



TENNESSEE

Comprehensive Annual Financial Report
June 30, 2004

Comprehensive Annual Financial Report June 30, 2004

Tennessee Comprehensive Annual Financial Report For the Year Ended June 30, 2004

PHIL BREDESEN, Governor



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

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

**STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2004**

TABLE OF CONTENTS

<u>INTRODUCTORY SECTION</u>	<u>Page</u>
Letters of Transmittal	I
Organization Chart	VI
Certificate of Achievement for Excellence in Financial Reporting	VII
 <u>FINANCIAL SECTION</u>	
Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	17
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	23
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Statement of Net Assets - Proprietary Funds	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28
Statement of Fiduciary Net Assets - Fiduciary Funds	32
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	33
Index for the Notes	34
Required Supplementary Information:	
Infrastructure Assets Reported Using the Modified Approach	84
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual—Major Governmental Funds	86
Reconciliation of Budget to GAAP - Note to RSI	88
Supplementary Information	
Nonmajor Governmental Funds:	
Combining Balance Sheet - Nonmajor Governmental Funds - by Fund Type	90
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds - by Fund Type	91
Nonmajor Special Revenue Funds:	
Combining Balance Sheet - Nonmajor Special Revenue Funds	94
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	98
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) – All Nonmajor Budgeted Special Revenue Funds	102

	<u>Page</u>
Debt Service Fund:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budgetary Basis) – Debt Service Fund	117
Permanent Funds:	
Combining Balance Sheet - Permanent Funds	120
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Permanent Funds	121
General Fund Supplementary Schedules:	
Comparative Schedules of Revenues by Source - General Fund	124
Comparative Schedules of Expenditures by Function and Department - General Fund	125
Nonmajor Enterprise Funds:	
Combining Statement of Net Assets - Nonmajor Enterprise Funds	128
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Enterprise Funds	130
Combining Statement of Cash Flows - Nonmajor Enterprise Funds	132
Internal Service Funds:	
Combining Statement of Net Assets - Internal Service Funds	136
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	138
Combining Statement of Cash Flows - Internal Service Funds	140
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds	144
Combining Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds	145
Combining Statement of Fiduciary Net Assets - Private-Purpose Trust Funds	146
Combining Statement of Changes in Fiduciary Net Assets - Private-Purpose Trust Funds	147
Combining Statement of Fiduciary Net Assets - Agency Funds	148
Combining Statement of Changes in Assets and Liabilities - All Agency Funds	149
Component Units:	
Combining Statement of Net Assets - Component Units	152
Combining Statement of Activities - Component Units	156
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund Type Component Units	158
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund Type Component Units	160
Statement of Fiduciary Net Assets – Components Units – Tennessee Student Assistance Corporation – Federal Family Education Loan Trust	162
Statement of Changes in Fiduciary Net Assets – Components Units – Tennessee Student Assistance Corporation – Federal Family Education Loan Trust	163
	<u>Schedule</u> <u>Page</u>
Supplementary Schedules	
Debt Service Requirements to Maturity - General Obligation Bonds	1 165
Schedule of Outstanding Debt - All Fund Types	2 166
Schedule of General Obligation Commercial Paper Outstanding-By Purpose - All Fund Types	3 166
Schedule of Outstanding Debt - Component Units	4 167

	<u>Table</u>	<u>Page</u>
<u>STATISTICAL AND ECONOMIC DATA</u>		
Revenues by Source and Transfers In - All Governmental Fund Types	I	169
Expenditures by Function and Transfers Out - All Governmental Fund Types	II	169
Tax Revenues by Source - All Governmental Fund Types	III	170
Description of Tax Sources - All Governmental Fund Types		171
Ratio of Net General Long-Term Debt to Assessed Value and Net Debt Per Capita	IV	172
Computation of Legal Debt Service Margin	V	172
Ratio of Annual Debt Service for General Long-Term Debt to Total Expenditures - All Governmental Fund Types	VI	173
Schedule of Revenue Bond Coverage - Component Units - Tennessee Housing Development Agency and College and University Funds	VII	173
Schedule of Fees/Charges, Legislative Appropriations and Debt Service - Component Units - College and University Funds	VIII	174
Student Fees and Charges - For Institutions with Tennessee State School Bond Authority Debt - Component Units - College and University Funds	IX	178
Principal Amount of Debt Outstanding by Institution - Component Units - College and University Funds	X	178
Economic Characteristics		179
Index to Securities and Exchange Commission (SEC) Disclosures		185
Acknowledgments		186

INTRODUCTORY SECTION

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

**DAVE GOETZ
COMMISSIONER**

December 3, 2004

The Honorable Phil Bredesen
Governor of the State of Tennessee

I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2004. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

In developing and modifying the State's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that evaluations occur within the above framework. I believe that the State's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The State of Tennessee's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 41,219 square miles and a population estimated to be 5.9 million. The State has three branches of government, the Executive, Legislative and Judicial. The Executive branch is headed by the Governor, who appoints commissioners to lead the various departments. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

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

In addition to internal controls, the State maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annually appropriated budget approved by the Legislature. Activities of the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and the Dairy Promotion Board) and debt service fund are included in the annually appropriated budget. Budgetary control is maintained at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of available

balances are not released until budget revisions are approved or additional appropriations are made. Open encumbrances are reported as reservations of fund balance at June 30, 2004.

State statutes require an annual audit of all financial statements of the State. The accompanying financial statements have been examined by the Office of the Comptroller of the Treasury, Division of State Audit. Their examination was conducted in accordance with government auditing standards generally accepted in the United States of America, and their opinion appears elsewhere herein.

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

FACTORS AFFECTING FINANCIAL CONDITION

Local economy. The State's economic diversity has improved substantially over the last several years. Investments announced in new and expanding manufacturing businesses exceeded \$1 billion every year since 1983. Announced manufacturing capital investments in 2003 were \$2.33 billion. This growth has created 15,780 new jobs in this year alone, and has had a positive effect on employment and the State's economy. Additionally, investments in headquarters, distribution and selected services were \$1.26 billion in 2003 and created 12,788 new jobs. For June 2004, the state unemployment rate of 4.5% was under the national average of 5.6%. The financial impact of these events is presented later in this letter. Based on current projections, the State's overall growth is expected to exceed the national average over the next several years. While having a positive impact, this growth also presents significant challenges for the State. If the present level of services is to be maintained and an ambitious program for major improvements in the educational system is to continue to be implemented, the State must continue to conservatively manage its financial resources.

The national recession appears to have ended. As evidence, the real (inflation-adjusted) gross domestic product increased only 3.0 percent during the calendar year 2003 and increased over 3.3 percent during each of the first three quarters of 2004. The Federal Reserve has interest rates at historic lows, although rates have risen slightly.

Tennessee's state government will take appropriate steps to ensure that the State is able to successfully manage its finances in the future.

Financial planning. The Administration emerged from its first transitional year with state finances restored to a more solid footing. The General Fund Reserve for Revenue Fluctuations at June 30, 2004, was increased to \$217 million. While the 2004-2005 budget proposed an average 3.7% reduction, the reduction was smaller than the previous year's 9% reduction in its discretionary base appropriations.

The Administration concentrated on its review of the TennCare program, the State's managed care health insurance program that replaced and expanded Medicaid in 1994. Through private-sector donations, the state obtained the services of a consultant, McKinsey and Company, to report on the program's viability. TennCare, in its current form, is consuming greater and greater portions of the total state budget each year. The McKinsey report offered options to curb the rate of program growth and provided some financial projections to aid in budgetary analysis. Based on the report, the Administration developed a reform effort that was sent to the federal government for approval. Represented advocacy groups requested, and were granted, a stay of the reform process. While deliberations are continuing, the state is exploring its options, including a return to a basic Medicaid program.

Pension and other post-employment benefits. The State sponsors a cost-sharing multiple employer defined benefit pension plan. Biennially, an independent actuary engaged by the State calculates the contribution rate that the State must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the State fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the State's conservative funding policy, as of July 1, 2003, the present value of the projected benefits earned by employees is funded at 99.8%.

The State also provides post-retirement health benefits for employees and retirees. For fiscal year ended June 30, 2004, there was an average of 6,433 retired employees receiving these benefits, which were financed on a pay-as-you-go-basis. Generally Accepted Accounting Principles (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the State's pension arrangement and post-employment benefits can be found in Notes 6E and G in the notes to the financial statements.

Cash Management. The State Treasurer has pursued an aggressive cash management and investment program. One aspect of this, which we believe is unique to Tennessee, is our direct access into the Federal Reserve wire system. Through the State Trust of Tennessee, wire services in the federal system are available via a terminal located in the State's investment offices. This provides the State flexibility in investing and concentrating cash balances, pension fund assets, and in redeeming warrants and checks issued against the Treasury. During fiscal year 2004, uncommitted State funds were invested in short-term collateralized deposits as follows (averaged): certificates of deposit (48%); repurchase agreements (7%); commercial paper (22%); U.S. Treasuries (22%); and money market accounts (1%). The composite average yield on these investments was 1.11%, down from 1.64% last year.

OTHER INFORMATION

Securities and Exchange Commission Disclosures. The State Funding Board, the Tennessee State School Bond Authority, and the Tennessee Local Development Authority have each entered into Continuing Disclosure Undertakings with respect to certain debt issues. These Undertakings were made for the benefit of the holders of the debt pursuant to U.S. Securities and Exchange Commission Rule 15c2-12. The issuers have covenanted to provide certain annual financial information, including audited financial statements, as well as, certain additional financial and operating data. With the exceptions of information related to Tennessee Consolidated Retirement System and of certain local government financial information related to the Tennessee Local Development Authority provided to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) under separate cover, financial and operating data required pursuant to the Undertakings is located in this Comprehensive Annual Financial Report. The reader should use the index located at the end of this report to identify the specific page where the information is presented.

Awards. 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 for the year ended June 30, 2003. This is the twenty-fifth consecutive year that the State has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Tennessee Consolidated Retirement System has received this award for sixteen consecutive years for its Comprehensive Annual Financial Report.

Acknowledgments. The preparation of the comprehensive annual financial report was made possible by the dedication of the entire staff of the Division of Accounts in the Department of Finance and Administration. This report could not have been prepared without the cooperation of all state agencies and branches.

Respectfully submitted,

/s/ M. D. Goetz, Jr.

M. D. Goetz, Jr., Commissioner
Department of Finance and Administration

MDG/jmc



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

December 3, 2004

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

Ladies and Gentlemen:

In accordance with Section 4-3-304, Tennessee Code Annotated, transmitted herewith is the auditor's report on the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2004.

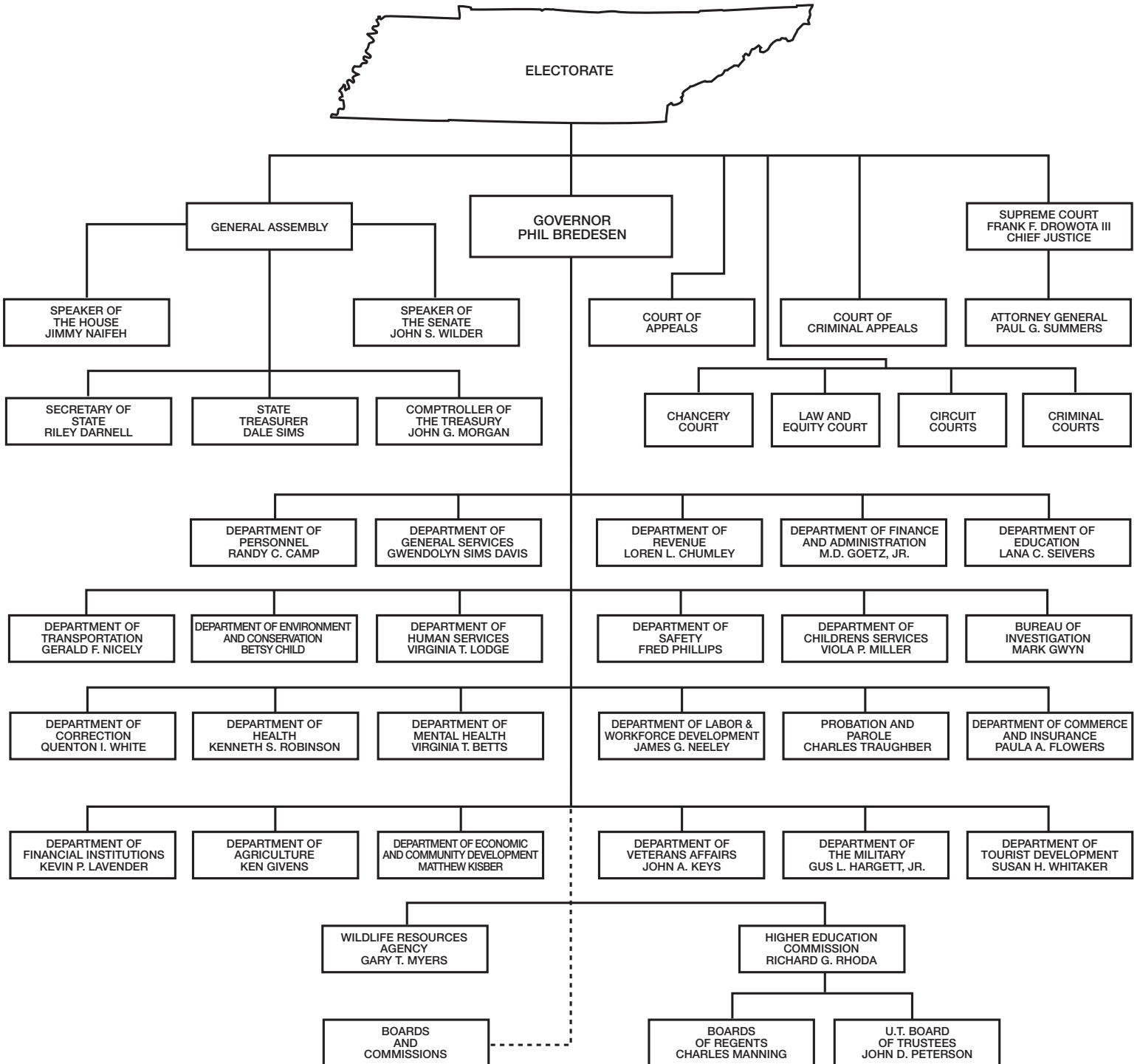
Respectfully,

/s/ John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/jmc

STATE OF TENNESSEE ORGANIZATION CHART As of June 30, 2004



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, 2003

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



Nancy L. Zjella

President

Jeffrey R. Emer

Executive Director

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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 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

