322	283,140	107,818
Total revenues	18,973,262	19,484,328	19,247,386	(236,942)
Expenditures:				
General government				
Legislative	77,707	78,169	39,234	38,935
Secretary of State	52,253	52,478	36,995	15,483
Comptroller	97,244	100,126	86,294	13,832
Treasurer	64,010	67,042	59,300	7,742
Governor	5,081	5,121	5,082	39
Commissions	81,093	82,489	67,625	14,864
Finance and Administration	170,447	158,245	91,802	66,443
General Services	39,566	41,250	28,622	12,628
Revenue	114,909	115,459	99,418	16,041
Other general government	1,447	1,447	276	1,171
Health and social services				
Veterans Affairs	6,501	7,236	5,392	1,844
Labor and Workforce Development	336,655	337,251	188,988	148,263
Mental Health	305,387	316,521	295,213	21,308
Intellectual Disabilities	220,326	229,654	203,592	26,062
Health	576,224	581,099	527,228	53,871
Tenncare	9,873,053	10,213,398	9,684,582	528,816
Human Services	3,184,892	3,261,169	3,085,917	175,252
Children in State Custody	641,300	722,778	677,571	45,207
Law, justice and public safety				
Judicial	315,457	318,854	301,741	17,113
Correction	855,417	874,035	835,075	38,960
Probation and Parole	7,177	7,356	6,772	584
Military	122,362	168,508	102,188	66,320
Bureau of Criminal Investigation	81,469	78,414	72,081	6,333
Safety	189,772	192,843	175,141	17,702
Recreation and resource development				
Agriculture	92,542	93,337	74,168	19,169
Tourist Development	20,519	20,769	18,452	2,317
Environment and Conservation	265,020	272,577	199,746	72,831
Economic and Community Development	569,705	635,805	183,841	451,964
Regulation of business and professions				
Commerce and Insurance	90,249	92,471	74,347	18,124
Financial Institutions	18,146	18,146	14,169	3,977
Intergovernmental revenue sharing	557,102	557,102	557,102	
Total expenditures	19,033,032	19,701,149	17,797,954	1,903,195
Excess (deficiency) of revenues over (under) expenditures	(59,770)	(216,821)	1,449,432	1,666,253
Other financing sources:				
Insurance claims recoveries		127	127	
Proceeds from pledge of future revenues		22,183	22,183	
Transfers in	73,544	73,544	73,544	
Transfers out	(1,026,559)	(1,350,876)	(1,350,876)	
Total other financing sources (uses)	(953,015)	(1,255,022)	(1,255,022)	
Net change in fund balance	(1,012,785)	(1,471,843)	194,410	1,666,253
Fund balances (budgetary basis), July 1	2,318,059	2,318,059	2,318,059	
Fund balances (budgetary basis), June 30	$ 1,305,274	$ 846,216	$ 2,512,469	$ 1,666,253

	Education Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 4,359,100	$ 4,359,100	$ 4,314,180	$ (44,920)
Licenses, fines, fees, and permits	1,800	1,800	1,563	(237)
Interest on investments			18	18
Federal	1,308,760	1,367,653	1,156,110	(211,543)
Departmental services	55,704	57,702	44,098	(13,604)
Other	317,200	317,200	338,120	20,920
Total revenues	6,042,564	6,103,455	5,854,089	(249,366)
Expenditures:				
Education	5,632,226	5,691,089	5,382,083	309,006
Higher education	1,492,354	1,495,444	1,485,902	9,542
Total expenditures	7,124,580	7,186,533	6,867,985	318,548
Excess (deficiency) of revenues over (under) expenditures	(1,082,016)	(1,083,078)	(1,013,896)	69,182
Other financing sources:				
Transfers in	976,600	976,850	976,850	
Total other financing sources (uses)	976,600	976,850	976,850	
Net change in fund balance	(105,416)	(106,228)	(37,046)	69,182
Fund balances (budgetary basis), July 1	500,442	500,442	500,442	
Fund balances (budgetary basis), June 30	$ 395,026	$ 394,214	$ 463,396	$ 69,182

	Highway Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes	$ 782,200	$ 782,200	$ 764,387	$ (17,813)
Licenses, fines, fees, and permits	226,690	226,690	222,115	(4,575)
Federal	1,111,600	3,881,270	984,200	(2,897,070)
Departmental services	42,214	136,598	57,642	(78,956)
Other	3,486	3,486	5,823	2,337
Total revenues	2,166,190	5,030,244	2,034,167	(2,996,077)
Expenditures:				
Transportation	2,304,683	5,168,737	1,864,946	3,303,791
Intergovernmental revenue sharing	294,500	294,500	287,526	6,974
Total expenditures	2,599,183	5,463,237	2,152,472	3,310,765
Excess (deficiency) of revenues over (under) expenditures	(432,993)	(432,993)	(118,305)	314,688
Other financing sources:				
Bond authorization	80,000			
Transfers in		101,600	101,600	
Transfers out	(1,806)	(1,806)	(1,806)	
Total other financing sources (uses)	78,194	99,794	99,794	
Net change in fund balance	(354,799)	(333,199)	(18,511)	314,688
Fund balances (budgetary basis), July 1	359,705	359,705	359,705	
Fund balances (budgetary basis), June 30	$ 4,906	$ 26,506	$ 341,194	$ 314,688

Budgetary process

Legislation requires the Governor to present his proposed budget to the General Assembly by February 1st. Annual budgets are adopted for the departments in the general fund and the special revenue funds (except Fraud and Economic Crime and Agricultural Promotion Boards), and for the debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the state's financial plan for the coming year.

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

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $341.1 million fund balance remaining in the highway fund, $331.3 million will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2013. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $141 million were required.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2013

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	$ 315,157	$ 20,803	$ 49,778	$ 385,738
Investments			256,126	256,126
Receivables:				
Taxes	5,965	5,390	13	11,368
Due from other governments	8,891			8,891
Interest			1,508	1,508
Other	1,011		2,044	3,055
Due from component units			82	82
Loans receivable		9,213		9,213
Total assets	$ 331,024	$ 35,406	$ 309,551	$ 675,981
Liabilities, deferred inflows of resources and fund balances				
Liabilities:				
Accounts payable and accruals	$ 45,454	$ 252	$ 5,156	$ 50,862
Due to other funds	430			430
Due to component units	151		1,816	1,967
Unearned revenue	8			8
Total liabilities	46,043	252	6,972	53,267
Deferred inflows of resources		9,974		9,974
Fund balances:				
Nonspendable:				
Permanent fund corpus			140,687	140,687
Restricted	178,376		161,892	340,268
Committed	106,605	16,200		122,805
Assigned		8,980		8,980
Total fund balances	284,981	25,180	302,579	612,740
Total liabilities, deferred inflows of resources and fund balances	$ 331,024	$ 35,406	$ 309,551	$ 675,981

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, 2013

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues				
Taxes:				
Sales		$ 49,709		$ 49,709
Fuel	$ 18,418	107,000		125,418
Business	553	242,791		243,344
Other	29,263			29,263
Licenses, fines, fees, and permits	189,920	2,700	$ 2,640	195,260
Investment income	371		23,432	23,803
Federal	40,148			40,148
Departmental services	13,736	1,468		15,204
Other	1,559		23	1,582
Total revenues	293,968	403,668	26,095	723,731
Expenditures				
Current:				
General government	23,595			23,595
Education			7,340	7,340
Law, justice and public safety	6,254			6,254
Recreation and resources development	178,913		48	178,961
Regulation of business and professions	76,157			76,157
Debt service:				
Bond principal retirement		140,182		140,182
Bond interest		75,719		75,719
Commercial paper interest		322		322
Debt issuance costs		2,659		2,659
Total expenditures	284,919	218,882	7,388	511,189
Excess (deficiency) of revenues over (under) expenditures	9,049	184,786	18,707	212,542
Other financing sources (uses)				
Refunding bond proceeds		25,713		25,713
Refunding payment to escrow		(25,473)		(25,473)
Bond premium		11,672		11,672
Transfers in	2,299	4,122		6,421
Transfers out	(401)	(191,985)		(192,386)
Total other financing sources (uses)	1,898	(175,951)		(174,053)
Net changes in fund balances	10,947	8,835	18,707	38,489
Fund balances, July 1	274,034	16,345	283,872	574,251
Fund balances, June 30	$ 284,981	$ 25,180	$ 302,579	$ 612,740

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State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 399,500	$ 399,500	
Licenses, fines, fees, and permits	2,700	2,700	
Other	1,468	1,468	
Total revenues	403,668	403,668	
Expenditures:			
Debt Service	245,025	218,882	$ 26,143
Total expenditures	245,025	218,882	26,143
Excess (deficiency) of revenues over (under) expenditures	158,643	184,786	26,143
Other financing sources (uses):			
Refunding bonds proceeds	240	240	
Bond premium	11,672	11,672	
Transfers in	4,122	4,122	
Transfers out	(191,985)	(191,985)	
Total other financing sources (uses)	(175,951)	(175,951)	
Net change in fund balance	(17,308)	8,835	26,143
Fund balances (budgetary basis), July 1	16,345	16,345	
Fund balances (budgetary basis), June 30	$ (963)	$ 25,180	$ 26,143

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2013

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection
Assets					
Cash and cash equivalents	$ 60,448	$ 9,535	$ 14,212	$ 33,005	$ 25,545
Receivables:					
Taxes	772	486	1,614		
Due from other governments	2,715	5,650		128	
Other	482		1		
Total assets	$ 64,417	$ 15,671	$ 15,827	$ 33,133	$ 25,545
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 3,275	$ 5,864	$ 2,349	$ 31,565	$ 101
Due to other funds	302	50	6		
Due to component units	150				
Unearned revenue					
Total liabilities	3,727	5,914	2,355	31,565	101
Fund balances:					
Restricted	49,955			1,568	
Committed	10,735	9,757	13,472		25,444
Total fund balances	60,690	9,757	13,472	1,568	25,444
Total liabilities and fund balances	$ 64,417	$ 15,671	$ 15,827	$ 33,133	$ 25,545

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
$ 8,221	$ 19,125	$ 2,503	$ 47,944	$ 76,777	$ 780	$ 2,640
	708		1,583	415	60	
			126			
		388				
$ 8,221	$ 19,833	$ 2,891	$ 49,653	$ 77,192	$ 840	$ 2,640
$ 137	$ 66	$ 34	$ 972	$ 627	$ 18	
17			23	3	1	
		1				
		7				
154	66	42	995	630	19	
		2,849	48,658	73,377		$ 1,969
8,067	19,767			3,185	821	671
8,067	19,767	2,849	48,658	76,562	821	2,640
$ 8,221	$ 19,833	$ 2,891	$ 49,653	$ 77,192	$ 840	$ 2,640

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2013

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund
Assets					
Cash and cash equivalents	$ 1,796	$ 1,973	$ 53	$ 1,397	$ 1,980
Receivables:					
Taxes	327				
Due from other governments					
Other			133		
Total assets	$ 2,123	$ 1,973	$ 186	$ 1,397	$ 1,980
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 224	$ 53	$ 2	$ 21	
Due to other funds		5		1	
Due to component units					
Unearned revenue					
Total liabilities	224	58	2	22	
Fund balances:					
Restricted					
Committed	1,899	1,915	184	1,375	$ 1,980
Total fund balances	1,899	1,915	184	1,375	1,980
Total liabilities and fund balances	$ 2,123	$ 1,973	$ 186	$ 1,397	$ 1,980

Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 4,488	$ 2,735	$ 315,157
		5,965
272		8,891
7		1,011
$ 4,767	$ 2,735	$ 331,024
$ 146		$ 45,454
22		430
		151
1		8
169		46,043
		178,376
4,598	$ 2,735	106,605
4,598	2,735	284,981
$ 4,767	$ 2,735	$ 331,024

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote	Environmental Protection
Revenues					
Taxes:					
Fuel	$ 530				
Business	553				
Other	8,645		$ 7,006		
Licenses, fines, fees, and permits	37,011	$ 9,946	5,022		$ 52,035
Interest on investments	81	14	17	$ 2	29
Federal	26,157	5,650		1,355	
Departmental services	8,273		103		
Other		6			
Total revenues	81,250	15,616	12,148	1,357	52,064
Expenditures					
General government		14,681		1,385	
Law, justice and public safety					
Recreation and resources development	82,252		9,047		41,665
Regulation of business and professions					
Total expenditures	82,252	14,681	9,047	1,385	41,665
Excess (deficiency) of revenues over (under) expenditures	(1,002)	935	3,101	(28)	10,399
Other financing sources (uses)					
Transfers in	1,299				
Transfers out	(121)				(280)
Total other financing sources (uses)	1,178				(280)
Net change in fund balances	176	935	3,101	(28)	10,119
Fund balances, July 1	60,514	8,822	10,371	1,596	15,325
Fund balances, June 30	$ 60,690	$ 9,757	$ 13,472	$ 1,568	$ 25,444