December 3, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

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, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of many agencies, commissions, and component units of the State of Tennessee; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving plans of operation of the state's Community Services Agencies and the Tennessee State Veterans' Homes Board; approving certain state contracts; participating in the negotiation and procurement of services for the state; managing the state's debt; making loans to the state's colleges and universities from debt proceeds; maintaining the accounting records for the Tennessee Local Development Authority and the Tennessee State School Bond Authority; developing policy guidelines for the overall management of the state's information systems; and providing support staff to the State Funding Board, the bond finance committee of the Tennessee Housing Development Agency, various legislative committees, and commissions. The boards of which the Comptroller of the Treasury serves as a member per state statutes include Baccalaureate Education System Trust, Board of Claims, Board of Standards, Chairs of Excellence, Health Services and Development Agency, Local Education Committee, Local Government Insurance Committee, State Building Commission, State Funding Board, State Insurance Committee, State Trust of Tennessee, Tennessee Consolidated Retirement System, Tennessee Higher Education Commission, Tennessee Housing Development Agency, Tennessee Local Development Authority, Tennessee Student Assistance Corporation, and Tennessee State School Bond Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the State of Tennessee has implemented the Governmental Accounting Standards Boards' Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*.

The management's discussion and analysis, the schedule of revenues, expenditures and changes in fund balances – budget and actual, and infrastructure assets reported using the modified approach are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we will issue our report dated December 3, 2004, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Sincerely,

/s/ Arthur A. Hayes, Jr.

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

AAH/jmc

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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, 2004. 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 I-IV of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

Net Assets - The assets of the State exceeded its liabilities at June 30, 2004, by \$21.642 billion (reported as net assets). Of this amount, \$815.1 million may be used to meet the State's obligations not funded by restricted net assets. However, \$18.694 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

Changes in Net Assets - The State's net assets increased by \$1.298 billion. Most of this increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets. Because of this decision, the State capitalized infrastructure expenditures of \$654.2 million and did not record depreciation expense. Other capital assets are depreciated.

Component units - Component units reported net assets of \$3.76 billion, an increase of \$142.9 million.

- **Fund Level:**

At June 30, 2004, the State's governmental funds reported combined ending fund balances of \$2.4 billion, an increase of \$725 million (see discussion on page 10) in comparison to the prior year. Of the combined fund balance approximately \$658.2 million is available for spending at management's discretion (unreserved fund balance), however \$217 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

The State's total debt decreased by \$28.5 million during the fiscal year to total \$1.232 billion. This change reflects the tight budgetary situation faced by the State in recent years during which capital projects were not authorized in the legislative process. With the improvement in the economy, capital projects were authorized in the legislative session just completed.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 17 and 18-19) 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 22. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the State as a whole begins on page 7. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report financial information about the entire government except fiduciary activities. The statements distinguish between the primary government and its component units, and also distinguish between governmental activities and business-type activities of the primary government. The Statement of Net Assets displays all the State's financial and capital resources in the format of assets minus liabilities equal net assets. The Statement of Activities reports the State's operations by function to arrive at net revenue (expense). The statement reports what type revenue (either program revenue or tax 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; state shared taxes paid to local governments; 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 10. The fund financial statements begin on page 22 and provide detailed information about the most significant funds—not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

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

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

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by \$21.642 billion as of June 30, 2004.

By far the largest portion of the State's net assets (86%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee Net Assets (Expressed in Thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 4,412,431	\$ 3,580,391	\$ 1,427,852	\$ 1,307,543	\$ 5,840,283	\$ 4,887,934
Capital assets	<u>19,178,823</u>	<u>18,643,165</u>			<u>19,178,823</u>	<u>18,643,165</u>
Total Assets	<u>23,591,254</u>	<u>22,223,556</u>	<u>1,427,852</u>	<u>1,307,543</u>	<u>25,019,106</u>	<u>23,531,099</u>
Current and other liabilities	1,545,081	1,476,722	59,797	63,786	1,604,878	1,540,508
Noncurrent liabilities	<u>1,764,352</u>	<u>1,635,566</u>	<u>8,140</u>	<u>11,129</u>	<u>1,772,492</u>	<u>1,646,695</u>
Total liabilities	<u>3,309,433</u>	<u>3,112,288</u>	<u>67,937</u>	<u>74,915</u>	<u>3,377,370</u>	<u>3,187,203</u>
Net assets:						
Invested in capital assets, net of related debt	18,694,346	18,119,735			18,694,346	18,119,735
Restricted net assets	843,889	703,010	1,288,353	1,181,636	2,132,242	1,884,646
Unrestricted net assets	<u>743,586</u>	<u>288,523</u>	<u>71,562</u>	<u>50,992</u>	<u>815,148</u>	<u>339,515</u>
Total net assets	<u>\$ 20,281,821</u>	<u>\$ 19,111,268</u>	<u>\$ 1,359,915</u>	<u>\$ 1,232,628</u>	<u>\$ 21,641,736</u>	<u>\$ 20,343,896</u>

An additional portion of the State's net assets (9.9 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets (\$815.148 million) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

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

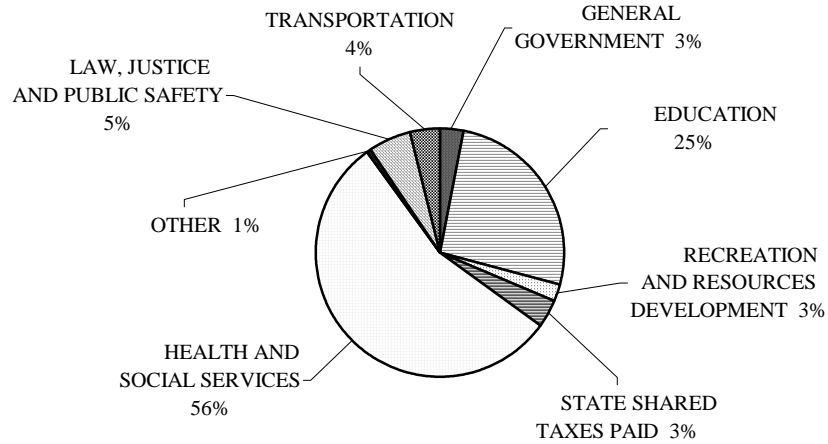
The State's net assets increased by \$1.298 billion during the year ended June 30, 2004. As previously discussed, most of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized \$654.2 million in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Most of the remaining gain of \$643.8 million resulted from operations in the General Fund, which is discussed later in this MD&A.

Net assets of the State's business-type activities increased by \$127.3 million. This increase was caused by a \$47.5 million increase in the Employment Security Fund, which resulted from the improvement in the national economy, and a \$40.6 million increase in the sewer treatment loan program, which resulted from increases in the number of loans issued and the amount of federal monies received for these loans.

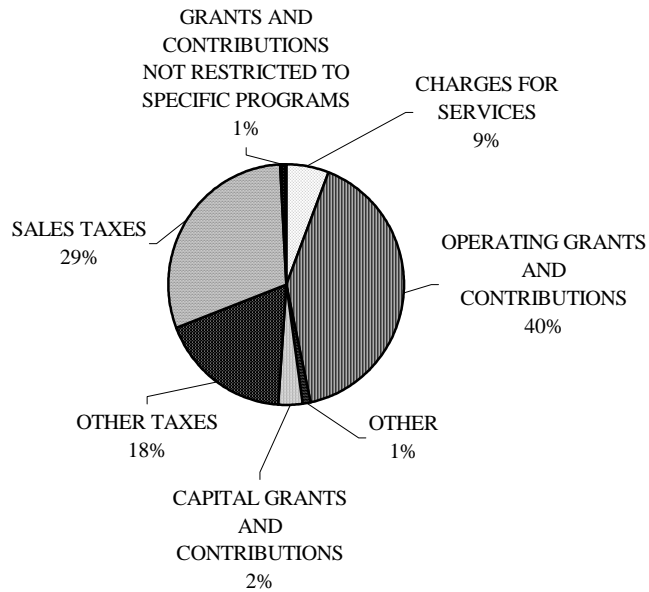
State of Tennessee
Changes in Net Assets
(Expressed in Thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Primary Government</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,775,553	\$ 1,040,020	\$ 960,800	\$ 837,350	\$ 2,736,353	\$ 1,877,370
Operating grants and contributions	8,095,087	7,452,665	208,296	256,444	8,303,383	7,709,109
Capital grants and contributions	503,539	568,221			503,539	568,221
General revenues:						
Sales Taxes	5,806,268	5,478,642			5,806,268	5,478,642
Other taxes	3,540,115	3,306,366			3,540,115	3,306,366
Grants and contributions not restricted to specific programs	152,676	149,746			152,676	149,746
Other	<u>219,732</u>	<u>242,352</u>			<u>219,732</u>	<u>242,352</u>
Total revenues	<u>20,092,970</u>	<u>18,238,012</u>	<u>1,169,096</u>	<u>1,093,794</u>	<u>21,262,066</u>	<u>19,331,806</u>
Expenses:						
General government	546,996	510,674			546,996	510,674
Education	4,692,605	4,520,624			4,692,605	4,520,624
Health and social services	10,583,726	9,507,209			10,583,726	9,507,209
Law, justice and public safety	1,032,302	968,859			1,032,302	968,859
Recreation and resources development	479,251	376,734			479,251	376,734
Regulation of business and professions	81,940	64,109			81,940	64,109
Transportation	787,646	726,476			787,646	726,476
State shared taxes paid to local governments	647,654	641,271			647,654	641,271
Interest on long-term debt	51,819	50,610			51,819	50,610
Employment security			639,993	767,202	639,993	767,202
Insurance programs			416,871	379,661	416,871	379,661
Loan programs			1,737	2,273	1,737	2,273
Other			<u>2,037</u>	<u>1,802</u>	<u>2,037</u>	<u>1,802</u>
Total expenses	<u>18,903,939</u>	<u>17,366,566</u>	<u>1,060,638</u>	<u>1,150,938</u>	<u>19,964,577</u>	<u>18,517,504</u>
Increase (decrease) in net assets before contributions and transfers	1,189,031	871,446	108,458	(57,144)	1,297,489	814,302
Transfers	(18,829)	(18,881)	18,829	18,881		
Contributions to permanent funds	<u>351</u>	<u>381</u>			<u>351</u>	<u>381</u>
Increase (decrease) in net assets	1,170,553	852,946	127,287	(38,263)	1,297,840	814,683
Net assets, July 1	<u>19,111,268</u>	<u>18,258,322</u>	<u>1,232,628</u>	<u>1,270,891</u>	<u>20,343,896</u>	<u>19,529,213</u>
Net assets, June 30	<u>\$ 20,281,821</u>	<u>\$ 19,111,268</u>	<u>\$ 1,359,915</u>	<u>\$ 1,232,628</u>	<u>\$ 21,641,736</u>	<u>\$ 20,343,896</u>

EXPENSES BY FUNCTION - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



THE STATE'S FUNDS

Tax collections increased for the year and expenditures increased as well. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been increased to \$217 million or 1.6% of General Fund expenditures. \$96.7 million was received from the federal government in fiscal year 2004 for tax relief. These funds were given to states to help fund budgetary deficits. The funds can be used to fund virtually any operating expense of state government. \$35.3 million was used to fund current year expenditures. The remaining funds will be held in reserve for future expenditures.

General fund revenue collections increased for the year by \$1.4 billion. Sales tax collections increased by \$157 million due to the improved economy. Franchise and excise tax collections were up 14% due to the recovering economy along with a rate increase that was effective September 1, 2002. This is the first full year the increase has been in effect. Business tax collections were up \$54 million due to the tax rate changes that were effective September 1, 2002. This is the first full year that the increase was in effect. Hall income tax collections were up by 36% due to the improved economy. The State experienced a 9% increase or \$581 million in federal revenue primarily due to an increase in expenditures within the TennCare program. The overall result of these variations showed an increase in total revenues collected from the previous year of 10.8%.

General fund expenditures increased approximately \$1 billion or 9%. \$767 million of this increase was due to increased expenditures in the TennCare program resulting from increased pharmaceutical costs, managed care organization costs, and provider payments. In addition, Human Services experienced increased expenditures of \$90 million. This increase was due to the increase in food stamp coupons distributed to citizens. Mental Health and Mental Retardation expenditures increased by \$57 million, with community services increased by \$42 million. This increase reflects the rising cost of community residential placements and associated medical costs as well as increased demand for services.

Current assets in the General fund increased 31% due to a \$625 million increase in cash. The State's cash position was strengthened due to increased tax collections resulting from an improved economy. The fund balance of the general fund doubled due to the increased cash position of the State.