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education	Abandoned Land Program
			$ 17,888			
	$ 8,645					
		$ 5,728	4,290	$ 61,472	$ 718	$ 34
$ 11	22	3	64	118		4
1,753	1,538		2,705	458		
3,747	21	235	1,296			
1,542		11				
7,053	10,226	5,977	26,243	62,048	718	38
		4,584			677	
6,865	6,408		25,127			32
				76,157		
6,865	6,408	4,584	25,127	76,157	677	32
188	3,818	1,393	1,116	(14,109)	41	6
1,000						
1,000						
1,188	3,818	1,393	1,116	(14,109)	41	6
6,879	15,949	1,456	47,542	90,671	780	2,634
$ 8,067	$ 19,767	$ 2,849	$ 48,658	$ 76,562	$ 821	$ 2,640

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, 2013

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution	Salvage Title Enforcement	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund
Revenues					
Taxes:					
Fuel					
Business					
Other	$ 3,990		$ 977		
Licenses, fines, fees, and permits		$ 1,637		$ 938	$ 3,216
Interest on investments	1			2	3
Federal					
Departmental services			3	58	
Other					
Total revenues	3,991	1,637	980	998	3,219
Expenditures					
General government		1,346			
Law, justice and public safety					
Recreation and resources development	2,634		801	954	3,128
Regulation of business and professions					
Total expenditures	2,634	1,346	801	954	3,128
Excess (deficiency) of revenues over (under) expenditures	1,357	291	179	44	91
Other financing sources (uses)					
Transfers in					
Transfers out					
Total other financing sources (uses)					
Net change in fund balances	1,357	291	179	44	91
Fund balances, July 1	542	1,624	5	1,331	1,889
Fund balances, June 30	$ 1,899	$ 1,915	$ 184	$ 1,375	$ 1,980

Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
		$ 18,418
		553
		29,263
$ 6,824	$ 1,049	189,920
		371
532		40,148
		13,736
		1,559
7,356	1,049	293,968
6,183		23,595
	993	6,254
		178,913
		76,157
6,183	993	284,919
1,173	56	9,049
		2,299
		(401)
		1,898
1,173	56	10,947
3,425	2,679	274,034
$ 4,598	$ 2,735	$ 284,981

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, 2013

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 7,697	$ 9,728	$ 2,031
Licenses, fines, fees, and permits	44,303	37,011	(7,292)
Interest on investments		81	81
Federal	29,707	26,157	(3,550)
Departmental services	1,959	8,273	6,314
Other	7,207		(7,207)
Total revenues	90,873	81,250	(9,623)
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	102,286	82,252	20,034
Commerce and Insurance			
Revenue			
Total expenditures	102,286	82,252	20,034
Excess (deficiency) of revenues over (under) expenditures	(11,413)	(1,002)	10,411
Other financing sources (uses):			
Transfers in	1,299	1,299	
Transfers out	(121)	(121)	
Total other financing sources (uses)	1,178	1,178	
Net change in fund balance	(10,235)	176	10,411
Fund balances (budgetary basis), July 1	60,514	60,514	
Fund balances (budgetary basis), June 30	$ 50,279	$ 60,690	$ 10,411

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 6,725	$ 7,006	$ 281
$ 9,893	$ 9,946	$ 53	5,621	5,022	(599)
	14	14		17	17
6,200	5,650	(550)			
			1	103	102
7	6	(1)			
16,100	15,616	(484)	12,347	12,148	(199)
16,100	14,681	1,419			
			12,347	9,047	3,300
16,100	14,681	1,419	12,347	9,047	3,300
	935	935		3,101	3,101
	935	935		3,101	3,101
8,822	8,822		10,371	10,371	
$ 8,822	$ 9,757	$ 935	$ 10,371	$ 13,472	$ 3,101

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, 2013

(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		$ 2	$ 2
Federal	$ 26,500	1,355	(25,145)
Departmental services			
Other			
Total revenues	26,500	1,357	(25,143)
Expenditures:			
Judicial			
Secretary of State	27,500	1,385	26,115
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	27,500	1,385	26,115
Excess (deficiency) of revenues over (under) expenditures	(1,000)	(28)	972
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(1,000)	(28)	972
Fund balances (budgetary basis), July 1	1,596	1,596	
Fund balances (budgetary basis), June 30	$ 596	$ 1,568	$ 972

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 53,325	$ 52,035	$ (1,290)			
	29	29		$ 11	$ 11
			$ 1,990	1,753	(237)
			3,424	3,747	323
				1,542	1,542
53,325	52,064	(1,261)	5,414	7,053	1,639
52,729	41,665	11,064	11,658	6,865	4,793
52,729	41,665	11,064	11,658	6,865	4,793
596	10,399	9,803	(6,244)	188	6,432
			1,000	1,000	
(280)	(280)				
(280)	(280)		1,000	1,000	
316	10,119	9,803	(5,244)	1,188	6,432
15,325	15,325		6,879	6,879	
$ 15,641	$ 25,444	$ 9,803	$ 1,635	$ 8,067	$ 6,432

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, 2013

(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 6,906	$ 8,645	$ 1,739
Licenses, fines, fees, and permits			
Interest on investments		22	22
Federal	1,539	1,538	(1)
Departmental services		21	21
Other			
Total revenues	8,445	10,226	1,781
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation	8,446	6,408	2,038
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	8,446	6,408	2,038
Excess (deficiency) of revenues over (under) expenditures	(1)	3,818	3,819
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(1)	3,818	3,819
Fund balances (budgetary basis), July 1	15,949	15,949	
Fund balances (budgetary basis), June 30	$ 15,948	$ 19,767	$ 3,819

(continued on next page)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 18,000	$ 17,888	$ (112)
$ 4,384	$ 5,728	$ 1,344	4,600	4,290	(310)
	3	3		64	64
			2,077	2,705	628
	235	235		1,296	1,296
	11	11			
4,384	5,977	1,593	24,677	26,243	1,566
4,814	4,584	230			
			29,177	25,127	4,050
4,814	4,584	230	29,177	25,127	4,050
(430)	1,393	1,823	(4,500)	1,116	5,616
(430)	1,393	1,823	(4,500)	1,116	5,616
1,456	1,456		47,542	47,542	
$ 1,026	$ 2,849	$ 1,823	$ 43,042	$ 48,658	$ 5,616

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, 2013

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 63,140	$ 61,472	$ (1,668)
Interest on investments		118	118
Federal		458	458
Departmental services			
Other			
Total revenues	63,140	62,048	(1,092)
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance	77,693	76,157	1,536
Revenue			
Total expenditures	77,693	76,157	1,536
Excess (deficiency) of revenues over (under) expenditures	(14,553)	(14,109)	444
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(14,553)	(14,109)	444
Fund balances (budgetary basis), July 1	90,671	90,671	
Fund balances (budgetary basis), June 30	$ 76,118	$ 76,562	$ 444

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 786	$ 718	$ (68)	$ 500	$ 34	$ (466)
				4	4
786	718	(68)	500	38	(462)
921	677	244			
			500	32	468
921	677	244	500	32	468
(135)	41	176		6	6
(135)	41	176		6	6
780	780		2,634	2,634	
$ 645	$ 821	$ 176	$ 2,634	$ 2,640	$ 6

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, 2013

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes	$ 3,188	$ 3,990	$ 802
Licenses, fines, fees, and permits			
Interest on investments		1	1
Federal			
Departmental services			
Other			
Total revenues	3,188	3,991	803
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,188	2,634	554
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	3,188	2,634	554
Excess (deficiency) of revenues over (under) expenditures		1,357	1,357
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance		1,357	1,357
Fund balances (budgetary basis), July 1	542	542	
Fund balances (budgetary basis), June 30	$ 542	$ 1,899	$ 1,357

(continued on next page)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,522	$ 1,637	$ 115	$ 1,910	938	$ (972)
				2	2
				58	58
1,522	1,637	115	1,910	998	(912)
			1,910	954	956
1,522	1,346	176			
1,522	1,346	176	1,910	954	956
	291	291		44	44
	291	291		44	44
1,624	1,624		1,331	1,331	
$ 1,624	$ 1,915	$ 291	$ 1,331	$ 1,375	$ 44

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, 2013

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Revenues:			
Taxes			
Licenses, fines, fees, and permits	$ 2,718	$ 3,216	$ 498
Interest on investments		3	3
Federal			
Departmental services	120		(120)
Other			
Total revenues	2,838	3,219	381
Expenditures:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Safety			
Agriculture	3,244	3,128	116
Environment and Conservation			
Wildlife Resources			
Commerce and Insurance			
Revenue			
Total expenditures	3,244	3,128	116
Excess (deficiency) of revenues over (under) expenditures	(406)	91	497
Other financing sources (uses):			
Transfers in			
Transfers out			
Total other financing sources (uses)			
Net change in fund balance	(406)	91	497
Fund balances (budgetary basis), July 1	1,889	1,889	
Fund balances (budgetary basis), June 30	$ 1,483	$ 1,980	$ 497

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
			$ 42,516	$ 47,257	$ 4,741
$ 7,383	$ 6,824	$ (559)	200,085	188,871	(11,214)
				371	371
404	532	128	68,417	40,148	(28,269)
3		(3)	5,507	13,733	8,226
			7,214	1,559	(5,655)
7,790	7,356	(434)	323,739	291,939	(31,800)
			4,814	4,584	230
			27,500	1,385	26,115
			16,100	14,681	1,419
7,790	6,183	1,607	7,790	6,183	1,607
			921	677	244
			6,432	5,762	670
			116,767	90,098	26,669
			102,286	82,252	20,034
			77,693	76,157	1,536
			1,522	1,346	176
7,790	6,183	1,607	361,825	283,125	78,700
	1,173	1,173	(38,086)	8,814	46,900
			2,299	2,299	
			(401)	(401)	
			1,898	1,898	
	1,173	1,173	(36,188)	10,712	46,900
3,425	3,425		271,350	271,350	
$ 3,425	$ 4,598	$ 1,173	$ 235,162	$ 282,062	$ 46,900

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PERMANENT FUNDS

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

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

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2013

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Assets			
Cash and cash equivalents	$ 9,019	$ 40,759	$ 49,778
Investments	256,126		256,126
Receivables:			
Taxes		13	13
Interest	1,508		1,508
Other	2,044		2,044
Due from component units	82		82
Total assets	$ 268,779	$ 40,772	$ 309,551
Liabilities and fund balances			
Liabilities:			
Accounts payable and accruals	$ 5,156		$ 5,156
Due to component units	1,816		1,816
Total liabilities	6,972		6,972
Fund balances:			
Nonspendable			
Permanent fund corpus	99,957	$ 40,730	140,687
Restricted	161,850	42	161,892
Total fund balances	261,807	40,772	302,579
Total liabilities and fund balances	$ 268,779	$ 40,772	$ 309,551

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Chairs of Excellence	Other	Total Permanent Funds
Revenues			
Licenses, fines, fees and permits		$ 2,640	$ 2,640
Investment income	$ 23,380	52	23,432
Other	22	1	23
Total revenues	23,402	2,693	26,095
Expenditures			
Education	7,340		7,340
Recreation and resources development		48	48
Total expenditures	7,340	48	7,388
Excess of revenues over expenditures	16,062	2,645	18,707
Net change in fund balances	16,062	2,645	18,707
Fund balances, July 1	245,745	38,127	283,872
Fund balances, June 30	$ 261,807	$ 40,772	$ 302,579

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NONMAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

State of Tennessee
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2013

(Expressed in Thousands)

Assets	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Current assets:				
Cash and cash equivalents	$ 19,042	$ 141,939	$ 27,630	$ 62,856
Receivables:				
Accounts receivable		3,706	803	
Loans receivable	1,855			5,673
Total current assets	20,897	145,645	28,433	68,529
Noncurrent assets:				
Loans receivable	1,778			90,001
Total noncurrent assets	1,778			90,001
Total assets	22,675	145,645	28,433	158,530
Liabilities				
Current liabilities:				
Accounts payable and accruals		31,028	7,076	3
Unearned revenue		185	34	
Total current liabilities		31,213	7,110	3
Noncurrent liabilities:				
Other noncurrent liabilities				2,570
Total noncurrent liabilities				2,570
Total liabilities		31,213	7,110	2,573
Net position				
Unrestricted	22,675	114,432	21,323	155,957
Total net position	$ 22,675	$ 114,432	$ 21,323	$ 155,957

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 2,940	$ 7,394	$ 2,203	$ 264,004
			4,509
	5,817		13,345
2,940	13,211	2,203	281,858
	53,452		145,231
	53,452		145,231
2,940	66,663	2,203	427,089
			38,107
	15		234
	15		38,341
			2,570
			2,570
	15		40,911
2,940	66,648	2,203	386,178
$ 2,940	$ 66,648	$ 2,203	$ 386,178

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services	$ 4			$ 1,839
Investment income	25			69
Premiums		$ 463,954	$ 105,972	
Total operating revenues	29	463,954	105,972	1,908
Operating expenses				
Contractual services		20,496	4,866	387
Benefits		420,390	90,221	
Other		6,888	1,269	
Total operating expenses		447,774	96,356	387
Operating income (loss)	29	16,180	9,616	1,521
Nonoperating revenues (expenses)				
Operating grants				4,534
Interest income		32	1	
Other				(1,268)
Total nonoperating revenues (expenses)		32	1	3,266
Income (loss) before transfers	29	16,212	9,617	4,787
Transfers in				1,872
Transfers out	(1,238)			
Change in net position	(1,209)	16,212	9,617	6,659
Net position, July 1	23,884	98,220	11,706	149,298
Net position, June 30	$ 22,675	$ 114,432	$ 21,323	$ 155,957