The Education Trust Fund revenue increased \$432.7 million for the year. The sales tax appropriated to the fund increased by \$188.8 million and federal revenue collections were up by \$122.7 million. In addition, the Education Trust Fund began receiving the net lottery proceeds from the Tennessee Education Lottery Corporation (TELC). The TELC established the lottery in January of this year and transferred \$123.3 million to the Education Trust Fund to fund scholarships for Tennessee citizens to attend post-secondary educational institutions located in Tennessee. Of the \$168.5 million Education Trust fund balance, \$122.3 million is restricted for the distribution of these scholarships.

Education Trust Fund expenditures increased approximately \$198.3 million or 4.5%. Most of the increase was to maintain full funding of the Basic Education Program (BEP) formula, equalize teacher salaries, and provide for teacher salary increases and group health insurance increases for local education agencies (\$104.4 million). In addition, expenditures increased due to additional phases of the No Child Left Behind Act being implemented (\$56.6 million), increased funding for special education programs (\$34.3 million), and additional students qualifying for school nutrition programs (\$15.5 million).

The revenues for the Highway Fund increased approximately \$99.3 million (6.5%) while expenditures decreased by \$34.7 million. The increase in revenues was due to increased fuel tax collections and increased federal reimbursements for highway projects and the decrease in expenditures occurred primarily because of required budgetary cuts in administrative expenses. The majority of the increase in fund balance of \$42.3 million was reserved for ongoing maintenance and bridge replacement contracts and future state highway construction contracts.

Premium increases and changes in benefit levels went into effect on January 1, 2004, for the Local Government Group Insurance Fund (Enterprise Fund) in an attempt to reduce the fund equity deficit in the fund at the beginning of fiscal year 2004. While these changes have reduced the deficit at June 30, 2004, the Local Government Group Insurance Fund remains in a deficit situation. Additional premium increases for the Local Government Group Insurance Funds will go into effect January 1, 2005, in anticipation of rising medical and insurance costs and to address the remaining deficit in the Local Government Group Insurance Fund. Also, premium increases will go into effect January 1, 2005, for the Employee Group Insurance Fund (an Internal Service Fund) and the Teacher Group (Enterprise Fund) in anticipation of rising medical and insurance costs.

Since 1985 through fiscal year 2003, the Claims Award Fund (an Internal Service Fund) was used to account for the risk of losses from general liability, automobile liability, professional malpractice, and workers' compensation. Financial activities relating to the state's property insurance program were accounted for in the General Fund. Effective July 1, 2003, the property insurance program and the Claims Award Fund activities were consolidated into an Internal Service Fund called the

Risk Management Fund. This was done to obtain a consolidated picture of the State's overall risk management activities and provide operational efficiencies.

The total plan net assets of the pension trust funds were \$25.6 billion, up over \$1.8 billion from the prior year. As a result of the improved performance of the financial markets, the pension trust funds incurred a net investment gain of \$2.18 billion.

General Fund Budgetary Highlights

Federal revenue estimates from original to final budget increased by \$853 million primarily due to an increase in federal revenue for the TennCare program. In addition, significant variances between original and final budget were noted for TennCare and Human Services. The TennCare program experienced an increase in funding from original to final budget in the amount of \$714 million. This was the result of increased expenditures resulting from increased pharmaceutical costs, managed care organization costs, and provider payments. The department of Human Services experienced an increase in funding from original to final budget in the amount of \$142 million due to increased federal funding in the food stamp program. Both TennCare and Human Services appear to reflect significant favorable budgetary variances in expenditures from final budget to actual. This is due to timing differences of federal expenditures making it difficult to accurately project actual expenditures during budgetary planning.

The general fund experienced increased tax collections of \$352 million as compared to the final budget due to the improved economy. Federal revenue estimates for the final version of the budget were overstated by \$458 million due to timing differences of expenditures making it difficult to accurately project actual expenditures during budgetary planning. Other revenue has a favorable variance of \$342 million due to the fact that tobacco settlement and federal tax relief revenues were not included in the budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets at June 30, 2004 of \$19.179 billion, net of \$988 million accumulated depreciation, consisted of the following:

Capital Assets—Primary Government Governmental Activities (Expressed in Thousands)		
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Land	\$ 955,713	\$ 838,035
Infrastructure	16,007,143	15,463,371
Construction in progress	990,694	1,132,374
Structures and improvements	1,710,996	1,666,665
Machinery and equipment	<u>502,220</u>	<u>489,858</u>
Subtotal	20,166,766	19,590,303
Accumulated depreciation	<u>(987,943)</u>	<u>(947,138)</u>
Total	<u>\$ 19,178,823</u>	<u>\$ 18,643,165</u>

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

Capital assets, including those under construction, increased from fiscal year 2003 to 2004 by approximately 3 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure — highways and bridges. Construction in progress for highways and bridges increased by \$545.9 million and decreased (projects completed and capitalized) by \$675.4 million. Infrastructure right-of-way acreage increased the land classification by \$106.5 million. The structures and improvements increase of \$58.2 million consisted largely of prison renovations (\$9.3 million), state parks additions and improvements (\$5.7 million), armory additions (\$13.2 million), construction of highway rest areas and storage sheds (\$7.1 million), communication tower replacements (\$1.0 million), Children's Services facilities (\$5.2 million), completion of the Oak Ridge Computational Sciences building (\$7.7 million), and other miscellaneous projects. The net change in machinery and equipment of \$12.6 million resulted primarily from replacing aged equipment.

In accordance with GASB 34, 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 8,071 bridges.

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 84), indicated that bridges were rated at almost 5 points above the State's established condition level and roadways were almost 16 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2003-2004 fiscal year mirrors that of the past few years. Since very few new projects have been approved, the capital outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, and statutory requirements for prisons' physical plant maintenance and additions.

Debt Administration

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

<u>Purpose</u>	<u>Unissued June 30, 2004</u>
Highway	\$ 800,500
Higher Education	9,278
Environment and Conservation	13,012
General Government	731,363
Local Development Authority	<u>16,800</u>
Total	<u>\$ 1,570,953</u>

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

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Bonds, net	\$ 1,141,026	\$ 1,047,531	\$ 8,071	\$ 11,070
Commercial Paper	<u>82,775</u>	<u>201,800</u>	<u> </u>	<u> </u>
Total	<u>\$ 1,223,801</u>	<u>\$ 1,249,331</u>	<u>\$ 8,071</u>	<u>\$ 11,070</u>

The State issued \$151.855 million in tax-exempt and \$22.18 million in taxable general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis. One half of the outstanding debt has been issued either for capital projects of two of the State's major Component Units—University of Tennessee and Tennessee Board of Regents—or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bond ratings have not changed since the previous year, although Moody's and Standard & Poor's changed their negative credit outlook to stable. This change reflects improvements in the State's economy and actions taken by the State to create structural budget balance. The State's bonds are rated AA, Aa2, and AA by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2004, the State's annual debt service limit of \$578.6 million was well above the debt service required \$143.7 million, with a legal debt service margin of \$434.9 million.

FACTORS THAT WILL AFFECT THE FUTURE

TennCare expenditures continue to increase at a rate far exceeding inflation. The Administration is currently reviewing its options on the level of benefits to be provided under the TennCare program.

Beginning in August of 2004, lottery-funded scholarships are being awarded to eligible Tennessee students to attend post-secondary educational institutions located in Tennessee. The State is expected to award approximately \$176.0 million of these scholarships during the fiscal year 2004-2005.

The State lost an appeal about sufficiency of teacher pay equity provided in the State's funding model for public education. The State Legislature will address the teacher pay funding issue in a future session.

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 8th Avenue North, Suite 1400, Nashville, TN 37243.

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**BASIC
FINANCIAL STATEMENTS**

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State of Tennessee
Statement of Net Assets
June 30, 2004

(Expressed in Thousands)

	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,804,676	\$ 296,961	\$ 2,101,637	\$ 1,413,942
Cash on deposit with fiscal agent		622,565	622,565	1
Investments	214,887		214,887	1,066,510
Investments with fiscal agent				5
Receivables, net	2,236,103	129,115	2,365,218	420,888
Internal balances	7,849	(7,849)		
Due from primary government				16,987
Due from component units	66,729	12	66,741	
Inventories, at cost	25,525	12	25,537	13,834
Prepayments	129		129	13,471
Loans receivable, net	22,782	386,977	409,759	1,997,955
Lease receivable	12,846		12,846	
Deferred charges and other	2,394	59	2,453	20,787
Restricted assets:				
Cash and cash equivalents	18,511		18,511	6,840
Investments				200,474
Receivables, net				2,412
Capital assets:				
Land, at cost	955,713		955,713	141,062
Infrastructure	16,007,143		16,007,143	205,185
Structures and improvements, at cost	1,710,996		1,710,996	2,603,980
Machinery and equipment, at cost	502,220		502,220	704,858
Less-Accumulated depreciation	(987,943)		(987,943)	(1,568,660)
Construction in progress	990,694		990,694	244,547
Total assets	<u>23,591,254</u>	<u>1,427,852</u>	<u>25,019,106</u>	<u>7,505,078</u>
Liabilities				
Accounts payable and other current liabilities	1,268,858	52,456	1,321,314	261,348
Due to primary government				66,741
Due to component units	16,982	5	16,987	
Unearned revenue	249,178	7,336	256,514	114,800
Payable from restricted assets	2,660		2,660	
Other	7,403		7,403	28,179
Noncurrent liabilities:				
Due within one year	213,877	2,863	216,740	255,489
Due in more than one year	1,550,475	5,277	1,555,752	3,023,028
Total liabilities	<u>3,309,433</u>	<u>67,937</u>	<u>3,377,370</u>	<u>3,749,585</u>
Net assets				
Invested in capital assets, net of related debt	18,694,346		18,694,346	1,722,481
Restricted for:				
Highway	151,029		151,029	
Debt service				15,039
Capital projects	15,851		15,851	37,108
Lottery scholarships	122,282		122,282	
Single family bond programs				384,955
Other	314,360	1,288,353	1,602,713	314,446
Permanent:				
Expendable	13,959		13,959	143,167
Nonexpendable	226,408		226,408	526,609
Unrestricted	743,586	71,562	815,148	611,688
Total net assets	<u>\$ 20,281,821</u>	<u>\$ 1,359,915</u>	<u>\$ 21,641,736</u>	<u>\$ 3,755,493</u>

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, 2004

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
Governmental activities:				
General government	\$ 546,996	\$ 342,154	\$ 64,019	\$ 900
Education	4,692,605	16,966	868,705	
Health and social services	10,583,726	857,951	6,751,950	113
Law, justice and public safety	1,032,302	313,386	113,683	2,986
Recreation and resources development	479,251	124,105	125,739	2,902
Regulation of business and professions	81,940	107,355	1,359	
Transportation	787,646	13,636	169,632	496,638
State shared taxes paid to local governments	647,654			
Interest on long-term debt	51,819			
Total governmental activities	18,903,939	1,775,553	8,095,087	503,539
Business-type activities:				
Employment security	639,993	523,372	164,166	
Insurance programs	416,871	422,584	696	
Loan programs	1,737	12,733	43,415	
Other	2,037	2,111	19	
Total business-type activities	1,060,638	960,800	208,296	
Total primary government	\$ 19,964,577	\$ 2,736,353	\$ 8,303,383	\$ 503,539
Component units:				
Higher education institutions	\$ 2,955,170	\$ 957,156	\$ 941,746	\$ 68,741
Loan programs	330,123	133,585	146,916	
Lottery program	395,254	393,010	4,363	
Other	84,884	26,990	58,383	
Total component units	\$ 3,765,431	\$ 1,510,741	\$ 1,151,408	\$ 68,741

General revenues:

Taxes:

Sales and use

Fuel

Business

Other

Payments from primary government

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Contributions to permanent funds

Transfers

Total general revenues, contributions, and transfers

Change in net assets

Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and
Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (139,923)		\$ (139,923)	
(3,806,934)		(3,806,934)	
(2,973,712)		(2,973,712)	
(602,247)		(602,247)	
(226,505)		(226,505)	
26,774		26,774	
(107,740)		(107,740)	
(647,654)		(647,654)	
(51,819)		(51,819)	
<u>(8,529,760)</u>		<u>(8,529,760)</u>	
	\$ 47,545	47,545	
	6,409	6,409	
	54,411	54,411	
	93	93	
	<u>108,458</u>	<u>108,458</u>	
<u>(8,529,760)</u>	<u>108,458</u>	<u>(8,421,302)</u>	
			\$ (987,527)
			(49,622)
			2,119
			<u>489</u>
			<u>(1,034,541)</u>
5,806,268		5,806,268	
829,372		829,372	
2,184,170		2,184,170	
526,573		526,573	
			1,087,991
152,676		152,676	35,925
12,079		12,079	16,965
207,653		207,653	8,854
351		351	27,736
(18,829)	18,829		
<u>9,700,313</u>	<u>18,829</u>	<u>9,719,142</u>	<u>1,177,471</u>
1,170,553	127,287	1,297,840	142,930
<u>19,111,268</u>	<u>1,232,628</u>	<u>20,343,896</u>	<u>3,612,563</u>
<u>\$ 20,281,821</u>	<u>\$ 1,359,915</u>	<u>\$ 21,641,736</u>	<u>\$ 3,755,493</u>