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 56	$ 402	$ 231	$ 2,532
			94
			569,926
56	402	231	572,552
	60	160	25,969
			510,611
120		3	8,280
120	60	163	544,860
(64)	342	68	27,692
	7,678		12,212
4	6	3	46
			(1,268)
4	7,684	3	10,990
(60)	8,026	71	38,682
			1,872
			(1,238)
(60)	8,026	71	39,316
3,000	58,622	2,132	346,862
$ 2,940	$ 66,648	$ 2,203	$ 386,178

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Cash flows from operating activities				
Receipts from customers and users		$ 469,919	$ 107,347	
Payments to suppliers		(447,015)	(96,554)	
Payments to employees				
Payments for interfund services used		(6,892)	(1,269)	$ (387)
Net cash from (used for) operating activities		16,012	9,524	(387)
Cash flows from noncapital financing activities				
Operating grants received				4,534
Transfers in				1,872
Transfers out	$ (1,238)			
Net cash from (used for) noncapital financing activities	(1,238)			6,406
Cash flows from investing activities				
Loans issued and other disbursements to borrowers				(6,233)
Collection of loan principal	2,193			10,948
Interest received	29	32	1	1,912
Net cash from (used for) investing activities	2,222	32	1	6,627
Net increase (decrease) in cash and cash equivalents	984	16,044	9,525	12,646
Cash and cash equivalents, July 1	18,058	125,895	18,105	50,210
Cash and cash equivalents, June 30	$ 19,042	$ 141,939	$ 27,630	$ 62,856
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ 29	$ 16,180	$ 9,616	$ 1,521
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(25)			(1,908)
Charges for services	(4)			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable		(960)	(188)	
Increase (decrease) in accounts payable		672	126	
Increase (decrease) in unearned revenue		120	(30)	
Total adjustments	(29)	(168)	(92)	(1,908)
Net cash provided by (used for) operating activities	$	$ 16,012	$ 9,524	$ (387)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 56	$ 30	$ 231	$ 577,583
(120)		(174)	(543,863)
		(3)	(3)
	(60)		(8,608)
(64)	(30)	54	25,109
	7,678		12,212
			1,872
			(1,238)
	7,678		12,846
	(7,678)		(13,911)
	4,810		17,951
4	325	3	2,306
4	(2,543)	3	6,346
(60)	5,105	57	44,301
3,000	2,289	2,146	219,703
$ 2,940	$ 7,394	$ 2,203	$ 264,004
$ (64)	$ 342	$ 68	$ 27,692
	(372)		(2,305)
			(4)
			(1,148)
		(14)	784
			90
	(372)	(14)	(2,583)
$ (64)	$ (30)	$ 54	$ 25,109

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INTERNAL SERVICE FUNDS

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

Office for Information Resources—A division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

Risk Management—Administered by the Treasury Department, this fund is used to pay awards for claims made against the state and for damage to state owned property.

Motor Vehicle Management—A division of the Department of General Services, is responsible for administering a uniform program for the operation and maintenance of all state vehicles.

General Services Printing—A division of the Department of General Services, operates a printing facility to provide such services as general printing, typesetting and binding for state agencies located in Nashville. In addition, this division provides photographic services to the various state agencies.

Facilities Revolving Fund—Created in 1989, this fund provides the maintenance, repair and total housing needs of state government for all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund—Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. This fund primarily includes employees of the state, University of Tennessee, and the Tennessee Board of Regents System. Group life and accident insurance premiums, dental premiums, and long-term care premiums paid to private insurance companies are also recorded in this fund.

Postal Services—A division of the Department of General Services, is responsible for processing and distributing incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

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

Warehousing and Distribution—A division of the Department of General Services, is responsible for the purchasing of office supplies and the receipt and distribution of surplus property for all state government and quasi-governmental entities that opt to use this service.

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

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

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

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

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

State of Tennessee
Combining Statement of Net Position
Internal Service Funds
June 30, 2013

(Expressed in Thousands)

Assets	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Current assets:							
Cash and cash equivalents	$ 114,213	$ 108,503	$ 45,732	$ 310	$ 178,886	$ 231,109	$ 2,050
Accounts receivable	364	10,696	43	3	991	5,101	
Due from other funds	120						
Inventories, at cost	963			68			214
Prepayments							140
Total current assets	115,660	119,199	45,775	381	179,877	236,210	2,404
Noncurrent assets:							
Due from other funds	116						
Net investment in capital leases					11,873		
Capital assets:							
Land, at cost					62,843		
Structures and improvements, at cost					554,728		
Machinery and equipment, at cost	98,872		145,510	1,905	147		3,120
Less-accumulated depreciation	(72,755)		(90,754)	(1,287)	(272,159)		(2,465)
Construction in progress					2,184		
Software in development							
Total capital assets, net of accumulated depreciation	26,117		54,756	618	347,743		655
Total noncurrent assets	26,233		54,756	618	359,616		655
Total assets	141,893	119,199	100,531	999	539,493	236,210	3,059
Deferred outflows of resources					9,367		
Liabilities							
Current liabilities:							
Accounts payable	11,188	450	6,290	96	6,159	43,530	20
Accrued payroll and related deductions	2,105		100	145			102
Due to other funds	129	13	6	9	6,994		7
Due to component units	23	410					
Lease obligations payable					161		
Bonds payable					19,217		
Unearned revenue		8				39,866	
Other		31,286					
Total current liabilities	13,445	32,167	6,396	250	32,531	83,396	129
Noncurrent liabilities:							
Lease obligations payable					210		
Commercial paper payable					14,311		
Bonds payable, net					177,974		
Other noncurrent liabilities	4,797	65,117	387	537			633
Total noncurrent liabilities	4,797	65,117	387	537	192,495		633
Total liabilities	18,242	97,284	6,783	787	225,026	83,396	762
Net position							
Net investment in capital assets	26,117		54,756	618	145,236		655
Unrestricted	97,534	21,915	38,992	(406)	178,598	152,814	1,642
Total net position	$ 123,651	$ 21,915	$ 93,748	$ 212	$ 323,834	$ 152,814	$ 2,297

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 6,618	$ 772	$ 226	$ 16,148	$ 5,217	$ 12,046	$ 6,989	$ 728,819
	74			2	397		17,671
							120
	303				3,791		5,339
							140
6,618	1,149	226	16,148	5,219	16,234	6,989	752,089
							116
							11,873
					215		63,058
					15,799		570,527
	99		176	138	12,861	105,526	368,354
	(30)		(163)	(114)	(18,057)	(47,343)	(505,127)
							2,184
						543	543
	69		13	24	10,818	58,726	499,539
	69		13	24	10,818	58,726	511,528
6,618	1,218	226	16,161	5,243	27,052	65,715	1,263,617
							9,367
455	15	23	130	34	1,751	66	70,207
272	73	7	532	594	482	593	5,005
21	5		46	40	32	39	7,341
					2		435
							161
							19,217
							39,874
							31,286
748	93	30	708	668	2,267	698	173,526
							210
						26,280	40,591
							177,974
486	469	111	570	947	1,496	1,355	76,905
486	469	111	570	947	1,496	27,635	295,680
1,234	562	141	1,278	1,615	3,763	28,333	469,206
	69		13	24	10,818	32,446	270,752
5,384	587	85	14,870	3,604	12,471	4,936	533,026
$ 5,384	$ 656	$ 85	$ 14,883	$ 3,628	$ 23,289	$ 37,382	$ 803,778

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Operating revenues							
Charges for services	$ 145,031	$ 57,369	$ 41,146	$ 4,220	$ 133,889		$ 18,822
Premiums						$ 703,856	
Other						495	
Total operating revenues	145,031	57,369	41,146	4,220	133,889	704,351	18,822
Operating expenses							
Personal services	30,120		1,552	2,300			1,665
Contractual services	49,095	8,700	6,900	1,174	136,538	26,623	1,780
Materials and supplies	60,172		21,023	968	1,771		14,558
Rentals and insurance	32	5,357	3,374	70	42,347		12
Depreciation and amortization	11,520		10,395	122	12,871		294
Benefits		30,572				617,807	
Other	1,089			1	567	10,427	
Total operating expenses	152,028	44,629	43,244	4,635	194,094	654,857	18,309
Operating income (loss)	(6,997)	12,740	(2,098)	(415)	(60,205)	49,494	513
Nonoperating revenues (expenses)							
Taxes		3					
Insurance claims recoveries			206				
Interest income		107			196	168	
Interest expense					(8,150)		
Total nonoperating revenues (expenses)		110	206		(7,954)	168	
Income (loss) before contributions and transfers	(6,997)	12,850	(1,892)	(415)	(68,159)	49,662	513
Capital contributions			3,639		4,624		
Transfers in	3,200		4,168	309	141,235		
Change in net position	(3,797)	12,850	5,915	(106)	77,700	49,662	513
Net position, July 1	127,448	9,065	87,833	318	246,134	103,152	1,784
Net position, June 30	$ 123,651	$ 21,915	$ 93,748	$ 212	$ 323,834	$ 152,814	$ 2,297

Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 6,258	$ 3,580	$ 986	$ 13,081	$ 11,133	$ 38,569	$ 27,069	$ 501,153
							703,856
							495
6,258	3,580	986	13,081	11,133	38,569	27,069	1,205,504
4,426	1,295	357	10,407	8,894	8,185	6,970	76,171
3,392	1,035	390	2,566	2,127	9,713	7,644	257,677
474	741	3	337	102	20,064	4	120,217
16	3	1	23	9	854	373	52,471
	15		2	12	981	11,135	47,347
							648,379
11		1	99	15	303	8	12,521
8,319	3,089	752	13,434	11,159	40,100	26,134	1,214,783
(2,061)	491	234	(353)	(26)	(1,531)	935	(9,279)
							3
							206
							471
						(235)	(8,385)
						(235)	(7,705)
(2,061)	491	234	(353)	(26)	(1,531)	700	(16,984)
							8,263
7,654							156,566
5,593	491	234	(353)	(26)	(1,531)	700	147,845
(209)	165	(149)	15,236	3,654	24,820	36,682	655,933
$ 5,384	$ 656	$ 85	$ 14,883	$ 3,628	$ 23,289	$ 37,382	$ 803,778

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Postal Services
Cash flows from operating activities							
Receipts from customers and users	$ 2,618	$ 9,714	$ 436	$ 50	$ 4,158	$ 330,909	$ 138
Receipts from interfund services provided	142,574	47,654	40,460	4,171	129,726	400,411	18,684
Payments to suppliers	(99,162)	(40,131)	(22,978)	(1,468)	(163,667)	(672,301)	(15,332)
Payments to employees	(29,711)		(1,490)	(2,249)	(6)		(1,575)
Payments for interfund services used	(13,026)	(6,064)	(6,838)	(721)	(9,944)	(10,489)	(1,048)
Net cash from (used for) operating activities	3,293	11,173	9,590	(217)	(39,733)	48,530	867
Cash flows from noncapital financing activities							
Transfers in	3,200		4,168	309	141,235		
Tax revenues received		3					
Net cash from (used for) noncapital financing activities	3,200	3	4,168	309	141,235		
Cash flows from capital and related financing activities							
Purchase of capital assets	(6,347)		(17,651)	(11)	(2,629)		
Bond and commercial paper proceeds					16,035		
Proceeds from sale of capital assets			2,850		258		
Insurance claims recoveries			206				
Principal payments					(28,764)		
Interest paid					(8,377)		
Capital contributions			453				
Net cash from (used for) capital and related financing activities	(6,347)		(14,142)	(11)	(23,477)		
Cash flows from investing activities							
Interest received		107			196	168	
Net cash from (used for) investing activities		107			196	168	
Net increase (decrease) in cash and cash equivalents	146	11,283	(384)	81	78,221	48,698	867
Cash and cash equivalents, July 1	114,067	97,220	46,116	229	100,665	182,411	1,183
Cash and cash equivalents, June 30	$ 114,213	$ 108,503	$ 45,732	$ 310	$ 178,886	$ 231,109	$ 2,050
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	$ (6,997)	$ 12,740	$ (2,098)	$ (415)	$ (60,205)	$ 49,494	$ 513
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	11,520		10,395	122	12,871		294
Loss/(gain) on disposal of capital assets	1,008		(233)		473		
Bond issuance cost					88		
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	(125)		(16)		(6)	(735)	
(Increase) decrease in due from other funds	286						
(Increase) decrease in due from component units			(1)				
(Increase) decrease in inventories	348			11			
(Increase) decrease in prepaids							(43)
Increase (decrease) in accounts payable	(2,759)	(1,985)	1,543	65	74	(666)	103
Increase (decrease) in due to other funds	12	8			6,972		
Increase (decrease) in due to component units		410					
Increase (decrease) in unearned revenue						437	
Total adjustments	10,290	(1,567)	11,688	198	20,472	(964)	354
Net cash provided by (used for) operating activities	$ 3,293	$ 11,173	$ 9,590	$ (217)	$ (39,733)	$ 48,530	$ 867
Noncash investing, capital and financing activities							
Capital contributions			$ 3,639		$ 4,624		
Bond refunding proceeds					4,452		
Bond refunding premium					316		
Bond refunding proceeds to escrow					(4,768)		
Capital asset disposed of by capital lease					11,352		
Total noncash investing, capital and financing activities			$ 3,639		$ 15,976		

	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
	$ 1,193	$ 1,494	$ 12	$ 75	$ 114	$ 8,920	$ 119	$ 359,950
	5,065	2,056	975	13,006	11,019	29,471	26,950	872,222
	(2,155)	(885)	(250)	(1,734)	(714)	(27,317)	(3,889)	(1,051,983)
	(4,383)	(1,383)	(241)	(10,385)	(8,519)	(8,339)	(6,811)	(75,092)
	(1,280)	(937)	(121)	(1,150)	(1,485)	(1,474)	(4,852)	(59,429)
	(1,560)	345	375	(188)	415	1,261	11,517	45,668
	7,654							156,566
								3
	7,654							156,569
		(84)		(6)	(24)	(409)	(2,794)	(29,955)
								16,035
								3,108
								206
							(4,380)	(33,144)
							(235)	(8,612)
								453
		(84)		(6)	(24)	(409)	(7,409)	(51,909)
								471
								471
	6,094	261	375	(194)	391	852	4,108	150,799
	524	511	(149)	16,342	4,826	11,194	2,881	578,020
	$ 6,618	$ 772	$ 226	$ 16,148	$ 5,217	$ 12,046	$ 6,989	$ 728,819
	$ (2,061)	$ 491	$ 234	$ (353)	$ (26)	$ (1,531)	$ 935	$ (9,279)
		15		2	12	981	11,135	47,347
								1,248
								88
		(31)				(167)		(1,080)
								286
						(11)		(12)
		51				1,779		2,189
								(43)
	499	(179)	141	164	416	206	(554)	(2,932)
	2	(2)		(1)	13	2	1	7,007
						2		412
								437
	501	(146)	141	165	441	2,792	10,582	54,947
	$ (1,560)	$ 345	$ 375	$ (188)	$ 415	$ 1,261	$ 11,517	$ 45,668
								$ 8,263
								4,452
								316
								(4,768)
								11,352
								$ 19,615

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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, 2011. As of that date there were 215,076 active members and 116,585 retired members representing a .06% and 5.15% increase, respectively, since the previous actuarial valuation in 2009.

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

Private-Purpose Trust Funds:

College Savings Plans—The Baccalaureate Education System Trust (BEST) was created by the General Assembly in 1996 for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. No other state programs are supported from this trust. As of November 22, 2010 the BEST Board of Trustees voted to stop selling new tuition units in the prepaid plan. In September 2012, the State of Tennessee introduced the Tennessee Stars College Savings 529 Program (TNStars). This program offers parents and other interested persons a way to save for children's college expenses with investment options and special tax advantages. The program is not guaranteed by the State of Tennessee or any other entity.

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

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

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

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

Agency Funds:

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

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

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

State of Tennessee
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2013

(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
Assets					
Cash and cash equivalents	$ 594,870	$ 138,047	$ 732,917	$ 1,013	$ 733,930
Receivables:					
Member contributions	21,879	5,490	27,369		27,369
Employer contributions	38,726	20,752	59,478		59,478
Accrued interest	73,005	16,942	89,947		89,947
Accrued dividends	48,110	11,164	59,274		59,274
Derivative instruments	837,403	194,326	1,031,729		1,031,729
Real estate income	1,129	262	1,391		1,391
Investments sold	543,150	126,042	669,192		669,192
Total receivables	1,563,402	374,978	1,938,380		1,938,380
Due from other funds	9,617		9,617	227	9,844
Due from component units	8,906		8,906	4	8,910
Investments, at fair value:					
Short term securities	60,776	14,104	74,880		74,880
Government bonds	6,801,041	1,578,237	8,379,278		8,379,278
Corporate bonds	4,075,011	945,639	5,020,650		5,020,650
Corporate stocks	17,075,653	3,962,545	21,038,198		21,038,198
Derivative instruments	25	6	31		31
Private equities	221,369	51,370	272,739		272,739
Real estate	1,493,353	346,545	1,839,898		1,839,898
Total investments	29,727,228	6,898,446	36,625,674		36,625,674
Capital assets, at cost					
Software in development	8,376	1,944	10,320		10,320
Machinery and equipment	9,773	2,267	12,040		12,040
Accumulated depreciation	(384)	(89)	(473)		(473)
Total assets	31,921,788	7,415,593	39,337,381	1,244	39,338,625
Liabilities					
Accounts payable and accruals	558,795	130,720	689,515	63	689,578
Derivative instruments	846,267	196,383	1,042,650		1,042,650
Due to other funds	32,719	7,592	40,311		40,311
Total liabilities	1,437,781	334,695	1,772,476	63	1,772,539
Net position					
Restricted for:					
Pension benefits	30,484,007	7,080,898	37,564,905		37,564,905
Employees' flexible benefits				1,181	1,181
Total net position	$ 30,484,007	$ 7,080,898	$ 37,564,905	$ 1,181	$ 37,566,086

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2013

(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	$ 196,792	$ 71,765	$ 268,557	$ 7,185	$ 275,742
Employers	735,886	274,539	1,010,425		1,010,425
Total contributions	932,678	346,304	1,278,982	7,185	1,286,167
Investment income:					
Net increase in fair value of investments	1,899,653	434,731	2,334,384		2,334,384
Interest	380,175	87,002	467,177		467,177
Dividends	402,619	92,138	494,757		494,757
Real estate income	69,813	15,977	85,790		85,790
Total investment income	2,752,260	629,848	3,382,108		3,382,108
Less: Investment expenses	30,532	6,987	37,519		37,519
Net investment income	2,721,728	622,861	3,344,589		3,344,589
Total additions	3,654,406	969,165	4,623,571	7,185	4,630,756
Deductions					
Annuity benefits	1,639,031	279,655	1,918,686		1,918,686
Death benefits	3,051	2,006	5,057		5,057
Other benefits				7,217	7,217
Refunds	19,520	19,998	39,518		39,518
Administrative expenses	5,062	2,643	7,705		7,705
Depreciation expense	384	89	473		473
Total deductions	1,667,048	304,391	1,971,439	7,217	1,978,656
Change in net position restricted for:					
Pension benefits	1,987,358	664,774	2,652,132		2,652,132
Employees' flexible benefits				(32)	(32)
Net position, July 1	28,496,649	6,416,124	34,912,773	1,213	34,913,986
Net position, June 30	$ 30,484,007	$ 7,080,898	$ 37,564,905	$ 1,181	$ 37,566,086

State of Tennessee
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2013

(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	$ 1,875	$ 2,247	$ 15,555	$ 36,898	$ 2,915	$ 59,490
Receivables:						
Taxes					40	40
Interest and dividends	173					173
Investments sold	1,530					1,530
Other	2					2
Total receivables	1,705				40	1,745
Investments, at fair value:						
Mutual funds	91,074					91,074
Total investments	91,074					91,074
Total assets	94,654	2,247	15,555	36,898	2,955	152,309
Liabilities						
Accounts payable and accruals	104	37		1,276		1,417
Due to other funds	64					64
Total liabilities	168	37		1,276		1,481
Net position						
Restricted for:						
Individuals, organizations and other governments	$ 94,486	$ 2,210	$ 15,555	$ 35,622	$ 2,955	$ 150,828

State of Tennessee
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		$ 5,449				$ 5,449
Private	$ 6,240				$ 393	6,633
State	203			$ 22,183		22,386
Other		1,858		3,849	224	5,931
Total contributions	6,443	7,307		26,032	617	40,399
Investment income:						
Net increase in fair value of investments	4,448					4,448
Interest	1,396	4	$ 21	63	3	1,487
Total investment income	5,844	4	21	63	3	5,935
Total additions	12,287	7,311	21	26,095	620	46,334
Deductions						
Payments made under trust agreements	8,829	3,521		31,611	390	44,351
Refunds	1,370	1,956				3,326
Administrative expenses	276	1,420		2,638		4,334
Total deductions	10,475	6,897		34,249	390	52,011
Change in net position restricted for: Individuals, organizations and other governments	1,812	414	21	(8,154)	230	(5,677)
Net position, July 1	92,674	1,796	15,534	43,776	2,725	156,505
Net position, June 30	$ 94,486	$ 2,210	$ 15,555	$ 35,622	$ 2,955	$ 150,828

State of Tennessee
Combining Statement of Fiduciary Net Position
Agency Funds
June 30, 2013

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	$ 335,641	$ 138,101	$ 20,787	$ 494,529
Receivables:				
Accounts		263	2,082	2,345
Taxes	393,516			393,516
Total assets	729,157	138,364	22,869	890,390
Liabilities				
Accounts payable and accruals	729,157	11,970	16,684	757,811
Amounts held in custody for others		126,394	6,185	132,579
Total liabilities	$ 729,157	$ 138,364	$ 22,869	$ 890,390

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

Local Government Fund	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash and cash equivalents	$ 296,775	$ 3,195,598	$ 3,156,732	$ 335,641
Taxes receivable	385,259	452,796	444,539	393,516
Total assets	682,034	3,648,394	3,601,271	729,157
Liabilities				
Accounts payable and accruals	682,034	3,859,090	3,811,967	729,157
Total liabilities	$ 682,034	$ 3,859,090	$ 3,811,967	$ 729,157

Contingent Revenue Fund	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash and cash equivalents	$ 122,274	$ 2,394,997	$ 2,379,170	$ 138,101
Accounts receivable	251	1,810	1,798	263
Total assets	122,525	2,396,807	2,380,968	138,364
Liabilities				
Accounts payable and accruals	10,376	296,353	294,759	11,970
Amount held in custody for others	112,149	641,928	627,683	126,394
Total liabilities	$ 122,525	$ 938,281	$ 922,442	$ 138,364

Retiree Health Plans	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash and cash equivalents	$ 17,796	$ 225,947	$ 222,956	$ 20,787
Accounts receivable	2,258	11,433	11,609	2,082
Total assets	20,054	237,380	234,565	22,869
Liabilities				
Accounts payable	18,027	23,363	24,706	16,684
Amount held in custody for others	2,027	229,170	225,012	6,185
Total liabilities	$ 20,054	$ 252,533	$ 249,718	$ 22,869

Totals - All Agency Funds	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Assets				
Cash and cash equivalents	$ 436,845	$ 5,816,542	$ 5,758,858	$ 494,529
Accounts receivable	387,768	466,039	457,946	395,861
Total assets	824,613	6,282,581	6,216,804	890,390
Liabilities				
Accounts payable and accruals	710,437	4,178,806	4,131,432	757,811
Amount held in custody for others	114,176	871,098	852,695	132,579
Total liabilities	$ 824,613	$ 5,049,904	$ 4,984,127	$ 890,390

COMPONENT UNITS

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

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

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

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

Tennessee Board of Regents—The Tennessee University and Community College System was created by the General Assembly in 1972. Its member institutions (six universities, thirteen community colleges, and twenty-seven 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.

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

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

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

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

State of Tennessee
Combining Statement of Net Position
Component Units
June 30, 2013

(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee CSA	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Assets						
Cash and cash equivalents	$ 5,201	$ 962	$ 382,434	$ 86,074	$ 1,030,094	$ 874,823
Investments			83,843		555,084	882,597
Receivables, net	10,454	820	46,511	65,166	169,406	306,151
Due from primary government		514			9,805	19,784
Inventories, at cost					3,121	5,861
Prepayments				7,768	5,230	4,959
Loans receivable			1,990,308			
Fair value of derivatives						
Other					3,833	4,946
Restricted assets:						
Cash and cash equivalents			21,897	7		
Investments			200,346	2,796		
Receivables, net			1,753			
Capital assets:						
Land, at cost					131,843	78,524
Infrastructure					355,720	102,859
Structures and improvements, at cost				402	2,483,286	2,193,407
Machinery and equipment, at cost		86	697	4,993	431,766	609,860
Less accumulated depreciation		(28)	(503)	(4,405)	(1,408,748)	(1,294,000)
Construction in progress					320,363	449,638
Total assets	15,655	2,354	2,727,286	162,801	4,090,803	4,239,409
Deferred outflows of resources			2,287		2,884	6,449
Liabilities						
Accounts payable and accruals	5,333	304	42,456	53,262	111,922	150,875
Due to primary government	16	42	71	102,677	14,186	4,488
Unearned revenue			986	858	69,133	90,411
Fair value of derivatives						
Other					14,899	22,458
Noncurrent liabilities:						
Due within one year	160	99	259,711	987	42,362	70,435
Due in more than one year	514	242	1,899,882	5,010	822,386	901,845
Total liabilities	6,023	687	2,203,106	162,794	1,074,888	1,240,512
Deferred inflows of resources					631	
Net position						
Net investment in capital assets		58	194	990	1,645,296	1,443,475
Restricted for:						
Debt service					3,936	645
Capital projects					33,124	59,558
Single family bond programs			472,570			
Other	9,632		16,535	7	206,929	338,763
Permanent and endowment:						
Expendable					14,736	124,237
Nonexpendable					305,182	572,167
Unrestricted		1,609	37,168	(990)	808,965	466,501
Total net position	$ 9,632	$ 1,667	$ 526,467	$ 7	$ 3,018,168	$ 3,005,346