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

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

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

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2004

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 853,208	\$ 9	\$ 150,905	\$ 443,709	\$ 1,447,831
Investments				214,887	214,887
Receivables, net	1,581,670	472,069	163,758	14,865	2,232,362
Due from other funds	188,562	3	14	8	188,587
Due from component units	2,881	62,163		1,067	66,111
Inventories, at cost	12,874		5,663		18,537
Prepayments	15				15
Deferred charges and other	3,443		5,435		8,878
Loans receivable, net	140		1,826	20,816	22,782
Leases receivable	9,222				9,222
Restricted assets:					
Cash and cash equivalents				18,511	18,511
Total assets	<u>\$ 2,652,015</u>	<u>\$ 534,244</u>	<u>\$ 327,601</u>	<u>\$ 713,863</u>	<u>\$ 4,227,723</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	\$ 933,914	\$ 126,549	\$ 60,584	\$ 47,080	\$ 1,168,127
Due to other funds	13,576	180,231	1,222	320	195,349
Due to component units	9,540	721		6,721	16,982
Unearned revenue	343,336	58,247	9,743	12,947	424,273
Payable from restricted assets				2,660	2,660
Other	223		7,179	1	7,403
Total liabilities	<u>1,300,589</u>	<u>365,748</u>	<u>78,728</u>	<u>69,729</u>	<u>1,814,794</u>
Fund balances:					
Reserved for:					
Related assets	16,079		5,663		21,742
Encumbrances and contracts	7,197	687	58,313	36,478	102,675
Continuing appropriations	427,937	43,079			471,016
Specific purposes:					
Federal tax relief	104,304				104,304
Title and registration system	22,405				22,405
Judicial information systems	13,283				13,283
Alcohol drug addiction treatment	9,710				9,710
Commerce and Insurance regulatory boards	10,923				10,923
Lottery scholarships		122,282			122,282
Construction projects			156,151	160,349	316,500
Wildlife Resources				28,743	28,743
Environmental programs				33,381	33,381
Job skills				22,237	22,237
Enhanced 911 service				49,684	49,684
Parks acquisition				15,425	15,425
Community development				20,059	20,059
Other specific purposes	81,533	2,448	28,696	37,411	150,088
Permanent funds:					
Expendable				13,959	13,959
Nonexpendable				226,408	226,408
Unreserved:					
Designated for revenue fluctuations	217,000				217,000
Designated for other specific purposes	440,852		50		440,902
Undesignated	203				203
Total fund balances	<u>1,351,426</u>	<u>168,496</u>	<u>248,873</u>	<u>644,134</u>	<u>2,412,929</u>
Total liabilities and fund balances	<u>\$ 2,652,015</u>	<u>\$ 534,244</u>	<u>\$ 327,601</u>	<u>\$ 713,863</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,784,646
Deferred charges are not available to pay for current-period expenditures and are therefore not reported in the funds.	439
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	207,238
Internal Service Funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of Internal Service Funds are included in the governmental activities in the Statement of Net Assets.	411,064
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,534,495)
Net assets of governmental activities	<u>\$ 20,281,821</u>

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

State of Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes:					
Sales	\$ 2,394,797	\$ 3,348,886	\$ 25,698	\$ 41,403	\$ 5,810,784
Fuel	14,375		723,077	91,984	829,436
Business	1,962,669	138,797	4,634	104,605	2,210,705
Other	491,268	110		15,053	506,431
Licenses, fines, fees, and permits	169,382	1,794	208,525	125,837	505,538
Interest on investments	14,182		9	19,911	34,102
Federal	7,024,459	724,776	638,943	29,356	8,417,534
Departmental services	1,988,170	6,997	34,171	41,914	2,071,252
Other	356,271	127,877	4,091	530	488,769
	<u>14,415,573</u>	<u>4,349,237</u>	<u>1,639,148</u>	<u>470,593</u>	<u>20,874,551</u>
Expenditures					
Current:					
General government	380,558			19,511	400,069
Education		4,622,768		7,526	4,630,294
Health and social services	11,308,871				11,308,871
Law, justice and public safety	1,037,774			4,736	1,042,510
Recreation and resources development	319,885			159,358	479,243
Regulation of business and professions	56,683			31,897	88,580
Transportation			1,318,913		1,318,913
State shared taxes paid to local governments	362,895		284,759		647,654
Debt service:					
Principal				80,243	80,243
Interest				49,956	49,956
Debt issuance costs				1,945	1,945
Capital outlay				128,167	128,167
	<u>13,466,666</u>	<u>4,622,768</u>	<u>1,603,672</u>	<u>483,339</u>	<u>20,176,445</u>
Excess (deficiency) of revenues over (under) expenditures	<u>948,907</u>	<u>(273,531)</u>	<u>35,476</u>	<u>(12,746)</u>	<u>698,106</u>
Other financing sources (uses)					
Bonds and commercial paper issued				206,933	206,933
Commercial paper redeemed				(155,796)	(155,796)
Premium on bond sale				6,485	6,485
Transfers in	121,510	400,185	74,000	65,369	661,064
Transfers out	(484,549)	(2,137)	(67,104)	(137,939)	(691,729)
	<u>(363,039)</u>	<u>398,048</u>	<u>6,896</u>	<u>(14,948)</u>	<u>26,957</u>
Net change in fund balances	585,868	124,517	42,372	(27,694)	725,063
Fund balances, July 1	<u>765,558</u>	<u>43,979</u>	<u>206,501</u>	<u>671,828</u>	<u>1,687,866</u>
Fund balances, June 30	<u>\$ 1,351,426</u>	<u>\$ 168,496</u>	<u>\$ 248,873</u>	<u>\$ 644,134</u>	<u>\$ 2,412,929</u>

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

State of Tennessee
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2004

(Expressed in Thousands)

Net changes in fund balances - total governmental funds \$ 725,063

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. 666,460

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (7,716)

The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 24,422

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. (298,663)

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. 60,987

Changes in net assets of governmental activities \$ 1,170,553

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

PROPRIETARY FUND FINANCIAL STATEMENTS

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

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

Nonmajor Enterprise Funds – Nonmajor Enterprise Funds are presented in the supplementary section.

Internal Service Funds – Internal Service Funds are presented in the supplementary section.

State of Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2004

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ 177,872		\$ 119,089	\$ 296,961	\$ 356,845
Cash on deposit with fiscal agent		\$ 622,565		622,565	
Receivables:					
Accounts receivable			2,530	2,530	4,043
Interest	21	5,047		5,068	
Loans receivable-current	18,209		5,756	23,965	
Other		121,517		121,517	
Due from other funds		300		300	3,474
Due from component units		11	1	12	618
Inventory			12	12	6,988
Prepaid expenses					114
Total current assets	<u>196,102</u>	<u>749,440</u>	<u>127,388</u>	<u>1,072,930</u>	<u>372,082</u>
Noncurrent assets:					
Deferred charges			59	59	457
Loans receivable	315,101		47,911	363,012	
Lease receivable					3,322
Capital assets:					
Land, at cost					54,379
Structures and improvements, at cost					417,374
Machinery and equipment, at cost					231,094
Less-accumulated depreciation					(320,421)
Construction in progress					<u>11,751</u>
Total capital assets, net of accumulated depreciation					<u>394,177</u>
Total noncurrent assets	<u>315,101</u>		<u>47,970</u>	<u>363,071</u>	<u>397,956</u>
Total assets	<u>511,203</u>	<u>749,440</u>	<u>175,358</u>	<u>1,436,001</u>	<u>770,038</u>
Liabilities					
Current liabilities:					
Accounts payable and accruals	9	11,271	41,204	52,484	77,514
Due to other funds		8,149	5	8,154	886
Due to component units		5		5	
Lease obligations payable					75
Bonds payable-current			2,830	2,830	13,286
Unearned revenue		5,197	2,139	7,336	32,143
Other					<u>35,982</u>
Total current liabilities	<u>9</u>	<u>24,622</u>	<u>46,178</u>	<u>70,809</u>	<u>159,886</u>
Noncurrent liabilities:					
Lease obligations payable					326
Commercial paper payable					12,684
Bonds payable, net			5,241	5,241	127,589
Other noncurrent liabilities			36	36	<u>58,489</u>
Total noncurrent liabilities			<u>5,277</u>	<u>5,277</u>	<u>199,088</u>
Total liabilities	<u>9</u>	<u>24,622</u>	<u>51,455</u>	<u>76,086</u>	<u>358,974</u>
Net assets					
Invested in capital assets, net of related debt					240,217
Restricted	511,194	724,818	52,341	1,288,353	
Unrestricted (deficit)			71,562	71,562	170,847
Total net assets	<u>\$ 511,194</u>	<u>\$ 724,818</u>	<u>\$ 123,903</u>	<u>\$ 1,359,915</u>	<u>\$ 411,064</u>

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

State of Tennessee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Operating revenues					
Charges for services	\$ 11,525		\$ 3,319	\$ 14,844	\$ 407,423
Investment income	1,717		393	2,110	
Premiums		\$ 523,372	422,537	945,909	550,185
Other			47	47	67
Total operating revenues	<u>13,242</u>	<u>523,372</u>	<u>426,296</u>	<u>962,910</u>	<u>957,675</u>
Operating expenses					
Personal services			736	736	48,112
Contractual services	794		35,033	35,827	214,422
Materials and supplies			480	480	63,969
Rentals and insurance			273	273	40,721
Interest			483	483	
Depreciation and amortization			10	10	29,880
Benefits		636,766	380,653	1,017,419	502,398
Other		3,227	2,157	5,384	3,707
Total operating expenses	<u>794</u>	<u>639,993</u>	<u>419,825</u>	<u>1,060,612</u>	<u>903,209</u>
Operating income (loss)	12,448	(116,621)	6,471	(97,702)	54,466
Nonoperating revenues (expenses)					
Taxes					3
Operating grants	24,701	137,193	16,579	178,473	
Interest income		26,973	715	27,688	2,183
Interest expense			(1)	(1)	(7,605)
Total nonoperating revenues (expenses)	<u>24,701</u>	<u>164,166</u>	<u>17,293</u>	<u>206,160</u>	<u>(5,419)</u>
Income (loss) before contributions and transfers	37,149	47,545	23,764	108,458	49,047
Capital contributions					104
Transfers in	3,470		15,359	18,829	11,836
Change in net assets	40,619	47,545	39,123	127,287	60,987
Net assets, July 1	<u>470,575</u>	<u>677,273</u>	<u>84,780</u>	<u>1,232,628</u>	<u>350,077</u>
Net assets, June 30	<u>\$ 511,194</u>	<u>\$ 724,818</u>	<u>\$ 123,903</u>	<u>\$ 1,359,915</u>	<u>\$ 411,064</u>

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

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities					
Receipts from customers and users		\$ 511,280	\$ 426,930	\$ 938,210	\$ 252,948
Receipts from interfund services provided		2,456	277	2,733	724,792
Payments to suppliers	\$ (11)		(416,207)	(416,218)	(777,425)
Payments to employees			(733)	(733)	(48,225)
Payments for unemployment benefits		(645,979)		(645,979)	
Payments for interfund services used	(783)	(3,227)	(2,836)	(6,846)	(54,066)
Net cash from (used for) operating activities	(794)	(135,470)	7,431	(128,833)	98,024
Cash flows from noncapital financing activities					
Operating grants received	24,701	140,029	16,604	181,334	
Negative cash balance implicitly financed					341
Negative cash balance implicitly repaid		(3,948)	(2,535)	(6,483)	
Transfers in	3,470		15,359	18,829	11,836
Payments to component units			(25)	(25)	
Principal payments			(2,990)	(2,990)	
Interest paid			(541)	(541)	
Tax revenues received					3
Subsidy to borrowers			(35)	(35)	
Net cash from (used for) noncapital financing activities	28,171	136,081	25,837	190,089	12,180
Cash flows from capital and related financing activities					
Purchase of capital assets					(38,890)
Bond and commercial paper proceeds					17,662
Proceeds from sale of capital assets					2,079
Bond issuance cost					(38)
Principal payments					(19,598)
Interest paid					(7,338)
Net cash from (used for) capital and related financing activities					(46,123)
Cash flows from investing activities					
Loans issued	(31,660)		(20,641)	(52,301)	
Collection of loan principal	24,223		5,587	29,810	
Interest paid			(1)	(1)	
Interest received	13,245	26,697	2,271	42,213	2,184
Net cash from (used for) investing activities	5,808	26,697	(12,784)	19,721	2,184
Net increase (decrease) in cash and cash equivalents	33,185	27,308	20,484	80,977	66,265
Cash and cash equivalents, July 1	144,687	595,257	98,605	838,549	290,580
Cash and cash equivalents, June 30	\$ 177,872	\$ 622,565	\$ 119,089	\$ 919,526	\$ 356,845

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	\$ 12,448	\$ (116,621)	\$ 6,471	\$ (97,702)	\$ 54,466
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization			10	10	29,896
Loss on disposal of capital assets					377
Gain on disposal of capital assets					(6)
Bond issuance cost					38
Investment income			(393)	(393)	
Charges for services	(11,525)		(1,208)	(12,733)	
Interest income	(1,717)			(1,717)	
Interest expense			483	483	
Subsidy to borrowers			21	21	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		(13,420)	389	(13,031)	997
(Increase) decrease in due from other funds		132		132	857
(Increase) decrease in due from component units		3	23	26	9
(Increase) decrease in inventories			6	6	(904)
(Increase) decrease in prepaid expenses					47
Increase (decrease) in accounts payable		(6,760)	1,248	(5,512)	9,408
Increase (decrease) in due to other funds		(3)	2	(1)	(39)
Increase (decrease) in due to component units		6	(2)	4	
Increase (decrease) in unearned revenue		1,193	381	1,574	2,878
Total adjustments	(13,242)	(18,849)	960	(31,131)	43,558
Net cash provided by (used for) operating activities	\$ (794)	\$ (135,470)	\$ 7,431	\$ (128,833)	\$ 98,024
Noncash investing, capital and financing activities					
Contributed capital assets					\$ 104
Capital asset acquired by capital lease					411
Total noncash investing, capital and financing activities					\$ 515

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 are presented by fund 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 are presented by fund in the supplementary section.