Proprietary Fund Types						
Local Development Authority	Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 15,106	$ 10,479	$ 87,666	$ 97,092	$ 1,768	$ 54,008	$ 2,645,707
				1,014		1,522,538
	3,772	469	13,247	30	1,175	617,201
	858					30,961
	244					9,226
	72					18,029
6,110			1,650,400			3,646,818
			357			357
	9			1,983		10,771
1,357	3,321	9,027	26,421			62,030
			111,696			314,838
		5,130				6,883
	344					210,711
	1,815					460,394
	30,435					4,707,530
	5,462					1,052,864
	(12,313)					(2,719,997)
	9					770,010
22,573	44,507	102,292	1,899,213	4,795	55,183	13,366,871
352			19,145			31,117
147	1,391	6	20,140	62	2,221	388,119
	171					121,651
			3,137			164,525
			66			66
	121					37,478
1,065	788		55,140			430,747
5,703	5,066		1,830,352			5,471,000
6,915	7,537	6	1,908,835	62	2,221	6,613,586
			357			988
	20,663					3,110,676
	353					4,934
						92,682
						472,570
	4,856	14,157				590,879
						138,973
						877,349
16,010	11,098	88,129	9,166	4,733	52,962	1,495,351
$ 16,010	$ 36,970	$ 102,286	$ 9,166	$ 4,733	$ 52,962	$ 6,783,414

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2013

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Component units					
Higher education institutions:					
Board of Regents	$ 2,439,901	$ 941,109	$ 718,162	$ 150,286	$ (630,344)
University of Tennessee	1,967,904	634,055	869,937	75,707	(388,205)
Total higher education institutions	4,407,805	1,575,164	1,588,099	225,993	(1,018,549)
Loan programs:					
Tennessee Student Assistance Corporation	67,366	3,163	7,633		(56,570)
Housing Development Agency	377,349	127,023	233,245		(17,081)
Local Development Authority	412	287	22		(103)
Federal Family Education Loan Program	167,131	28,545	139,010		424
State School Bond Authority	75,653	62,496	1,721		(11,436)
Total loan programs	687,911	221,514	381,631		(84,766)
Lottery program	1,280,458	1,280,299	35		(124)
Other programs:					
Tennessee CSA	5,757	3,083	3,223		549
Access Tennessee Insurance Plan	33,596	18,021			(15,575)
Veterans' Homes Board	36,957	38,747	23		1,813
Certified Cotton Growers'	620	360			(260)
Total other programs	76,930	60,211	3,246		(13,473)
Total	$ 6,453,104	$ 3,137,188	$ 1,973,011	$ 225,993	$ (1,116,912)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Position	Net Position July 1	Net Position June 30
$ 634,595	$ 139,082	$ 4,476	$ 4,884	$ 21,974	$ 174,667	$ 2,843,501	$ 3,018,168
448,259	1,763	32,876		31,533	126,226	2,879,120	3,005,346
1,082,854	140,845	37,352	4,884	53,507	300,893	5,722,621	6,023,514
56,620					50	9,582	9,632
		47			(17,034)	543,501	526,467
					(103)	16,113	16,010
345		149			918	101,368	102,286
	10,299				(1,137)	10,303	9,166
56,965	10,299	196			(17,306)	680,867	663,561
		118			(6)	13	7
		1			550	1,117	1,667
23,074		52			7,551	45,411	52,962
	58				1,871	35,099	36,970
		8			(252)	4,985	4,733
23,074	58	61			9,720	86,612	96,332
$ 1,162,893	$ 151,202	$ 37,727	$ 4,884	$ 53,507	$ 293,301	$ 6,490,113	$ 6,783,414

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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, 2013

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Revenues			
Interest on investments	$ 756	$ 1	$ 757
Federal	65		65
Departmental services	66,594	6,305	72,899
Other	1		1
Total revenues	67,416	6,306	73,722
Expenditures			
Education	67,324		67,324
Health and social services		5,781	5,781
Total expenditures	67,324	5,781	73,105
Excess (deficiency) of revenues over (under) expenditures	92	525	617
Fund balances, July 1	10,213	1,426	11,639
Fund balances, June 30	$ 10,305	$ 1,951	$ 12,256

Reconciliation to net position:			
Fund balances per above	$ 10,305	$ 1,951	$ 12,256
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		58	58
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(673)	(342)	(1,015)
Net position on Statement of Net Position	$ 9,632	$ 1,667	$ 11,299

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 127,023	$ 1,278,964	$ 1,130,044	$ 1,115,689	$ 287
Investment income	(4,346)		3,766	6,383	22
Grants and contributions					
Other		1,335	56,598	77,652	
Total operating revenues	122,677	1,280,299	1,190,408	1,199,724	309
Operating expenses					
Personal services	16,083	12,879	1,444,840	1,283,812	
Contractual services	3,930	120,780			50
Mortgage service fees	7,291				
Materials and supplies	493		539,960	468,177	
Rentals and insurance	115	1,783			
Interest	78,643				362
Depreciation and amortization	3,699	475	112,122	115,163	
Lottery prizes		794,377			
Nursing home services					
Scholarships and fellowships			318,382	68,757	
Benefits					
Other	10,371	10,410			
Total operating expenses	120,625	940,704	2,415,304	1,935,909	412
Operating income (loss)	2,052	339,595	(1,224,896)	(736,185)	(103)
Nonoperating revenues (expenses)					
Grant income	237,638		570,106	193,311	
Grant expense	(256,724)				
Interest expense			(24,341)	(28,476)	
Interest income		118	45,637	116,980	
Payments from primary government			634,595	448,259	
Grants and contributions				5,684	
Gifts			4,439	19,591	
Payments to primary government		(339,712)			
Other		(7)	2,078	(3,520)	
Total nonoperating revenues (expenses)	(19,086)	(339,601)	1,232,514	751,829	
Income (loss) before capital grants and contributions	(17,034)	(6)	7,618	15,644	(103)
Capital payments from primary government			109,447	58,462	
Capital grants and gifts			35,628	17,245	
Additions to permanent endowments			21,974	31,533	
Other				3,342	
Change in net position	(17,034)	(6)	174,667	126,226	(103)
Net position, July 1	543,501	13	2,843,501	2,879,120	16,113
Net position, June 30	$ 526,467	$ 7	$ 3,018,168	$ 3,005,346	$ 16,010

Veterans' Homes Board	Federal Family Education Loan Program	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 33,394	$ 28,545	$ 62,496	$ 360	$ 18,021	$ 3,794,823
		1,721			7,546
	139,010				139,010
41					135,626
33,435	167,555	64,217	360	18,021	4,077,005
24,335					2,781,949
	164,699	2,334	620	934	293,347
					7,291
					1,008,630
					1,898
		61,005			140,010
1,164					232,623
					794,377
11,111					11,111
	432				387,571
				32,269	32,269
		12,314		393	33,488
36,610	165,131	75,653	620	33,596	5,724,564
(3,175)	2,424	(11,436)	(260)	(15,575)	(1,647,559)
5,312		10,299			1,016,666
					(256,724)
(255)					(53,072)
23	149		8	52	162,967
	345			23,074	1,106,273
					5,684
58					24,088
	(2,000)				(341,712)
(92)					(1,541)
5,046	(1,506)	10,299	8	23,126	1,662,629
1,871	918	(1,137)	(252)	7,551	15,070
					167,909
					52,873
					53,507
					3,342
1,871	918	(1,137)	(252)	7,551	292,701
35,099	101,368	10,303	4,985	45,411	6,479,414
$ 36,970	$ 102,286	$ 9,166	$ 4,733	$ 52,962	$ 6,772,115

SUPPLEMENTARY SCHEDULES

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2013

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt Principal	General Long-Term Debt Interest	General Long-Term Debt Total Require-ments	Facilities Revolving Fund Debt Principal	Facilities Revolving Fund Debt Interest	Facilities Revolving Fund Debt Total Require-ments
2014	$ 141,243	$ 74,926	$ 216,169	$ 19,217	$ 7,713	$ 26,930
2015	136,068	68,595	204,663	15,957	6,781	22,738
2016	132,429	62,704	195,133	13,841	6,034	19,875
2017	127,436	56,964	184,400	12,979	5,421	18,400
2018	118,951	50,999	169,950	12,769	4,829	17,598
2019	110,970	45,957	156,927	11,455	4,281	15,736
2020	108,442	41,247	149,689	10,963	3,786	14,749
2021	102,519	36,639	139,158	10,066	3,305	13,371
2022	102,654	32,092	134,746	10,101	2,833	12,934
2023	95,706	27,715	123,421	9,354	2,377	11,731
2024	95,476	23,829	119,305	9,319	1,992	11,311
2025	87,224	20,379	107,603	8,961	1,662	10,623
2026	87,459	17,052	104,511	9,001	1,337	10,338
2027	81,135	13,726	94,861	7,190	1,024	8,214
2028	77,589	10,724	88,313	6,606	743	7,349
2029	71,849	7,416	79,265	5,391	477	5,868
2030	47,513	4,402	51,915	3,822	275	4,097
2031	37,251	2,361	39,612	2,289	115	2,404
2032	29,398	824	30,222	817	29	846
2033	6,582	99	6,681	418	6	424
TOTALS	$ 1,797,894	$ 598,650	$ 2,396,544	$ 180,516	$ 55,020	$ 235,536

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

Schedule 2

(Expressed in Thousands)

	June 30				
	2009	2010	2011	2012	2013
Internal service funds:					
General obligation commercial paper	$ 48,715	$ 70,107	$ 48,060	$ 51,318	$ 40,591
Facilities Revolving Fund general obligation bonds	182,081	196,220	209,858	198,512	180,516
	230,796	266,327	257,918	249,830	221,107
General long-term debt:					
General obligation bonds	1,356,861	1,492,600	1,544,350	1,914,090	1,797,894
General obligation commercial paper	127,593	171,283	166,157	146,452	174,555
	1,484,454	1,663,883	1,710,507	2,060,542	1,972,449
Totals for primary government	$ 1,715,250	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,193,556

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2013

Schedule 3

(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 187,747
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	27,399
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	$ 215,146

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

Schedule 4

(Expressed in Thousands)

	June 30				
	2009	2010	2011	2012	2013
Component units:					
Local Development Authority notes	$ 53,288	$ 53,919			
Local Development Authority bonds	51,888	48,242	$ 8,586	$ 7,406	$ 6,585
Tennessee Housing Development Agency bonds	1,972,561	2,316,748	2,140,486	2,015,181	2,116,905
Tennessee Housing Development Agency notes	3,250	3,672	3,250		
Veterans' Homes Board loan	5,953	5,936	5,657	5,310	5,089
Tennessee State School Bond Authority bonds	945,461	1,075,004	1,487,945	1,423,166	1,601,480
Tennessee State School Bond Authority commercial paper	174,300	281,782	162,653	253,676	209,429
University of Tennessee notes	235	211	184	167	150
University of Tennessee bonds	85,118	83,644	82,089	80,449	80,365
Board of Regents notes	2,478	2,222	2,098	1,987	1,866
Board of Regents bonds	800	700	600	500	400
Board of Regents commercial paper	4,161	6,431	4,363	4,271	4,085
	$ 3,299,493	$ 3,878,511	$ 3,897,911	$ 3,792,113	$ 4,026,354

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2013 and 2012

Schedule 5

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2013	For the Year Ended June 30, 2012
Taxes:		
Sales and use	$ 2,867,413	$ 2,815,903
Gasoline	9,101	8,889
Motor fuel	2,970	3,052
Gasoline inspection	415	3,672
Total fuel taxes	12,486	15,613
Franchise	684,340	620,012
Excise	1,093,374	1,012,879
Gross receipts	363,971	377,375
Beer	15,068	15,109
Alcoholic beverage	43,121	41,900
Mixed drink	34,711	32,051
Tobacco	31,250	30,224
Business	137,708	127,513
Insurance companies premium	668,067	622,850
Retaliatory	16,196	23,265
Workers compensation premium	44,225	41,774
Enhanced coverage	449,500	449,772
Medicaid provider	13,729	11,453
Other	2,702	2,637
Total business taxes	3,597,962	3,408,814
Income	233,419	185,151
Privilege	256,738	246,925
Inheritance and estate	110,632	161,246
Other	220	193
Total other taxes	601,009	593,515
Total taxes	7,078,870	6,833,845
Licenses, fines, fees and permits:		
Motor vehicle registration	44,468	43,203
Motor vehicle title registration fees	9,214	9,337
Drivers licenses	25,907	25,613
Arrests, fines and fees	8,352	8,043
Regulatory board fees	123,612	123,520
Other	95,294	119,618
Total licenses, fines, fees and permits	306,847	329,334
Interest on investments	12,166	7,059
Federal - earned by state departments	9,901,314	9,967,880
Departmental services:		
Charges to the public	325,726	323,009
Interdepartmental charges	799,180	1,034,051
Charges to cities, counties, etc.	540,143	576,174
Total departmental services	1,665,049	1,933,234
Other	283,140	240,558
Total revenues by source	$ 19,247,386	$ 19,311,910

State of Tennessee

Schedule 6

Comparative Schedules of Expenditures by Function and Department

General Fund

For the Fiscal Years Ended June 30, 2013 and 2012

(Expressed in Thousands)