Agency Funds – These are presented by fund in the supplementary section.

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	\$ 1,288,139	\$ 621,736	\$ 40,077	\$ 280,653
Receivables:				
Taxes			57	260,399
Interest and dividends	136,355	2,019	268	
Due from sale of investments	84,577		22,592	
Foreign currency receivable	46,030			
Due from other governments	23,581			
Other	21,640			
Total receivables	<u>312,183</u>	<u>2,019</u>	<u>22,917</u>	<u>260,399</u>
Due from other funds	4,009		10	8,009
Due from component units	<u>3,623</u>			<u>52</u>
Investments, at fair value:				
Short-term securities	564,645	824,248		
Government bonds	10,867,976		33,094	
Corporate bonds	1,878,197			
Corporate stocks	10,276,723			
Mutual funds			12,542	
Real estate	463,383			
Total investments	<u>24,050,924</u>	<u>824,248</u>	<u>45,636</u>	
Total assets	<u>25,658,878</u>	<u>1,448,003</u>	<u>108,640</u>	<u>549,113</u>
Liabilities				
Accounts payable and accruals	25,305		22,551	491,086
Foreign currency payable	46,519			
Amounts held in custody for others				<u>58,027</u>
Total liabilities	<u>71,824</u>		<u>22,551</u>	<u>549,113</u>
Net assets				
Held in trust for:				
Pension benefits	25,586,516			
Employees' flexible benefits	538			
Pool participants		1,448,003		
Individuals, organizations and other governments			86,089	
Total net assets	<u>\$ 25,587,054</u>	<u>\$ 1,448,003</u>	<u>\$ 86,089</u>	<u>\$ -</u>

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

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Pension (and Other Employee Benefit Trust Funds	Investment Trust	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	\$ 210,548		
Employers	271,299		
Federal			\$ 8,604
Political subdivisions	139,808		
Private			9,843
Other			3,077
	621,655		21,524
Investment income:			
Net increase in fair value of investments	1,310,812		578
Interest	676,079	\$ 18,141	1,692
Dividends	183,359		
Real estate income	26,072		
	2,196,322	18,141	2,270
Total investment income			
Less: Investment expenses	14,468		
Administrative fee		820	
	2,181,854	17,321	2,270
Net investment income			
Capital share transactions:			
Shares sold		3,579,662	
Less: Shares redeemed		3,799,852	
		(220,190)	
Net capital share transactions			
Total additions	2,803,509	(202,869)	23,794
Deductions			
Annuity benefits:			
Retirement benefits	786,346		
Cost of living	163,628		
Death benefits	4,478		
Other benefits	5,417		8,006
Refunds	29,926		2,585
Administrative expenses	5,534		313
	995,329		10,904
Total deductions			
Change in net assets held in trust for:			
Pension benefits	1,808,032		
Employees' flexible benefits	148		
Individuals, organizations and other governments		(202,869)	12,890
	23,778,874	1,650,872	73,199
Net assets, July 1			
Net assets, June 30	\$ 25,587,054	\$ 1,448,003	\$ 86,089

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

**State of Tennessee
Comprehensive Annual Financial Report
For the Year Ended June 30, 2004**

INDEX FOR THE NOTES

	<u>Page</u>
NOTE 1 – Summary of significant accounting policies	35
A. Financial reporting entity	35
B. Government-wide and fund financial statements	37
C. Measurement focus, basis of accounting, and financial statement presentation	37
D. Assets, liabilities, and net assets or equity	38
NOTE 2 – Reconciliation of government-wide and fund financial statements	41
A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets	41
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	41
NOTE 3 – Stewardship, compliance and accountability	42
A. Budgetary process	42
B. Deficit fund equity	43
NOTE 4 – Accounting changes	43
NOTE 5 – Detailed notes on all funds	44
A. Deposits and investments	44
B. Accounts and notes receivable	51
C. Capital assets	52
D. Interfund balances	54
E. Transfers	55
F. Lease obligations	56
G. Lease receivables	57
H. Long term debt	58
I. Payables	61
J. Component units – condensed financial statements	61
K. Major component units – long term debt	64
L. Nonmajor component units – long term debt	67
M. Component Units – changes in long term obligations	70
N. Endowments – component units	71
NOTE 6 – Other information	71
A. Risk management	71
B. Related organizations	76
C. Jointly governed organizations	76
D. Joint ventures	77
E. Post employment health insurance benefits	77
F. Gain contingencies	78
G. Pension plans	78
H. Investment pool	80
I. Loan guarantees	80
J. Nashville correctional facilities revenue bonds	80
K. Litigation	80
L. Federal grants	81
M. Subsequent events	81

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

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

A. Financial reporting entity

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

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.
2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide a mechanism to facilitate the provision of services for children and other citizens in need of services from state agencies:

Davidson County Community Services Agency
Knox County Community Services Agency
Shelby County Community Services Agency
Hamilton County Community Services Agency
Northeast Community Services Agency
East Tennessee Community Services Agency
Upper Cumberland Community Services Agency
Southeast Community Services Agency
Mid-Cumberland Community Services Agency
South Central Community Services Agency
Northwest Community Services Agency
Southwest Community Services Agency

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

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency consists of state officials, appointees of the Governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the State.
4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) was created by the General Assembly in 2003. The purpose of the corporation is to operate a state lottery with net proceeds to be given to the State to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the Governor.
5. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.
6. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.
8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.
9. The Child Care Facilities Corporation (Proprietary Fund Type) purpose is to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The Board is comprised primarily of state officials. The State must approve the budget of the Corporation.
10. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.
11. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

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

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

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

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

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

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

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

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

All others may be obtained at the following address:
Finance & Administration
Division of Accounts
14th Floor William R. Snodgrass Tennessee Tower
312 Eighth Avenue North
Nashville, TN 37243-0298

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (*Continued*)
JUNE 30, 2004

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are typically recorded only when payment is due.

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

The State reports the following major governmental funds:

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

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

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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.

The *fiduciary fund types* are used to account for resources legally held in trust.

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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

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

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

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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

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

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

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

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

8. Restricted net assets— Restricted net assets consist of net assets in which constraints are placed on the use of those net assets by either external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the \$2.132 billion restricted by the primary government, \$585 million was by enabling legislation.

9. Fund equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,534.495 million difference are as follows (expressed in thousands):

Bonds payable	\$ 989,410
Plus: Premium on bonds issued (to be amortized as interest expense)	10,741
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(1,506)
Commercial paper payable	70,091
Accrued interest payable	12,961
Capital leases payable	609
Claims and judgments	270,181
Compensated absences	173,122
Long-term accounts payable	<u>8,886</u>
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net assets—governmental activities</i>	<u>\$ 1,534,495</u>

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$666.46 million difference are as follows (expressed in thousands):

Capital outlay	\$ 718,242
Depreciation expense	<u>(51,782)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 666,460</u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$24.422 million difference are as follows (expressed in thousands):

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Debt issued or incurred:	
Issuance of general obligation bonds	\$ 167,702
Issuance of commercial paper	38,671
Bond premium capitalized	6,485
Bond cost of issuance capitalized	(993)
Principal repayments:	
General obligation debt	<u>(236,287)</u>
Net adjustment to increase <i>net changes in fund balances</i> –	
<i>total governmental funds</i> to arrive at <i>changes in net assets of</i>	
<i>governmental activities</i>	
	<u>\$ 24,422</u>

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 \$298.663 million difference are as follows (expressed in thousands):

Compensated absences	\$ 709
Claims and judgments	158,749
Accrued interest	2,293
Capital lease	(118)
Amortization of deferred charge	40
Loss on disposal of capital assets	137,445
Amortization of issuance costs	73
Amortization of bond premiums	<u>(528)</u>
Net adjustment to decrease <i>net changes in fund balances</i> –	
<i>total governmental funds</i> to arrive at <i>changes in net assets of</i>	
<i>governmental activities</i>	
	<u>\$ 298,663</u>

NOTE 3 – Stewardship, compliance and accountability

A. Budgetary process

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

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

Unencumbered appropriations lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$96.839 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of encumbrance and contract obligations. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances outstanding at year end are reported as reservations of fund balance for subsequent year expenditure.

B. Deficit fund equity

The Local Government Group Insurance Fund, an Enterprise Fund, has a total net asset deficit of \$5.77 million. This deficit was caused by escalating insurance costs. Rate hikes are scheduled to go into place effective January 1, 2005, to address the deficit.

The Certified Cotton Growers' Organization, a component unit, has a total net asset deficit of \$19.583 million. This deficit occurred because a substantial amount of funds were borrowed to fund the balance of program costs. The monies borrowed are to be repaid by December 15, 2013.

NOTE 4 – Accounting changes

The following schedule enumerates adjustments for the fiscal year ending June 30, 2004 (expressed in thousands):

	6/30/2003 Net Assets <u>As Reported</u>	Change in Accounting <u>Principles</u>	Prior Period <u>Adjustments</u>	6/30/2003 Net Assets <u>As Restated</u>
Government-wide statements:				
Primary Government				
Governmental activities	\$ 19,045,216	\$ 76,636	\$ (10,584)	\$ 19,111,268
Total primary government	<u>\$ 19,045,216</u>	<u>\$ 76,636</u>	<u>\$ (10,584)</u>	<u>\$ 19,111,268</u>
Government-wide statements:				
Component Units	<u>\$ 3,268,779</u>	<u>\$ 343,784</u>		<u>\$ 3,612,563</u>
Total component units	<u>\$ 3,268,779</u>	<u>\$ 343,784</u>		<u>\$ 3,612,563</u>

Prior Period Adjustments

Primary Government

 Governmental activities

 Motor Vehicle Management - \$10.584 million is a correction of an error resulting from the overstatement of capital assets (motorized vehicles) in previous years. There is no depreciation effect.

Change in Accounting Principle

The State has implemented the Governmental Accounting Standards Board's Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. In addition to requirements not applicable to the State, the Technical Bulletin establishes an accrual period for governments to recognize tobacco settlement revenues based on the tobacco companies agreement. The effect on the State of implementing this standard is to accrue \$76.636 million as a receivable and a revenue in the General Fund for estimated tobacco settlement payments for the period January through June 30.

The State has also implemented the Governmental Accounting Standards Board's Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is effective for fiscal year June 30, 2004. This statement requires organizations that are separate from the state, and receive or hold resources that are almost entirely for the direct benefit of the state or its component units, be evaluated for inclusion in the state's financial statements as a potential component unit.

Primary government - The state's analysis revealed that foundations that support state functions such as state recreational areas, are quantitatively immaterial to the state as a whole and are therefore, not included.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Component units - The state's higher education systems have foundations that are quantitatively significant; therefore, the foundations' assets, liabilities, revenues, and expenses are required to be reported with those of the institutions they are supporting. The following reflects the effect on beginning net assets (expressed in thousands):

	6/30/2003 Net Assets <u>As Reported</u>	Change in Accounting <u>Principles</u>	6/30/2003 Net Assets <u>As Restated</u>
University of Tennessee	\$ 1,561,387	\$ 110,149	\$ 1,671,536
Tennessee Board of Regents	<u>1,288,233</u>	<u>233,635</u>	<u>1,521,868</u>
Total Component Units	<u>\$ 2,849,620</u>	<u>\$ 343,784</u>	<u>\$ 3,193,404</u>

NOTE 5 – Detailed notes on all funds

A. Deposits and investments

1. Pooled investments – The Pooled Investment Fund, administered by the State Treasurer, is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories; prime commercial paper and prime banker's acceptances; bonds, notes and bills of the United States Treasury or other obligations guaranteed as to principal and interest by the United States or any of its agencies and in repurchase agreements for obligations of the United States or its agencies; and in certain obligations of the State. This resolution further states that the dollar weighted average maturity of the State Pooled Investment Fund shall not exceed 90 days and that no investment may be purchased with a remaining maturity of greater than 397 calendar days.

The State Pooled Investment Fund is also authorized by policy to contractually loan securities to investment brokers. The contract for a security loan provides that the fund loan specific securities from its holdings to the broker in return for collateral securities. Statute requires that the loaned securities be collateralized at 102% of their market value. There were no securities on loan from the State Pooled Investment Fund during fiscal year 2004.

Statutes require the state deposits be secured by collateral securities with a market value of 105% of the face of the deposit secured thereby after considering the applicable FDIC coverage, or the depository must be a member of the State Collateral Pool and the pool must have securities pledged which in total equal the required percentage established by the Collateral Pool Board.

Certificates of deposit are not placed or renewed with a financial institution until adequate collateral is pledged. Open accounts maintained for deposit of state revenues are collateralized on an estimate of the average daily balance in the account based on previous balances and monitored for variation to actual balances. The Treasurer is required, by statute, to evaluate the market value of required collateral monthly, and more frequently if market conditions require. Further, statutes provide 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 repurchases are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The policy guidelines approved by the State Funding Board require that the market value of the securities underlying the repurchase agreement be at least 102% of the cash investment. The policy also requires that collateral securities be marked-to-market daily and be maintained at a value equal to or greater than the cash investment. Prime commercial paper may be acquired from authorized broker dealers or directly from the issuer. There is no collateral requirement for prime commercial paper.

The State Pooled Investment Fund also invested in repurchase agreements during the year.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

The Tennessee Consolidated Retirement System (TCRS), in addition to the guidelines outlined for the Pooled Investment Fund, may invest in long-term investments. The TCRS may invest in bonds, debentures, preferred stock and common stock, real estate, and other good and solvent securities subject to the TCRS Board of Trustees approval. The Board has also authorized limited investments of securities in some foreign countries.

2. Valuation of investments

- a. State Pooled Investment Fund – The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the State Funding Board, operates in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2004, the State had not obtained or provided any legally binding guarantees to support the value of participant shares.
 - b. Other Investments – Investments not included in the SPIF are valued at fair value.
3. Securities lending — The TCRS and the Chairs of Excellence (COE), a permanent fund, are authorized by their investment policies, as adopted by their boards, to enter into collateralized securities lending agreements whereby the TCRS and COE loans its debt and equity securities for a fee to a select few of the highest quality securities firms and banks. Loans must be limited so the total amount on loan does not exceed 30 percent of the TCRS' and COE's assets. The TCRS' and COE's custodian bank manages the lending program and maintains the collateral on behalf of the TCRS and COE. The borrower must deliver cash collateral to the lending agent. Cash received as collateral may be reinvested by the lending agency in accordance with the investment policy, as further restricted under the TCRS and COE securities lending agreement. Collateral securities cannot be pledged or sold unless the borrower defaults.

The loaned securities are initially collateralized at 102 percent of their fair value for domestic securities and 105 percent for international. Collateral is marked-to-market daily and additional collateral is pledged by the borrower if the fair value of the collateral subsequently falls below 100 percent for domestic securities and 105 percent for international. Although there is no specific policy for matching the maturities of the collateral investments and the securities loans, all securities on loan can be terminated on demand by either the TCRS/COE or the borrower. At year-end, TCRS and COE had no securities on loan.

4. Asset-Backed Securities - The TCRS invests in collateralized mortgage obligations (CMOs), which are mortgage-backed securities. These securities 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. The CMOs held were issued by quasi-U.S. governmental agencies. At June 30, 2004, there were no CMO's held. The TCRS also invests in various asset-backed securities, representing ownership interests in trusts consisting of credit card or auto loan receivables. These securities are issued by organizations with AAA or AA credit ratings. TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets.
5. Derivatives – The TCRS may buy or sell equity index futures contracts for the purpose of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. The futures contracts are limited to the S&P 500 Index, the S&P Midcap 400 Index and the Russell 2000 Index. The TCRS can increase (decrease) equity market exposure by buying (selling) the equity index future to obtain its target domestic equity allocation. Gains (losses) on equity index future 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 contracts 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. At June 30, 2004, the TCRS was not under any futures contracts.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

The International securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding, as of June 30, 2004, has been reflected in the financial statements.

The TCRS is also authorized by investment policy to engage in the issuance of options. Activity is limited to selling covered call options. The TCRS had no options outstanding at June 30, 2004.

6. Deposits — Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the State. Category 1 consists of deposits that are insured or collateralized with securities held by the State or by its agent in the state's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. Category 3 deposits are uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the state's name.

At year end, the carrying amount of deposits in all funds was \$2,150.360 million and the bank balance, including accrued interest, was \$2,410.404 million. The total bank balance was (category 1) covered by insurance or collateral (at fair value) held in the state's name by independent custodial banks or in the Federal Reserve Bank in the state's account. There were no material amounts uncollateralized during the year ended June 30, 2004.

The carrying value of cash and investments includes \$523.914 million of funds reported as component units.

Cash on deposit with fiscal agent includes \$9.336 million of cash held in a custody account by State Street Bank under a contractual arrangement for master custody services. Monies with the custodial agent are not classified by credit risk, as the custody account relationship does not meet the definition for either a deposit with a financial institution or a security.

7. Investments - Investments are also required to be categorized to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the state or its agent in the State's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparties' trust department or agent but not in the State's name. Investments are categorized below for all funds (expressed in thousands):

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS

	Category			Carrying Amount	Fair Value 6/30/04
	1	2	3		
Cash Equivalents and Short-Term Investments:					
Commercial Paper	\$ 1,291,533			\$ 1,291,533	\$ 1,291,548
Government Securities	<u>2,803,076</u>			<u>2,803,076</u>	<u>2,800,541</u>
Total Cash Equivalents and Short-Term Investments	<u>4,094,609</u>			<u>4,094,609</u>	<u>4,092,089</u>
Long-Term Investments:					
Government Securities - not on loan	10,965,800			10,965,800	10,965,800
Corporate Bonds	1,919,785			1,919,785	1,919,785
Corporate Stocks	<u>10,258,064</u>			<u>10,258,064</u>	<u>10,258,064</u>
Total Long-Term Investments	<u>23,143,649</u>			<u>23,143,649</u>	<u>23,143,649</u>
Total	<u>\$ 27,238,258</u>			27,238,258	27,235,738
Investments not subject to categorization:					
Unsettled Investment Acquisitions:					
Corporate Bonds				2,012	2,012
Corporate Stocks				18,659	18,659
Mutual Funds				128,353	128,353
Real Estate				463,383	463,383
Unemployment Compensation Pool				<u>622,565</u>	<u>622,565</u>
Total Investments and Cash Equivalents				<u>\$ 28,473,230</u>	<u>\$ 28,470,710</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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

a. University of Tennessee

At year end, the carrying amount of deposits for the University of Tennessee was \$175.550 million and the bank balance was \$170.168 million. Of this balance, the entire amount was (category 1) insured or collateralized with securities held by the University or by its agent in the University's name. During the year ended June 30, 2004, the University had uncollateralized deposits on several days of amounts up to \$5.874 million.

The carrying value of cash and investments includes \$155.119 million of foundation funds reported as component units by the University of Tennessee. The foundations utilize Financial Accounting Standards Board (FASB) accounting standards. Therefore, the schedule below does not reflect these funds.

The investments for the University of Tennessee are categorized below (expressed in thousands):

	Category			Carrying Amount	Fair Value 6/30/04
	1	2	3		
Cash Equivalents:					
Commercial Paper	\$ 60,955			\$ 60,955	\$ 60,955
Government Securities	<u>183,326</u>			<u>183,326</u>	<u>183,326</u>
Total Cash Equivalents	<u>244,281</u>			<u>244,281</u>	<u>244,281</u>
Investments:					
Government Securities	8,748	\$ 24,115		32,863	32,863
Corporate Bonds	559	19,581		20,140	20,140
Corporate Stocks	116,879	7,047		123,926	123,926
Collateralized Mortgage Securities	1,484			1,484	1,484
Other	23			23	23
Assets with Trustees			\$ 4,416	4,416	4,416
International Securities Corporate Stocks	<u>2,295</u>	<u>166</u>		<u>2,461</u>	<u>2,461</u>
Total Investments	<u>129,988</u>	<u>50,909</u>	<u>4,416</u>	<u>185,313</u>	<u>185,313</u>
Total	<u>\$ 374,269</u>	<u>\$ 50,909</u>	<u>\$ 4,416</u>	429,594	429,594
Investments not subject to categorization:					
Limited Partnership-Venture					
Capital Funds				27,421	27,421
Real Estate Equity				26,031	26,031
Mutual Funds				204,937	204,937
Real Estate Gifts				3,420	3,420
Cash Equivalents - assets with bank as custodian				2,793	2,793
Investments in Hedge Funds				<u>59,419</u>	<u>59,419</u>
Total Investments and Cash Equivalents				<u>\$ 753,615</u>	<u>\$ 753,615</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

b. Tennessee Board of Regents

At year end, the carrying amount of deposits for the Tennessee Board of Regents was \$136.043 million and the bank balance was \$153.273 million. Of the bank balance, \$138.990 million was (category 1) covered by insurance or collateral (valued at market) held in the schools' name by independent custodial banks or segregated in the Federal Reserve Bank in the schools' name, \$10.498 million was (category 2) collateralized with securities held by the pledging financial institution's trust department or agent in the institution's name, and \$3.785 million was (category 3) uninsured and uncollateralized. In addition, at June 30, 2004, the schools had \$300.227 million being held by the State in the Local Government Investment Pool.

The investments for the Tennessee Board of Regents are categorized below (expressed in thousands):

	Category			Carrying Amount	Fair Value 6/30/04
	1	2	3		
Investments:					
Commercial Paper	\$ 1,998	\$ 167		\$ 2,165	\$ 2,165
Government Securities	69,702	2,531	\$ 2,040	74,273	74,102
Corporate Bonds	7,987	1,347	3,338	12,672	12,672
Corporate Stocks	56,144	8,199	8,098	72,441	72,431
Other	1,439	125	2,002	3,566	3,566
Total Long-Term Investments	\$ 137,270	\$ 12,369	\$ 15,478	165,117	164,936
Investments not subject to categorization:					
Mutual Funds				64,558	64,558
Other				474	474
Total Investments and Cash Equivalents				\$ 230,149	\$ 229,968

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

c. Tennessee Housing Development Agency

At June 30, 2004, the carrying amount of THDA's deposits was \$2.140 million, and the bank balance was \$3.410 million. Of the bank balance, \$1.344 million was insured and \$2.066 million was collateralized with securities held by the pledging financial institution's agent, but not in the agency's name. In addition, at June 30, 2004, THDA had \$2.362 million being held by the State in the State Pooled Investment Fund.

On several days during the year, the amounts collateralized with securities held by the pledging financial institution's agent but not in the agency's name significantly exceeded the amount at year-end. The laws of the State of Tennessee require that collateral be pledged at 105% of the value of uninsured deposits. The agency bond resolution required deposits to be fully secured.

The investments for the Tennessee Housing Development Agency are categorized below (expressed in thousands):

	Category			Carrying Amount	Fair Value 6/30/04
	1	2	3		
Cash Equivalents and Short-Term Investments:					
Repurchase Agreements	\$ 80,000			\$ 80,000	\$ 80,000
Government Securities	<u>273,367</u>			<u>273,367</u>	<u>273,367</u>
Total Cash Equivalents and Short-Term Investments	<u>353,367</u>			<u>353,367</u>	<u>353,367</u>
Long-Term Investments					
Repurchase Agreements	15,000			15,000	15,000
Government Securities	<u>364,380</u>			<u>364,380</u>	<u>364,380</u>
Total Long-Term Investments	<u>379,380</u>			<u>379,380</u>	<u>379,380</u>
Total	<u>\$ 732,747</u>			732,747	732,747
Investments not subject to categorization:					
Mutual Fund				<u>18,428</u>	<u>18,428</u>
Total Investments and Cash Equivalents				<u>\$ 751,175</u>	<u>\$ 751,175</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

B. Accounts and notes receivable

Receivables at June 30, 2004, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

	Primary Government					Allowance for	Net Total
	<u>Accounts</u>	<u>Taxes</u>	<u>Government</u>	<u>Other</u>	<u>Total Receivables</u>	<u>Uncollectibles</u>	<u>Receivables</u>
Governmental Activities:							
General	\$ 570,871	\$ 635,063	\$ 495,969	\$ 4,305	\$ 1,706,208	\$ (124,538)	\$ 1,581,670
Education	2,517	392,265	104,651		499,433	(27,364)	472,069
Highway	140	65,942	97,676		163,758		163,758
Nonmajor governmental	174	8,067	5,265	1,697	15,203	(338)	14,865
Internal Service	<u>3,505</u>	<u> </u>	<u>292</u>	<u>2</u>	<u>3,799</u>	<u>(58)</u>	<u>3,741</u>
Total—governmental activities	<u>\$ 577,207</u>	<u>\$ 1,101,337</u>	<u>\$ 703,853</u>	<u>\$ 6,004</u>	<u>\$ 2,388,401</u>	<u>\$ (152,298)</u>	<u>\$ 2,236,103</u>
Amounts not expected to be collected within one year							<u>\$ 66,480</u>
Business-type Activities:							
Employment Security	\$ 41,345	\$ 109,120	\$ 2,275	\$ 5,047	\$ 157,787	\$ (31,223)	\$ 126,564
Sewer Treatment Loan				21	21		21
Nonmajor enterprise	<u>2,530</u>	<u> </u>	<u> </u>	<u> </u>	<u>2,530</u>	<u> </u>	<u>2,530</u>
Total—business-type activities	<u>\$ 43,875</u>	<u>\$ 109,120</u>	<u>\$ 2,275</u>	<u>\$ 5,068</u>	<u>\$ 160,338</u>	<u>\$ (31,223)</u>	<u>\$ 129,115</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

C. Capital assets

Capital asset activity for the year ended June 30, 2004, was as follows (expressed in thousands):

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 838,035	\$ 119,211	\$ (1,533)	\$ 955,713
Infrastructure	15,463,371	677,192	(133,420)	16,007,143
Construction in progress	<u>1,132,374</u>	<u>590,966</u>	<u>(732,646)</u>	<u>990,694</u>
Total capital assets, not being depreciated	<u>17,433,780</u>	<u>1,387,369</u>	<u>(867,599)</u>	<u>17,953,550</u>
Capital assets, being depreciated:				
Structures and improvements	1,666,665	58,225	(13,894)	1,710,996
Machinery and equipment	<u>489,858</u>	<u>46,028</u>	<u>(33,666)</u>	<u>502,220</u>
Total capital assets being depreciated	2,156,523	104,253	(47,560)	2,213,216
Less accumulated depreciation for:				
Structures and improvements	(614,078)	(41,020)	12,355	(642,743)
Machinery and equipment	<u>(333,060)</u>	<u>(40,629)</u>	<u>28,489</u>	<u>(345,200)</u>
Total accumulated depreciation	<u>(947,138)</u>	<u>(81,649)</u>	<u>40,844</u>	<u>(987,943)</u>
Total capital assets, being depreciated, net	<u>1,209,385</u>	<u>22,604</u>	<u>(6,716)</u>	<u>1,225,273</u>
Governmental activities capital assets, net	<u>\$ 18,643,165</u>	<u>\$ 1,409,973</u>	<u>\$ (874,315)</u>	<u>\$ 19,178,823</u>

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

Governmental activities:	
General Government	\$ 2,022
Education	1,762
Health and Social Services	6,578
Law, Justice and Public Safety	17,968
Recreation and Resource Development	10,537
Regulation of Business and Professions	106
Transportation	12,811
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>29,865</u>
Total depreciation expense – governmental activities	<u>\$ 81,649</u>

Highway Construction Commitments — At June 30, 2004, the Department of Transportation had contractual commitments of approximately \$660.8 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$592.1 million) and general obligation bond proceeds (\$68.7 million).