	For the Year Ended	
Expenditures by function and department	June 30, 2013	June 30, 2012
General government:		
Legislative	$ 39,234	$ 38,594
Secretary of State	36,995	37,941
Comptroller	86,294	84,903
Treasurer	59,300	46,065
Governor	5,082	4,596
Commissions	67,625	73,393
Finance and Administration	91,802	137,676
General Services	28,622	25,078
Revenue	99,418	102,683
Miscellaneous Appropriations	276	308
Total general government	514,648	551,237
Health and social services:		
Veterans Affairs	5,392	5,298
Labor and Workforce Development	188,988	206,583
TennCare	9,684,582	9,588,260
Mental Health	295,213	291,459
Intellectual Disabilities	203,592	453,886
Health	527,228	514,325
Human Services	3,085,917	3,082,173
Children's Services	677,571	666,015
Total health and social services	14,668,483	14,807,999
Law, justice and public safety:		
Judicial	301,741	289,884
Correction	835,075	707,399
Probation and Paroles	6,772	86,447
Military	102,188	208,749
Bureau of Criminal Investigation	72,081	65,224
Safety	175,141	165,101
Total law, justice and public safety	1,492,998	1,522,804
Recreation and resources development:		
Agriculture	74,168	83,819
Tourist Development	18,452	18,848
Environment and Conservation	199,746	227,742
Economic and Community Development	183,841	210,591
Total recreation and resources development	476,207	541,000
Regulation of business and professions:		
Commerce and Insurance	74,347	72,763
Financial Institutions	14,169	14,093
Total regulation of business and professions	88,516	86,856
Intergovernmental revenue sharing	557,102	561,585
Total expenditures by function and department	$ 17,797,954	$ 18,071,481

STATISTICAL SECTION

STATISTICAL SECTION

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

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

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

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
Expenses				
Governmental activities:				
General government	$ 546,996	$ 596,016	$ 705,897	$ 738,897
Education	4,692,605	5,158,369	5,449,613	5,884,841
Health and social services (4)	10,583,726	11,522,061	10,170,957	10,448,373
Law, justice, and public safety	1,032,302	1,090,779	1,214,957	1,221,175
Recreation and resources development (1)	479,251	423,342	466,689	485,852
Regulation of business and professions	81,940	113,902	86,945	129,107
Transportation	787,646	698,450	671,641	835,751
Intergovernmental revenue sharing	647,654	683,925	738,349	815,832
Interest on long-term debt	51,819	42,902	49,460	50,003
Payments to fiduciary fund				25,950
Total governmental activities expenses	18,903,939	20,329,746	19,554,508	20,635,781
Business-type activities:				
Employment security (2)	639,993	476,646	452,043	467,327
Insurance programs	416,871	430,568	471,032	413,483
Loan programs	1,737	1,909	1,487	1,473
Other	2,037	2,498	2,496	2,595
Total business-type activities expenses	1,060,638	911,621	927,058	884,878
Total primary government expenses	$ 19,964,577	$ 21,241,367	$ 20,481,566	$ 21,520,659
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 342,154	$ 380,679	$ 375,640	$ 524,306
Education	16,966	13,568	26,785	34,819
Health and social services	943,040	1,027,602	692,186	521,508
Law, justice, and public safety	313,386	316,337	374,715	130,885
Recreation and resources development	124,105	140,227	138,970	153,048
Regulation of business and professions	107,355	115,556	124,435	142,805
Transportation	13,636	15,494	15,118	22,542
Operating grants and contributions (3)	8,095,087	8,777,283	8,314,981	8,481,473
Capital grants and contributions	503,539	520,090	615,584	708,384
Total governmental activities program revenues	10,459,268	11,306,836	10,678,414	10,719,770
Business-type activities:				
Charges for services:				
Employment security	523,372	463,385	381,600	356,064
Insurance programs	422,584	462,441	479,515	438,275
Loan programs	12,733	12,878	12,970	13,803
Other	2,111	2,593	2,803	2,644
Operating grants and contributions (3)	208,296	100,536	131,043	116,569
Total business-type activities program revenues	1,169,096	1,041,833	1,007,931	927,355
Total primary government program revenues	$ 11,628,364	$ 12,348,669	$ 11,686,345	$ 11,647,125
Net (Expense)/Revenue				
Governmental activities	$ (8,444,671)	$ (9,022,910)	$ (8,876,094)	$ (9,916,011)
Business-type activities	108,458	130,212	80,873	42,477
Total primary government net expense	$ (8,336,213)	$ (8,892,698)	$ (8,795,221)	$ (9,873,534)

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,					
2008	2009	2010	2011	2012	2013
$ 837,250	$ 988,309	$ 1,078,294	$ 1,048,423	$ 942,465	$ 987,800
6,464,564	6,520,569	6,893,801	7,127,705	7,018,189	7,083,806
11,125,967	11,697,900	12,849,335	13,739,733	13,952,342	14,079,899
1,325,500	1,338,869	1,365,134	1,436,045	1,567,730	1,539,288
613,902	538,386	499,080	606,317	646,494	554,421
123,391	126,003	132,784	127,887	126,395	158,228
808,591	979,454	1,010,029	911,666	1,012,399	1,062,091
842,096	810,063	874,094	825,777	851,535	844,628
51,086	51,977	60,566	63,555	62,119	71,933
		19,747	63,114	58,453	22,386
22,192,347	23,051,530	24,782,864	25,950,222	26,238,121	26,404,480
541,573	1,427,713	2,135,537	1,613,716	1,232,324	750,529
469,491	514,065	557,371	552,626	540,746	544,250
1,655	1,345	1,406	1,561	1,757	1,577
2,744	2,265	1,385	25	620	163
1,015,463	1,945,388	2,695,699	2,167,928	1,775,447	1,296,519
$ 23,207,810	$ 24,996,918	$ 27,478,563	$ 28,118,150	$ 28,013,568	$ 27,700,999
$ 672,892	$ 753,066	$ 778,352	$ 856,264	$ 673,945	$ 775,135
35,405	35,124	44,813	50,052	56,898	85,722
548,570	615,871	499,694	724,971	772,850	714,788
117,536	122,064	121,201	120,137	125,879	139,622
142,128	142,657	141,278	139,302	151,545	155,422
143,646	151,095	148,788	149,090	168,590	154,896
18,778	15,936	28,322	29,769	29,601	35,470
8,612,838	9,758,691	12,076,579	12,677,291	11,897,517	11,697,733
600,404	592,719	782,188	901,798	903,281	772,061
10,892,197	12,187,223	14,621,215	15,648,674	14,780,106	14,530,849
413,741	585,668	710,113	754,108	769,446	632,408
480,803	504,130	525,662	547,207	542,756	569,982
15,137	15,684	16,584	17,350	15,600	12,450
2,324	1,543	1,043	206	133	231
124,576	508,249	1,482,113	1,035,693	749,005	327,928
1,036,581	1,615,274	2,735,515	2,354,564	2,076,940	1,542,999
$ 11,928,778	$ 13,802,497	$ 17,356,730	$ 18,003,238	$ 16,857,046	$ 16,073,848
$ (11,300,150)	$ (10,864,307)	$ (10,161,649)	$ (10,301,548)	$ (11,458,015)	$ (11,873,631)
21,118	(330,114)	39,816	186,636	301,493	246,480
$ (11,279,032)	$ (11,194,421)	$ (10,121,833)	$ (10,114,912)	$ (11,156,522)	$ (11,627,151)

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Sales and use	$ 5,806,268	$ 6,099,159	$ 6,540,224	$ 6,819,570
Fuel	829,372	846,826	851,362	867,520
Business (5)	2,099,081	2,311,448	2,507,653	2,799,751
Other	526,573	514,938	598,827	734,026
Grants and contributions not restricted to specific programs	152,676	46,807		
Unrestricted investment earnings	12,079	30,361	81,287	113,940
Miscellaneous	207,653	209,226	185,466	250,344
Contributions to permanent funds	351	468	369	270
Transfers	(18,829)	(21,062)	(22,783)	(5,028)
Total governmental activities	9,615,224	10,038,171	10,742,405	11,580,393
Business-type activities:				
Transfers	18,829	21,062	22,783	5,028
Total business-type activities	18,829	21,062	22,783	5,028
Total primary government general revenues and other changes in net position	$ 9,634,053	$ 10,059,233	$ 10,765,188	$ 11,585,421
Changes in Net Position				
Governmental activities	$ 1,170,553	$ 1,015,261	$ 1,866,311	$ 1,664,382
Business-type activities	127,287	151,274	103,656	47,505
Total primary government	$ 1,297,840	$ 1,166,535	$ 1,969,967	$ 1,711,887

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

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

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

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

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

Schedule 1

FOR THE FISCAL YEAR ENDED JUNE 30,					
2008	2009	2010	2011	2012	2013
$ 6,851,481	$ 6,326,857	$ 6,170,977	$ 6,461,461	$ 6,884,762	$ 7,018,128
865,181	817,873	874,511	846,384	842,133	834,956
2,913,227	2,671,226	2,944,465	3,536,200	3,926,566	4,122,814
734,029	563,501	504,750	525,192	608,762	648,193
120,523	42,883	7,245	4,602	772	4,144
275,499	226,907	195,414	217,630	253,489	282,705
239	217	196	180	174	180
(4,110)	(3,541)	(3,608)	(2,134)	(4,655)	(4,256)
11,756,069	10,645,923	10,693,950	11,589,515	12,512,003	12,906,864
4,110	3,541	3,608	2,134	4,655	4,256
4,110	3,541	3,608	2,134	4,655	4,256
$ 11,760,179	$ 10,649,464	$ 10,697,558	$ 11,591,649	$ 12,516,658	$ 12,911,120
$ 455,919	$ (218,384)	$ 532,301	$ 1,287,967	$ 1,053,988	1,033,233
25,228	(326,573)	43,424	188,770	306,148	250,736
$ 481,147	$ (544,957)	$ 575,725	$ 1,476,737	$ 1,360,136	$ 1,283,969

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

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2004	2005	2006	2007
Governmental activities				
Net investment in capital assets	$ 18,691,308	$ 19,406,978	$ 20,204,007	$ 21,078,481
Restricted	843,889	580,840	725,209	792,542
Unrestricted (1)(2)(3)	743,586	1,306,226	2,204,315	2,964,957
Total governmental activities net position	20,278,783	21,294,044	23,133,531	24,835,980
Business-type activities				
Net investment in capital assets				
Unrestricted	1,359,915	1,511,189	1,614,845	1,643,706
Total business-type activities net position	1,359,915	1,511,189	1,614,845	1,643,706
Primary Government				
Net investment in capital assets	18,691,308	19,406,978	20,204,007	21,078,481
Restricted	843,889	580,840	725,209	792,542
Unrestricted	2,103,501	2,817,415	3,819,160	4,608,663
Total primary government net position	$ 21,638,698	$ 22,805,233	$ 24,748,376	$ 26,479,686

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

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

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

FOR THE FISCAL YEAR ENDED JUNE 30,					
2008	2009	2010	2011	2012	2013
$ 21,796,151	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451
864,270	965,292	924,902	1,179,519	1,172,812	1,193,341
2,631,478	1,495,656	1,284,192	1,330,947	1,183,704	1,458,291
25,291,899	25,036,800	25,569,101	26,856,959	27,985,116	28,978,083
51					
1,668,883	1,342,361	1,385,785	1,574,664	1,880,812	2,134,924
1,668,934	1,342,361	1,385,785	1,574,664	1,880,812	2,134,924
21,796,202	22,575,852	23,360,007	24,346,493	25,628,600	26,326,451
864,270	965,292	924,902	1,179,519	1,172,812	1,193,341
4,300,361	2,838,017	2,669,977	2,905,611	3,064,516	3,593,215
$ 26,960,833	$ 26,379,161	$ 26,954,886	$ 28,431,623	$ 29,865,928	$ 31,113,007

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ 19,343	$ 18,609	$ 21,349
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	100,942	63,192	73,346
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	235,301	286,918	355,546
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1,179,652	1,250,677	1,585,964
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	507,501	698,663	476,264
Total general fund								$ 2,042,739	$ 2,318,059	$ 2,512,469
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ 144,426	$ 147,468	$ 150,579
Restricted	N/A	N/A	N/A	N/A	N/A	N/A	N/A	951,222	980,972	990,317
Committed	N/A	N/A	N/A	N/A	N/A	N/A	N/A	191,557	344,696	398,864
Assigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A	710,582	672,610	575,300
Unassigned	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Total all other governmental funds								$ 1,997,787	$ 2,145,746	$ 2,115,060

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

Schedule 4

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Taxes	$ 9,272,267	$ 9,819,155	$ 10,488,650	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171
Licenses, fines, fees, and permits	590,627	624,694	637,522	660,888	672,486	677,766	675,009	693,702	731,752	725,785
Interest on investments	34,102	46,222	102,075	178,080	127,152	23,964	36,443	45,089	17,411	35,987
Federal [(2)]	8,417,534	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185
Departmental services	2,071,252	2,360,891	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141
Other	488,769	502,074	491,064	537,816	570,634	535,534	519,936	513,919	595,305	630,355
Total revenues	20,874,551	22,341,723	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624
Expenditures										
Current:										
General government	400,069	425,243	530,637	555,545	617,056	581,364	558,013	563,195	575,919	538,243
Education	4,630,294	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325
Health and social services	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483
Law, justice, and public safety	1,042,510	1,109,819	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252
Recreation and resources development	479,243	491,681	544,744	525,885	707,866	599,885	555,717	682,531	705,043	655,168
Regulation of business and professions	88,580	119,620	92,888	134,955	129,688	131,614	139,200	136,644	135,877	164,673
Transportation	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946
Intergovernmental revenue sharing	647,654	683,925	738,349	815,832	842,096	810,063	874,094	825,777	851,535	844,628
Debt service:										
Principal	80,243	89,474	86,532	81,790	79,107	83,960	101,804	112,234	115,935	274,858
Interest	49,956	43,455	49,319	50,363	51,872	52,110	64,344	68,496	65,471	76,041
Debt issuance costs	1,945	2,159	1,082	1,173	980	4,362	4,837	4,363	4,793	2,659
Capital outlay	128,167	119,730	253,229	343,712	359,118	472,451	485,937	391,519	483,279	515,999
Total expenditures	20,176,445	22,115,456	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275
Revenues over (under) expenditures	698,106	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)	35,349
Other Financing Sources (Uses)										
Bonds and commercial paper issued	206,933	52,979	228,409	196,290	340,021	601,664	415,033	307,318	637,868	290,178
Notes/Commercial paper redeemed	(155,796)		(109,908)	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)	
Insurance claim recoveries			1,670	4,013	2,361	251			2,734	1,061
Premium on bond sale	6,485		2,485	2,049	2,760	30,147	26,358	11,132	37,069	
Refunding bonds issued [(3) (4)]		355,053				91,536	43,985	43,014	464,809	25,713
Refunding bond premium [(3) (4)]		31,929				10,670		2,122	88,775	11,672
Refunding payment to escrow [(3) (4)]		(386,261)				(101,707)	(43,985)	(44,816)	(552,898)	(25,473)
Other							21,146	52,741		
Proceeds from pledged revenue									58,453	22,183
Transfers in [(1)]	661,064	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860
Transfers out [(1)]	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)
Total other financing sources (uses)	26,957	450	48,391	13,680	169,015	299,864	259,814	108,907	454,876	142,126
Net Change in Fund Balances	$ 725,063	$ 226,717	$ 957,510	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475
Debt Service as a Percentage of Noncapital Expenditures	0.6691%	0.6241%	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%

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

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

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

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

Schedule 5

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Auto dealers	$ 9,431	$ 9,444	$ 9,430	$ 9,390	$ 9,504	$ 7,939	$ 6,728	$ 7,678	$ 8,444	$ 9,221
Purchases from manufacturers	3,933	4,150	4,803	4,679	4,745	4,497	3,492	3,657	4,014	3,921
Miscellaneous durable goods	12,892	14,183	15,845	17,209	17,441	16,348	13,747	14,497	15,586	16,211
Eating and drinking places	6,915	7,454	7,960	8,465	8,880	8,974	8,842	9,059	9,510	10,169
Food stores	7,852	7,937	8,196	8,419	8,731	8,600	8,821	8,884	9,216	9,873
Liquor stores	433	458	495	548	594	636	657	685	728	791
Hotels and motels	1,821	1,881	2,044	2,218	2,355	2,313	2,038	2,066	2,331	2,485
Other retail and service	23,213	24,286	25,806	27,134	28,303	28,235	26,798	27,303	28,741	30,516
Miscellaneous nondurable goods	6,243	6,521	7,024	7,293	7,758	7,785	7,364	7,645	7,988	8,471
Transportation, communication	6,016	6,411	6,683	7,355	7,692	7,912	7,732	6,928	7,094	6,519
Total taxable sales	$ 78,749	$ 82,725	$ 88,286	$ 92,710	$ 96,003	$ 93,239	$ 86,219	$ 88,402	$ 93,652	$ 98,177

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,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	6.00%	6.00%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
Energy fuels used by manufacturers and nurserymen	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding $100,000 sales price	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cable and wireless TV (between $15 and $27.50) and satellite services	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget
Note: N/A - Not applicable because this item was not specifically identified with a rate separate from the general rate.

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX COLLECTIONS BY TAXPAYER CLASSIFICATION
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retail:										
Building materials	$ 328,562	$ 363,952	$ 405,812	$ 423,160	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513
General merchandise	712,426	735,074	767,584	820,549	829,576	810,503	799,387	817,350	840,896	836,055
Food stores	485,947	494,466	508,497	526,981	529,977	520,280	510,104	517,420	539,402	546,972
Auto dealers and service stations	820,454	815,985	817,689	856,109	835,035	672,112	690,797	760,119	830,875	869,748
Apparel and accessory stores	177,017	185,683	194,946	200,131	200,745	191,132	191,110	194,172	205,480	215,308
Furniture and home furnishings	209,525	222,089	238,475	246,569	244,312	215,352	207,398	214,575	224,096	221,025
Eating and drinking places	486,680	518,689	547,547	585,490	605,544	596,893	598,562	615,741	653,210	681,255
Miscellaneous retail stores	491,443	508,694	550,340	580,936	597,649	568,197	560,527	578,884	613,097	637,761
Total retail	3,712,054	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637
Services:										
Hotels and lodging places	124,795	131,675	142,333	154,081	160,909	146,253	137,973	144,129	160,868	164,403
Personal services	51,845	49,818	49,375	51,099	51,151	46,564	46,777	46,923	47,932	49,145
Business services	199,677	218,799	234,810	245,387	254,506	239,143	224,044	236,982	249,083	260,000
Auto repair, services, and parking	163,687	159,935	163,710	174,680	173,481	157,972	153,781	160,268	176,923	172,698
Miscellaneous repair services	23,606	24,873	27,100	28,387	28,441	25,321	22,801	23,189	24,384	25,636
Motion pictures	23,244	22,851	22,282	22,178	21,498	21,512	19,803	17,794	18,972	18,323
Amusement services	49,106	50,854	54,629	59,578	59,636	58,225	57,636	60,071	63,922	69,280
Health services	10,818	11,139	11,710	13,123	13,676	14,228	14,305	13,683	15,122	10,750
Other services	26,747	31,025	34,282	34,400	37,740	43,434	36,802	40,752	42,200	37,140
Total services	673,525	700,969	740,231	782,913	801,038	752,652	713,922	743,791	799,406	807,375
Non-retail, non-services:										
Agriculture, forestry, fishing	5,812	5,968	6,920	7,261	7,451	7,381	7,312	7,259	7,257	7,096
Mining	5,286	5,073	5,635	6,302	7,117	6,126	5,933	5,741	6,491	5,814
Construction	42,275	42,640	48,540	54,075	59,119	52,415	44,038	48,503	49,782	51,094
Manufacturing	261,260	289,494	312,570	305,558	299,223	256,995	225,530	241,844	255,062	256,157
Transportation	26,895	36,239	42,825	46,688	53,866	69,930	34,556	38,345	43,525	40,728
Communications	398,105	385,544	442,837	457,116	475,675	477,281	443,576	430,847	416,347	387,780
Electric, gas, and sanitary services	163,358	174,794	194,574	203,789	215,552	236,692	215,020	237,479	239,531	239,441
Wholesale trade	321,014	349,023	418,607	451,777	450,898	393,100	361,217	398,111	438,113	436,411
Finance, insurance, real estate	11,396	11,037	12,899	17,830	17,908	12,981	17,766	14,027	13,847	14,620
Total non-retail, non-services	1,235,401	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141
County Clerk	108,781	112,753	114,767	126,081	125,355	101,136	110,328	120,986	134,188	133,101
Consumer Use Tax	4,647	5,313	7,545	5,071	4,641	5,250	4,322	4,695	6,334	4,293
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(2,649)	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	(121)	N/A
Unclassified	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	208,275	258,465
Grand Total	$ 5,734,408	$ 5,963,479	$ 6,378,840	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012

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

Schedule 8

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

	FOR THE FISCAL YEAR ENDED JUNE 30, 2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities debt:										
General obligation bonds	$ 1,141,026	$ 1,044,830	$ 1,096,765	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630
General obligation bond anticipation notes										
General obligation commercial paper	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146
Capital leases	1,008	1,229	3,619	3,943	11,743	10,810	16,301	15,503	14,666	13,790
Total governmental activities debt	1,224,809	1,214,634	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566
Business-type activities debt:										
General obligation bonds	8,071	5,232	3,378	2,534	1,655	-	-	-	-	-
Total business-type activities debt	8,071	5,232	3,378	2,534	1,655	-	-	-	-	-
Total primary government debt	$ 1,232,880	$ 1,219,866	$ 1,248,387	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566
Debt Ratios										
Personal income	$ 174,741,000	$ 184,637,000	$ 195,085,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	243,018,000	N/A
Ratio of total debt to personal income	0.71%	0.66%	0.64%	0.61%	0.67%	0.79%	0.87%	0.85%	0.96%	
Population	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403	6,456	N/A
Net general bonded debt per capita	$ 209	$ 205	$ 206	$ 203	$ 228	$ $270	$ $304	$ $307	$358	
General Bonded Debt:										
General obligation bonds	$ 1,149,097	$ 1,050,062	$ 1,100,143	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630
General obligation bond anticipation notes										
General obligation commercial paper	82,775	168,575	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146
Assets restricted for debt principal						(14,509)				
Total net bonded debt	$ 1,231,872	$ 1,218,637	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	70.45%	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%	43.11%

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 2013 pledged revenues:	Collections for Fiscal Year 2013: Portion Pledged	Collections for Fiscal Year 2013: All Governmental Fund Types	Fiscal Year 2013 Pledged Amount
Gasoline tax	25%	$ 615,043	$ 153,761
Petroleum products fee	100%	62,920	62,920
Motor vehicle registration fee	50%	220,822	110,411
Franchise tax	100%	702,340	702,340
		$ 1,601,125	$ 1,029,432

Pledged amount	$ 1,029,432
Legal debt service limit (pledged amount/150%)	686,288
Less: 2013 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds	243,779
Legal debt service margin	$ 442,509

FOR THE FISCAL YEAR ENDED JUNE 30,

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt limit	$ 578,609	$ 594,778	$ 628,010	$ 673,748	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288
Total net debt service applicable to limit	143,702	155,215	148,033	145,975	145,721	154,803	186,684	203,866	209,820	243,779
Legal debt service margin	$ 434,907	$ 439,563	$ 479,977	$ 527,773	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509
Legal debt service margin as a percentage of the debt limit	75.16%	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%	64.48%

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,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Population	5,842	5,893	5,963	6,039	6,157	6,215	6,296	6,346	6,403 (est)	6,456 (est)
Total personal income	$ 165,622,000	$ 174,727,000	$ 184,567,000	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000
Per capita personal income	$ 28,377	$ 29,761	$ 31,127	$ 32,474	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682
Unemployment rate	5.5%	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%	8.00%

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

	2012			2003		
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	556,200	1	20.67%	578,700	1	21.73%
Government	437,400	2	16.26%	411,100	3	15.44%
Education and Health Services	390,700	3	14.52%	312,700	4	11.74%
Professional and Business Services	328,400	4	12.21%	287,300	5	10.79%
Manufacturing	313,000	5	11.63%	413,300	2	15.52%
Leisure and Hospitality	268,600	6	9.98%	246,700	6	9.27%
Financial Activities	133,800	7	4.97%	139,800	7	5.25%
Natural Resources, Mining, and Construction	116,500	8	4.33%	119,600	8	4.49%
Other Services	101,800	9	3.78%	102,300	9	3.84%
Information	44,200	10	1.64%	51,200	10	1.92%
Total	2,690,600		100.00%	2,662,700		100.00%
	Calendar Year 2012			Calendar Year 2003		
Total State Employment	2,864,250			2,720,660		

Source: An Economic Report to the Governor of the State of Tennessee January 2013
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	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government	4,254	4,394	4,671	4,964	5,040	4,947	4,866	4,786	4,705	4,703
Education	1,014	1,028	1,025	1,070	1,206	1,157	1,193	1,154	1,128	1,259
Health and social services (1)	19,255	20,431	21,246	21,208	20,990	19,704	19,241	17,917	17,453	17,036
Law, justice and public safety	10,691	10,922	10,987	10,843	11,004	10,530	10,629	10,534	10,592	10,940
Recreation and resources development	3,762	3,757	3,846	3,885	3,901	3,698	3,640	3,564	3,515	3,458
Regulation of business and professions	680	718	738	776	754	708	717	714	706	711
Transportation	4,460	4,454	4,448	4,380	4,294	4,167	4,326	3,940	3,809	3,678
Total	44,116	45,704	46,961	47,126	47,189	44,911	44,612	42,609	41,908	41,785