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2004, for the discretely presented component units are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 129,947	\$ 5,396	\$ (2,522)	\$ 132,821
Construction in progress	<u>223,913</u>	<u>76,391</u>	<u>(122,750)</u>	<u>177,554</u>
Total capital assets, not being depreciated	<u>353,860</u>	<u>81,787</u>	<u>(125,272)</u>	<u>310,375</u>
Capital assets, being depreciated:				
Infrastructure	197,395	11,407	(3,617)	205,185
Structures and improvements	2,418,030	140,879	(6,456)	2,552,453
Machinery and equipment	<u>682,330</u>	<u>68,962</u>	<u>(48,660)</u>	<u>702,632</u>
Total capital assets being depreciated	3,297,755	221,248	(58,733)	3,460,270
Less accumulated depreciation for:				
Infrastructure	(95,361)	(8,542)	55	(103,848)
Structures and improvements	(971,763)	(65,280)	5,450	(1,031,593)
Machinery and equipment	<u>(409,028)</u>	<u>(61,721)</u>	<u>42,490</u>	<u>(428,259)</u>
Total accumulated depreciation	<u>(1,476,152)</u>	<u>(135,543)</u>	<u>47,995</u>	<u>(1,563,700)</u>
Total capital assets, being depreciated, net	<u>1,821,603</u>	<u>85,705</u>	<u>(10,738)</u>	<u>1,896,570</u>
Total capital assets, net	<u>\$ 2,175,463</u>	<u>\$ 167,492</u>	<u>\$ (136,010)</u>	<u>\$ 2,206,945</u>

The University of Tennessee Foundations utilize FASB standards; therefore, only the June 30, 2004, balances are available as follows (expressed in thousands):

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 8,241
Construction in progress	<u>66,993</u>
Total capital assets, not being depreciated	<u>75,234</u>
Capital assets, being depreciated:	
Structures and improvements	51,527
Machinery and equipment	<u>2,226</u>
Total capital assets being depreciated	53,753
Less: Total accumulated depreciation	<u>(4,960)</u>
Total capital assets, being depreciated, net	<u>48,793</u>
Total capital assets, net	<u>\$ 124,027</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

D. Interfund balances

1. Interfund balances at June 30, 2004, consisted of the following (expressed in thousands):

		D U E F R O M							
		General	Employment			Nonmajor	Nonmajor	Internal	
		<u>Fund</u>	<u>Education</u>	<u>Highway</u>	<u>Security</u>	<u>Governmental</u>	<u>Funds</u>	<u>Service</u>	
								<u>Funds</u>	
								<u>Total</u>	
	General Fund		\$ 179,890	\$ 1	\$ 8,143	\$ 1		\$ 527	\$ 188,562
D	Education	\$ 3							3
U	Highway	14							14
E	Employment								
	Security	300							300
	Nonmajor								
T	Governmental	2			6				8
O	Internal Service								
	Funds	3,474							3,474
	Fiduciary Funds	<u>9,783</u>	<u>341</u>	<u>1,221</u>	<u> </u>	<u>\$ 319</u>	<u>\$ 5</u>	<u>359</u>	<u>12,028</u>
	Total	<u>\$ 13,576</u>	<u>\$ 180,231</u>	<u>\$ 1,222</u>	<u>\$ 8,149</u>	<u>\$ 320</u>	<u>\$ 5</u>	<u>\$ 886</u>	<u>\$ 204,389</u>

Of the \$179.890 million due to the General Fund from the Education Fund, \$179.769 million resulted from a time lag between the dates that payments to local education agencies occur and taxes are received in the Education Fund. The \$8.143 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2004, consisted of the following (expressed in thousands):

		P A Y A B L E F R O M					
		COMPONENT UNITS					
		Tennessee	Tennessee	Tennessee	University	Nonmajor	
		Housing	Education	Board of	of	Component	
		Development	Lottery	Regents	Tennessee	Units	<u>Total</u>
		<u>Agency</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
P	PRIMARY GOVERNMENT:						
A	General Fund		\$ 26	\$ 56	\$ 20	\$ 2,779	\$ 2,881
Y	Education Fund		61,546	427	190		62,163
A	Employment Security					11	11
B	Nonmajor Governmental Funds			490	577		1,067
L	Nonmajor Enterprise Funds				1		1
E	Internal Service Funds			437	12	169	618
	Fiduciary Funds	<u>\$ 65</u>	<u> </u>	<u>2,075</u>	<u>1,418</u>	<u>117</u>	<u>3,675</u>
T							
O	Total	<u>\$ 65</u>	<u>\$ 61,572</u>	<u>\$ 3,485</u>	<u>\$ 2,218</u>	<u>\$ 3,076</u>	<u>\$ 70,416</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2004, consisted of the following (expressed in thousands):

		R E C E I V A B L E F R O M				
		PRIMARY GOVERNMENT				
R E C E I V A B L E		<u>General Fund</u>	<u>Education Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Employment Security</u>	<u>Total</u>
C O M P O N E N T U N I T S :						
	Tennessee Housing					
	Development Agency	\$ 1				\$ 1
	Tennessee Education Lottery				\$ 5	5
	Tennessee Board of Regents	33	\$ 219	\$ 1,255		1,507
	University of Tennessee		502	5,466		5,968
	Nonmajor Component Units	<u>9,506</u>	_____	_____	_____	<u>9,506</u>
	T O T A L	<u>\$ 9,540</u>	<u>\$ 721</u>	<u>\$ 6,721</u>	<u>\$ 5</u>	<u>\$ 16,987</u>

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2004 are as follows (expressed in thousands):

		T r a n s f e r s I n							
<u>T r a n s f e r s O u t</u>		<u>General</u>	<u>Education</u>	<u>Highway</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Treatment</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Total</u>
General			\$ 400,185		\$ 53,704	\$ 3,470	\$ 15,359	\$ 11,831	\$ 484,549
Education					2,132			5	2,137
Highway		\$ 67,104							67,104
Nonmajor Governmental Funds		<u>54,406</u>	_____	<u>\$ 74,000</u>	<u>9,533</u>	_____	_____	_____	<u>137,939</u>
Totals		<u>\$ 121,510</u>	<u>\$ 400,185</u>	<u>\$ 74,000</u>	<u>\$ 65,369</u>	<u>\$ 3,470</u>	<u>\$ 15,359</u>	<u>\$ 11,836</u>	<u>\$ 691,729</u>

Transfers are 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, 2004, the general fund transferred \$484.5 million to other funds in accordance with statute or budgetary authorizations for the following purposes: \$400.2 million to subsidize the activities of the education fund, \$48.2 million for capital outlay expenditures, \$31.5 million to provide appropriations to finance various programs in other funds, \$4.0 million to provide for debt service payments that were due, and \$600 thousand for payments for interfund services used.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

The highway fund received a transfer from the debt service fund for \$74.0 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The highway fund transferred \$65.8 million into the general fund for the purpose of funding the requirements of state government operations. The transfer is considered non-routine and inconsistent with the activities of the highway fund. This transfer was made in accordance with budgetary authority granted by the Legislature.

F. Lease obligations

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

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Noncancelable</u> <u>Operating Leases</u>
2005	\$ 11,317
2006	9,324
2007	7,372
2008	5,474
2009	5,288
2010-2014	<u>13,922</u>
Total Minimum Payments Required	<u>\$ 52,697</u>

Expenditures for rent under leases for the years ended June 30, 2004 and 2003, amounted to \$35.8 million and \$32.1 million, respectively.

Capital Lease Obligations – The State leases two buildings for vocational training centers, one in Carter County and the other in Dyersburg. The leases provide an option to purchase the buildings within the lease periods. These capital lease obligations are payable from resources of the General Fund. The effective interest rates are 5.1% and 4.78%. In addition, the Department of General Services leased imaging systems and printers with an option to purchase within the five-year lease periods. The effective interest rates of the equipment leases are 6.4% and 5%. These capital lease obligations are reported in the governmental activities column of the Statement of Net Assets. The following is an analysis of the leased property under capital leases (expressed in thousands).

		<u>Governmental Activities</u>
Assets:		
Land		\$ 68
Buildings	1,215	
Less: Accumulated		
Depreciation	<u>150</u>	1,065
Equipment	410	
Less: Accumulated		
Depreciation	<u>13</u>	<u>397</u>
		<u>\$ 1,530</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

At June 30, 2004, minimum annual lease payments are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Governmental Activities Lease</u> <u>Obligation Payable</u>
2005	\$ 247
2006	247
2007	247
2008	247
2009	<u>154</u>
Total	1,142
<u>Less - Interest</u>	<u>134</u>
Present value of net minimum lease payments	<u>\$ 1,008</u>

G. Lease receivables

Operating Lease Receivables — The State, as the lessor, entered into an operating lease with Tennessee Golf, LLC for four golf courses built by the State to be operated by the lessee. The 21-year lease agreement, dated January 20, 1995, that required lease payments begin in January 2001 was amended on February 11, 2002, to extend the lease period to 30 years. In accordance with GASB Statement 13, this lease qualifies as a lease with scheduled rent increases. The golf courses are recorded as a governmental activities capital asset.

The State, as the lessor, entered into an operating lease with The Hassell Charitable Foundation for Ross Creek Golf Course, which was acquired by the State to be operated by the lessee. The 20-year lease agreement is dated September 12, 2003.

The following is a schedule by years of minimum future rentals on noncancelable leases as of June 30, 2004 (expressed in thousands):

<u>Year ending June 30</u>	
2005	\$ 535
2006	1,611
2007	2,612
2008	2,652
2009	2,696
2010-2014	14,174
2015-2019	14,861
2020-2024	14,342
2025-2029	12,647
2030-2031	<u>3,794</u>
Total minimum future rentals	<u>\$ 69,924</u>

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

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Minimum future lease payments to be received as of June 30, 2004 (expressed in thousands):

<u>Year Ended June 30</u>	<u>Total</u>
2005	\$ 562
2006	560
2007	461
2008	457
2009	458
2010-2014	2,295
2015-2019	1,266
2020-2021	<u>403</u>
Total minimum future lease payments	<u>\$ 6,462</u>
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	\$ 6,462
Plus: deferred charges	<u>704</u>
Net investment in direct financing lease	<u>\$ 7,166</u>

H. Long term debt

1. General Obligation Bonds – Bonds Payable at June 30, 2004, are shown below (expressed in thousands):

	<u>Amount</u>
<u>Business-type Activities:</u>	
General obligation bonds, 5.0%, due in generally decreasing amounts of principal and interest ranging from \$1.725 million in 2005 to \$719 thousand in 2006	\$ 2,295
General obligation refunding bonds, 1996 Series C, 4.6% to 5.0%, principal and interest due in amounts ranging from \$1.498 million in 2005 to \$986 thousand in 2010	<u>5,889</u>
	8,184
Less: Unamortized bond refunding costs	<u>(113)</u>
Total Business-type Activities	<u>\$ 8,071</u>
<u>Governmental Activities:</u>	
General obligation bonds, 1.6% to 7.4%, due in generally decreasing amounts of principal and interest from \$101.332 million in 2005 to \$3.995 million in 2029	\$ 872,477
General obligation refunding bonds, 1996 Series B, 4.6% to 6%, principal and interest due in amounts ranging from \$20.137 million in 2005 to \$3.911 million in 2011	60,815
General obligation refunding bonds, 1999 Series A, 3.75% to 5%, principal and interest due in amounts ranging from \$30.524 million in 2005 to \$5.398 million in 2015	<u>210,040</u>
	1,143,332
Less: Unamortized bond refunding costs	<u>(2,306)</u>
Total Governmental Activities	<u>\$ 1,141,026</u>

General obligation bonds issued during the year ended June 30, 2004:

September 2003 – Series 2003A in the amount of \$151.855 million
Series 2003B in the amount of \$22.18 million

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

The \$151.855 million general obligation bond issue represents tax exempt bonds maturing serially through 2025 at interest rates ranging from 3.0% to 5.125%. The bonds were sold at a premium of \$6.767 million. The \$22.18 million general obligation bond issue represents taxable bonds maturing serially through 2014 and term bonds maturing in 2017, 2020, and 2023 at interest rates ranging from 1.6% to 5.8%. The bonds were sold at a discount of \$33 thousand. Proceeds of \$162.625 million were used to redeem commercial paper.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2004, is shown below (expressed in thousands).

	<u>Commercial Paper</u>
General obligation commercial paper, interest rates ranging from .85% to 1.16% for tax exempt and 1.09% to 1.2% for taxable, varying maturities	\$ 82,775

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

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

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2010. At June 30, 2004, \$82.775 million of commercial paper was outstanding (\$76.975 million tax exempt and \$5.8 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2004, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>General Obligation Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2005	\$ 98,707	\$ 56,508	\$ 155,215
2006	97,362	51,436	148,798
2007	86,547	46,523	133,070
2008	80,932	42,379	123,311
2009	80,542	38,563	119,105
2010-2014	368,386	136,102	504,488
2015-2019	232,303	55,807	288,110
2020-2024	89,972	14,177	104,149
2025-2029	16,765	3,622	20,387
	<u>\$1,151,516</u>	<u>\$ 445,117</u>	<u>\$ 1,596,633</u>

The above principal for bonds does not reflect a \$2.419 million deduction from bonds payable for the deferred amount on refunding.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2004, 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.