Source: Department of Human Resources

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

Schedule 13

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

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government										
Motor pool vehicles	7,785	6,689	7,067	7,276	7,392	7,562	7,536	7,621	6,530	6,280
Buildings	61	108	107	107	107	107	107	109	110	110
Machinery and equipment	3,861	3,634	3,637	3,586	3,528	3,166	3,888	4,061	4,121	5,895
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	228	244	219	209	240	242	260	249	307	229
Health and social services										
Buildings	388	342	340	339	329	320	320	316	314	330
Machinery and equipment	1,964	2,031	2,142	2,303	2,443	2,462	2,856	2,600	2,862	3,020
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	19	19	20
Armories	86	86	86	86	83	83	83	83	83	83
Machinery and equipment	2,009	2,352	2,532	2,586	3,103	3,156	3,732	4,424	4,506	5,246
Recreation and resources development										
Acreage of state parks	158,723	164,251	164,399	164,537	165,486	173,878	163,032	173,382	191,563	184,521
Machinery and equipment	2,185	2,295	2,476	2,543	2,729	2,736	2,949	2,912	3,075	3,220
Regulation of business and professions										
Machinery and equipment	82	93	104	138	147	140	148	146	151	169
Transportation										
State highways (in miles)	14,289	14,151	14,163	13,835	13,887	13,882	13,871	13,867	13,877	13,884
Bridges, state and local highways	19,621	19,646	19,432	19,515	19,563	19,536	19,595	19,595	19,659	19,729
Facilities	120	122	122	122	122	122	122	122	122	122
Buildings	682	710	713	717	708	708	708	754	754	754

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

Function	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General government										
Tax returns processed (1)	2,225,891	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716	3,914,540
New corporate charters registered	11,826	12,103	11,807	11,726	10,745	11,073	11,724	9,717	9,618	9,702
Investment return on total portfolio	1.11%	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%	0.11%
Residential and commercial property reappraisals completed	265,373	1,441,168	554,798	336,050	255,250	511,050	677,720	525,516	185,965	1,495,789
Education										
Number of public schools (K-12)	1,677	1,693	1,699	1,714	1,718	1,736	1,736	1,736	1,784	1,797
Enrollment of public schools (K-12)	973,626	976,574	991,489	925,898	929,543	930,525	933,703	934,246	935,317	993,256
Number of high school graduates from public schools	50,203	51,436	53,960	54,191	57,486	60,371	62,526	62,147	62,157	
Health and social services										
TennCare enrollees	1,336,700	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521	1,187,082
Food stamp recipients	791,695	833,687	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000	1,200,000
Percentage of population (4)	13.43%	13.98%	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%	18.59%
Temporary assistance recipients	73,158	72,676	70,108	64,684	60,000	60,000	58,000	61,500	57,000	57,000
Percentage of population (4)	1.24%	1.22%	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%	0.88%
Children in state custody (2)	10,869	10,467	9,700	9,048	8,149	7,202	7,336	7,870	8,533	8,960
Percentage of population (4)	0.18%	0.18%	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%	0.14%
Mental health institutes average daily census	960	888	845	808	780	688	575	538	517	480
Law, justice and public safety										
Correctional institutions average daily census	19,117	19,141	19,119	26,573	26,998	27,325	27,164	27,782	29,231	29,654
Department of Safety citations issued	423,305	453,630	472,465	403,363	380,586	358,104	347,571	301,394	340,575	381,588
Drivers licenses issued	1,334,417	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905	1,734,205
Recreation and resources development										
Hunting/fishing licenses and boats registered	723,305	733,554	690,426 (es	718,397 (est.)	690,313	707,000	689,935	547,660	586,839	538,971
Wetland acres acquired	6,369	782	3,308 (es	891 (est.)	3,602	2,327	79	559	1,604	1,127
Number of visitors to state parks	26,702,434	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603	29,881,059
Air pollution monitoring sites	91	86	87	86	78	89	93	32	32	41
Regulation of business and professions										
Fire safety inspections	41,402		18,418	34,976	39,518	34,241	37,920	34,539	27,058	25,601
Consumer affairs written complaints	4,747		5,528	5,420	5,797	5,481	6,240	5,818	5,541	5,407
Transportation										
Lane miles resurfaced (3)	2,238	2,188	1,632	2,408	1,968	2,893	2,261	2,317	2,298	2,596
HELP program services provided	137,615	148,805	154,362	128,006	130,062	108,460	112,438	116,865	130,941	118,773

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, or unruly.
(3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
(4) Population figures used in calculating percentages are from schedule 10.
(5) 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)
2004	$ 417,191	$ 406,033	75	$ 24,508
2005	448,955	430,412	66	25,317
2006	484,786	440,014	56	23,896
2007	532,582	471,730	45	26,652
2008	565,963	510,261	35	33,177
2009	599,973	476,333	35	43,577
2010	648,298	493,304	12	43,998
2011	685,003	548,787	-	51,079
2012	584,147	411,729	-	49,835
2013	619,399	432,636		52,859

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2004	$ 140,957	$ 100,602	-	$ 6,291
2005	151,536	106,393	-	5,609
2006	166,652	108,395	-	4,993
2007	177,082	116,006	-	6,013
2008	188,462	123,719	-	6,280
2009	195,365	114,524	-	8,914
2010	214,426	122,480	-	8,914
2011	237,768	133,514	-	8,839
2012	259,510	97,773	-	8,589
2013	265,206	94,419	-	8,511

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)
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	57,821	36,371	-	2,581
2009	62,358	33,427	-	3,512
2010	70,128	39,157	-	3,512
2011	78,214	36,102	-	3,531
2012	85,043	26,502	-	3,330
2013	85,725	28,733	-	4,343

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)
2004	$ 126,161	$ 81,057	-	$ 6,540
2005	136,192	85,305	-	6,937
2006	149,759	86,971	-	6,455
2007	158,641	94,005	-	7,875
2008	168,872	100,859	-	8,011
2009	182,576	92,908	-	12,962
2010	199,352	101,836	-	12,962
2011	180,529	100,110	-	14,928
2012	218,283	74,071	-	14,780
2013	232,344	77,254	-	17,575

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)
2004	$ 85,854	$ 79,247	$ 315	$ 2,609
2005	92,599	83,221	312	2,824
2006	101,586	85,040	2,242	2,221
2007	108,864	90,643	2,070	2,895
2008	122,334	98,105	1,889	5,172
2009	137,173	91,775	1,699	9,489
2010	159,993	85,322	1,399	9,502
2011	169,479	97,996	1,399	9,229
2012	177,436	77,520	1,399	9,142
2013	192,055	79,860	-	9,926

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2004	$ 54,375	$ 34,569	-	$ 3,136
2005	57,504	37,110	-	3,001
2006	59,847	37,864	-	2,893
2007	60,537	39,913	-	2,911
2008	85,505	41,775	-	3,506
2009	80,016	38,085	-	4,041
2010	85,831	44,400	-	4,041
2011	91,919	40,831	-	4,071
2012	97,171	28,782	-	4,056
2013	97,174	29,959	-	4,237

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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)
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
2009	76,045	47,577	-	1,786
2010	81,475	48,133	-	1,786
2011	89,100	50,616	-	3,104
2012	100,915	35,747	-	3,102
2013	110,217	36,914	-	3,479

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)
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
2009	6,945	7,276	-	116
2010	9,027	7,758	-	116
2011	9,988	7,985	-	-
2012	10,626	6,570	-	-
2013	10,647	6,900	-	-

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)
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
2009	26,466	23,937	-	489
2010	29,512	24,926	-	489
2011	34,021	26,901	-	285
2012	36,319	20,643	-	285
2013	36,895	21,983	-	351

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)
2004	$ 8,290	$ 10,610	-	-
2005	8,958	11,282	-	-
2006	9,280	11,480	-	-
2007	10,614	12,383	-	$ 168
2008	11,512	13,147	-	166
2009	12,383	13,264	-	166
2010	14,749	11,710	-	166
2011	15,739	13,193	-	-
2012	16,009	10,652	-	-
2013	14,918	10,871	-	-

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)
2004	$ 5,631	$ 9,053	-	-
2005	5,737	9,580	-	-
2006	6,249	9,683	-	-
2007	6,422	10,317	-	$ 169
2008	7,360	10,856	-	168
2009	8,336	10,379	-	213
2010	9,958	10,992	-	213
2011	10,979	11,432	-	45
2012	11,373	9,088	-	45
2013	11,377	8,887	-	45

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)
2004	$ 8,619	$ 11,138	-	-
2005	9,416	12,057	-	$ 17
2006	9,943	12,204	-	17
2007	10,077	13,194	-	17
2008	10,903	13,986	-	18
2009	11,755	13,824	-	14
2010	14,406	12,463	-	18
2011	15,413	14,098	-	18
2012	15,296	11,467	-	18
2013	15,792	11,326	-	112

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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)
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
2009	11,148	12,890	-	170
2010	13,121	9,143	-	170
2011	13,983	11,023	-	-
2012	14,494	9,774	-	-
2013	14,062	10,359	-	-

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)
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	17,657	16,370	-	85
2009	19,900	15,619	-	70
2010	24,984	14,585	-	85
2011	30,011	16,451	-	85
2012	30,181	13,965	-	73
2013	30,199	14,592	-	73

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)
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
2009	15,366	18,104	-	323
2010	18,411	16,997	-	323
2011	20,532	19,098	-	153
2012	21,580	15,571	-	153
2013	21,902	15,619	-	145

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)
2004	$ 7,158	$ 10,391	-	-
2005	7,702	10,958	-	-
2006	8,471	11,147	-	-
2007	9,191	12,256	-	$ 212
2008	9,423	13,199	-	209
2009	10,140	12,678	-	209
2010	10,798	13,247	-	209
2011	12,141	13,291	-	43
2012	13,934	12,069	-	43
2013	12,654	12,970	-	41

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)
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	30,403	40,131	-	175
2009	36,691	38,230	-	389
2010	39,546	40,340	-	389
2011	42,093	40,168	-	390
2012	41,966	32,359	-	357
2013	39,705	31,281	-	357

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)
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
2009	25,530	20,983	-	376
2010	32,052	19,105	-	376
2011	35,757	22,100	-	179
2012	36,322	18,910	-	178
2013	44,992	20,887	-	178

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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)
2004	$ 12,256	$ 15,417	-	-
2005	13,206	16,303	-	$ 17
2006	14,224	16,548	-	17
2007	14,974	17,995	-	140
2008	16,565	19,245	-	139
2009	17,802	18,351	-	139
2010	22,240	18,944	-	139
2011	24,326	20,729	-	17
2012	26,812	15,650	-	17
2013	25,995	15,577	-	16

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)
2004	$ 11,211	$ 15,689	-	-
2005	11,798	16,643	-	-
2006	12,740	16,860	-	-
2007	14,097	18,249	-	$ 294
2008	15,810	19,429	-	289
2009	17,859	19,601	-	289
2010	21,454	19,180	-	289
2011	21,821	19,986	-	102
2012	23,034	16,078	-	102
2013	23,157	17,227	-	97

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

STATE OF TENNESSEE
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Schedule 16

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 240	$ 10,439	$ 28,929	$ 3,710	$ 5,460
University of Tennessee- Chattanooga	300	7,255	22,462	2,997	5,292
University of Tennessee- Martin	380	7,134	21,078	2,484	4,570
Austin Peay State University	274	6,884	22,100	2,974	5,575
East Tennessee State University	180	7,363	23,443	3,080	4,828
Middle Tennessee State University	408	7,432	23,662	2,915	4,905
Tennessee State University	178	6,596	19,952	3,602	3,502
Tennessee Technological University	58	7,325	23,075	4,950	3,350
University of Memphis	192	8,474	23,924	3,486	5,230
Chattanooga State Technical Community College		3,787	18,253		
Cleveland State Community College		3,787	18,253		
Columbia State Community College		3,787	18,253		
Dyersburg State Community College		3,787	18,253		
Jackson State Community College		3,787	18,253		
Motlow State Community College		3,787	18,253		
Nashville State Technical Community College		3,787	18,253		
Northeast State Technical Community College		3,787	18,253		
Pellissippi State Technical Community College	30	3,757	18,223		
Roane State Community College		3,787	18,253		
Southwest Tennessee Community College		3,787	18,253		
Volunteer State Community College		3,787	18,253		
Walters State Community College		3,787	18,253		

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

STATE OF TENNESSEE
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2013
(expressed in thousands)

Schedule 17

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 602,118	$ 102,461	$ 704,579
Austin Peay State University	57,465	24,809	82,274
East Tennessee State University	122,282	24,676	146,958
Middle Tennessee State University	203,610	37,654	241,264
Tennessee State University	34,323		34,323
Tennessee Technological University	40,379	6,450	46,829
University of Memphis	97,005	2,684	99,689
Chattanooga State Technical Community College	3,158		3,158
Cleveland State Community College	351		351
Columbia State Community College	1,323		1,323
Nashville State Technical Community College	540		540
Northeast State Technical Community College	267		267
Pellissippi State Technical Community College	1,268		1,268
Roane State Community College	940		940
Southwest Tennessee Community College	2,448		2,448
Volunteer State Community College	17		17
Walters State Community College	626		626
	$ 1,168,120	$ 198,734	$ 1,366,854

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

SECURITIES & EXCHANGE COMMISSION DISCLOSURES

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, Commissioner
Mike Morrow, Deputy Commissioner, F&A Operations
Jan Sylvis, Chief of Accounts

The Comprehensive Annual Financial Report was prepared by the Administration and Financial Oversight sections of the Division of Accounts with assistance from the following other sections:

Accounts Payable
Asset Management
Cash Management/Clearing Accounts
Cash Management Improvement Act/Credit Cards
Centralized Accounting
Departmental Accounting
General Ledger
Payroll
Policy Development
Vendor File Maintenance

The Department of Finance and Administration would like to extend special appreciation to all fiscal and accounting personnel throughout the state who contributed the financial information for their agencies.