<u>Purpose</u>	<u>Unissued July 1, 2003</u>	<u>Authorized</u>	<u>Canceled</u>	<u>Unissued June 30, 2004</u>
Highway	\$ 715,500	\$ 159,000	\$ 74,000	\$ 800,500
Higher Education	16,043		6,765	9,278
Environment and Conservation	18,077		5,065	13,012
General Government	558,575	354,880	182,092	731,363
Local Development Authority	19,300		2,500	16,800
Other	<u>41</u>	<u> </u>	<u>41</u>	<u> </u>
Totals	<u>\$ 1,327,536</u>	<u>\$ 513,880</u>	<u>\$ 270,463</u>	<u>\$ 1,570,953</u>

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2004, follows (expressed in thousands).

Changes In Long-Term Obligations

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
GOVERNMENTAL ACTIVITIES					
Bonds and Commercial Paper Payable:					
General Obligation Debt	\$ 1,251,868	\$ 230,802	\$ (256,563)	\$ 1,226,107	\$ 95,090
Less Deferred Amount on Refundings	<u>(2,536)</u>	<u> </u>	<u>230</u>	<u>(2,306)</u>	<u> </u>
Total Bonds and Commercial Paper Payable	1,249,332	230,802	(256,333)	1,223,801	95,090
Capital Leases	788	402	(182)	1,008	200
Compensated Absences	176,009	118,608	(117,812)	176,805	82,605
Claims and Judgments	<u>198,768</u>	<u>228,167</u>	<u>(64,197)</u>	<u>362,738</u>	<u>35,982</u>
Governmental Activities Long-Term Obligations	<u>\$ 1,624,897</u>	<u>\$ 577,979</u>	<u>\$ (438,524)</u>	<u>\$ 1,764,352</u>	<u>\$ 213,877</u>
BUSINESS-TYPE ACTIVITIES					
Bonds Payable	\$ 11,203		\$ (3,019)	\$ 8,184	\$ 2,830
Less Deferred Amount on Refundings	<u>(133)</u>		<u>20</u>	<u>(113)</u>	<u> </u>
Total Bonds Payable	11,070		(2,999)	8,071	2,830
Compensated Absences	<u>59</u>	<u>\$ 52</u>	<u>(42)</u>	<u>69</u>	<u>33</u>
Business-Type Activities Long-Term Obligations	<u>\$ 11,129</u>	<u>\$ 52</u>	<u>\$ (3,041)</u>	<u>\$ 8,140</u>	<u>\$ 2,863</u>

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

I. Payables

Payables as of June 30, 2004, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 806,229	\$ 61,537		\$ 75,931	\$ 943,697
Education	119,753	3,014		4,123	126,890
Highway	55,028	6,777			61,805
Nonmajor governmental	45,460	1,442	\$ 13,025	433	60,360
Internal Service	<u>74,138</u>	<u>1,968</u>	_____	_____	<u>76,106</u>
 Total— governmental activities	 <u>\$ 1,100,608</u>	 <u>\$ 74,738</u>	 <u>\$ 13,025</u>	 <u>\$ 80,487</u>	 <u>\$ 1,268,858</u>
 Business-Type Activities:					
Employment Security	\$ 185			\$ 11,086	\$ 11,271
Sewer Treatment Loan	9				9
Nonmajor enterprise	<u>32,939</u>	<u>\$ 30</u>	<u>\$ 131</u>	<u>8,076</u>	<u>41,176</u>
 Total—business-type activities	 <u>\$ 33,133</u>	 <u>\$ 30</u>	 <u>\$ 131</u>	 <u>\$ 19,162</u>	 <u>\$ 52,456</u>

J. Component units – condensed financial statements

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2004 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	<u>Housing Development Agency</u>	<u>Tennessee Education Lottery</u>	<u>Board of Regents</u>	<u>University of Tennessee</u>	<u>Nonmajor Component Units</u>	<u>Total Component Units</u>
Assets						
Cash, Investments, and Other Assets	\$ 2,037,584	\$ 80,253	\$ 797,471	\$ 1,350,294	\$ 199,534	\$ 4,465,136
Due from Primary Government	1	5	1,507	5,968	9,506	16,987
Due from Other Component Units					482,257	482,257
Restricted Assets	186,791	265			22,670	209,726
Capital Assets, Net	<u>16</u>	<u>2,314</u>	<u>1,234,835</u>	<u>1,084,130</u>	<u>9,677</u>	<u>2,330,972</u>
Total Assets	<u>2,224,392</u>	<u>82,837</u>	<u>2,033,813</u>	<u>2,440,392</u>	<u>723,644</u>	<u>7,505,078</u>
 Liabilities						
Accounts Payable and Other						
Current Liabilities	41,478	17,968	116,714	172,116	25,567	373,843
Due to Primary Government	65	61,572	3,485	2,218	3,076	70,416
Due to Other Component Units			249,968	232,289		482,257
Long-Term Liabilities	<u>1,784,774</u>	<u>983</u>	<u>77,562</u>	<u>283,190</u>	<u>676,560</u>	<u>2,823,069</u>
Total Liabilities	<u>1,826,317</u>	<u>80,523</u>	<u>447,729</u>	<u>689,813</u>	<u>705,203</u>	<u>3,749,585</u>
 Net Assets						
Invested in Capital Assets, Net of Related Debt	16	2,314	983,655	730,786	5,710	1,722,481
Restricted	388,913	2,314	283,881	744,765	1,451	1,421,324
Unrestricted	<u>9,146</u>	<u>(2,314)</u>	<u>318,548</u>	<u>275,028</u>	<u>11,280</u>	<u>611,688</u>
Total Net Assets	<u>\$ 398,075</u>	<u>\$ 2,314</u>	<u>\$ 1,586,084</u>	<u>\$ 1,750,579</u>	<u>\$ 18,441</u>	<u>\$ 3,755,493</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Condensed Statement of Activities
Component Units

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Units:				
Housing Development Agency	\$ 257,141	\$ 105,937	\$ 143,463	
Tennessee Education Lottery	395,254	393,010	4,363	
Board of Regents	1,576,409	563,166	364,753	\$ 31,762
University of Tennessee	1,378,761	393,990	576,993	36,979
Nonmajor Component Units	<u>157,866</u>	<u>54,638</u>	<u>61,836</u>	
Total	<u>\$ 3,765,431</u>	<u>\$ 1,510,741</u>	<u>\$ 1,151,408</u>	<u>\$ 68,741</u>

General Revenues:

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

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

State appropriations from the Education Fund in the amount of \$623.1 million were made to the TBR and \$417.7 million to the UT.

Capital project expenditures in the amount of \$41.9 million were made for the TBR and \$18.8 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 \$13.6 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of \$123.3 million for the State's Lottery for Education Account.

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, 2004, the Authority's loan receivable (expressed in thousands) consisted of:

	<u>Current</u>	<u>Noncurrent</u>
Tennessee Board of Regents	\$ 9,993	\$ 237,786
University of Tennessee	<u>12,427</u>	<u>217,661</u>
Total	<u>\$ 22,420</u>	<u>\$ 455,447</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
\$ (7,741)					\$ (7,741)
	\$ 2,119				2,119
		\$ (616,728)			(616,728)
			\$ (370,799)		(370,799)
				\$ (41,392)	(41,392)
<u>(7,741)</u>	<u>2,119</u>	<u>(616,728)</u>	<u>(370,799)</u>	<u>(41,392)</u>	<u>(1,034,541)</u>
		625,339	416,422	46,230	1,087,991
		30,445	5,405	75	35,925
100	195	8,298	8,287	85	16,965
		<u>8,854</u>			<u>8,854</u>
<u>100</u>	<u>195</u>	<u>672,936</u>	<u>430,114</u>	<u>46,390</u>	<u>1,149,735</u>
		<u>8,008</u>	<u>19,728</u>		<u>27,736</u>
(7,641)	2,314	64,216	79,043	4,998	142,930
<u>405,716</u>		<u>1,521,868</u>	<u>1,671,536</u>	<u>13,443</u>	<u>3,612,563</u>
<u>\$ 398,075</u>	<u>\$ 2,314</u>	<u>\$ 1,586,084</u>	<u>\$ 1,750,579</u>	<u>\$ 18,441</u>	<u>\$ 3,755,493</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

K. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2004, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.1% to 7.93%, due in amounts of principal and interest ranging from \$164.082 million in 2005 to \$97.102 million in 2035	\$ 1,500,168
Less: Unamortized bond refunding costs	(10,869)
Net Bonds Payable	<u>\$ 1,489,299</u>
Homeownership Program Convertible Drawdown Notes, at 1.206% interest rate due December 8, 2005	<u>\$ 273,240</u>

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

Bond sales during the year ended June 30, 2004, included the following issues:

- July 2003 – Program bonds of \$60 million
- September 2003 – Program bonds of \$191.885 million
- November 2003 – Program Bonds of \$75 million
- March 2004 – Program Bonds of \$80 million

On July 31, 2003, the agency issued \$60 million in Homeownership Program Bonds, Issue 2003 A & B and used \$27.07 million to redeem notes.

On September 4, 2003, the agency issued \$191.885 million in Mortgage Finance Bonds, Issue 2003 A. On September 17, 2003, the agency used these bonds and other funds to redeem 1993 A bonds.

On November 5, 2003, the agency issued \$75 million in Homeownership Program Bonds, Issue 2003–3 A and B. On November 13, 2003, the agency used \$37.555 million of these bonds to redeem notes.

On March 4, 2004, the agency issued \$80 million in Homeownership Program Bonds, Issue 2004–1. On March 11, 2004, the agency used \$47.29 million of these bonds to redeem notes.

Current Refundings

During the year ended June 30, 2004, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$49.335 million and in the Homeownership Program in the amount of \$91.623 million. The respective carrying values of the bonds were \$49.016 million and \$90.982 million. This resulted in an expense to the Mortgage Finance Program of \$319 thousand and the Homeownership Program of \$641 thousand.

On July 1, 2003, the agency used \$190.465 million of Single Family Mortgage Program Notes, 2002CN–1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$180.485 million early redemption and \$9.980 million current maturities). The carrying amount of these bonds was \$188.992 million. The refunding resulted in a difference of \$1.473 million between the reacquisition price and the net carrying amount of the old debt. A portion of these notes were refunded with bonds on November 13, 2003, March 11, 2004, and after year-end.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

On July 31, 2003, the agency issued \$60 million in Homeownership Program Bonds, Issue 2003-2 A and B. On August 14, 2003, the agency used \$27.07 million of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding reduced the agency's debt service by \$2.695 million over the next 28 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4.924 million.

On September 4, 2003, the agency issued \$191.885 million in Mortgage Finance Program Bonds, Issue 2003 A to refund \$152.67 million of the 1993 Series A bonds. Mortgage prepayments and excess reserves were used to call \$39.25 million of the bonds at par. The carrying amount of these bonds was \$191.219 million. A call premium of \$3.053 million was paid on the redemption of these bonds. The refunding resulted in a difference of \$3.754 million between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2028. The refunding increased the agency's debt service by \$27.458 million over the next 25 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$7.5 million.

On November 3, 2003, the agency used \$89.355 million of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$88.676 million. The refunding resulted in a difference of \$679 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On November 5, 2003, the agency issued \$75 million in Homeownership Program Bonds, Issue 2003-3 A and B. On November 13, 2003, the agency used \$37.555 million of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used January 2, 2003 and July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The refunding increased the agency's debt service by \$6.528 million over the next 30 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$4 million.

On January 2, 2004, the agency used \$27.7 million of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$27.534 million. The refunding resulted in a difference of \$166 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 4, 2004, the agency issued \$80 million in Homeownership Program Bonds, Issue 2004-1. On March 11, 2004, the agency used \$47.29 million of these bonds to partially refund the convertible drawdown notes, 2002CN-1, which were used July 1, 2003 to refund certain bonds previously issued in the Mortgage Finance Program. The refunding increased the agency's debt service by \$3.918 million over the next 22.5 years, but the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$5.638 million.

On April 1, 2004, the agency used \$26.565 million of Single Family Mortgage Program Notes, 2002CN-1, to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program. The carrying amount of these bonds was \$26.372 million. The refunding resulted in a difference of \$193 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Debt Service requirements to maturity for revenue bonds payable at June 30, 2004, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2005	\$ 90,656	\$ 73,426	\$ 164,082
2006	51,568	72,984	124,552
2007	51,887	71,712	123,599
2008	50,166	70,279	120,445
2009	46,111	65,635	111,746
2010-2014	198,524	287,928	486,452
2015-2019	177,129	241,015	418,144
2020-2024	245,894	197,424	443,318
2025-2029	136,073	132,900	268,973
2030-2034	344,986	70,469	415,455
2035	94,610	2,492	97,102
	<u>\$ 1,487,604</u>	<u>\$ 1,286,264</u>	<u>\$ 2,773,868</u>

The above principal for revenue bonds is less than that presented on the accompanying financial statements by \$1.695 million. Of this amount, \$12.564 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2005-2009). In addition, \$10.869 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of agency drawdown notes with a maximum aggregate principal amount of \$65 million. On April 1, 1999 the Trust Indenture was supplemented providing for the maximum aggregate principal amount of \$200 million. On December 1, 2002, the Trust Indenture was supplemented to provide a maximum aggregate principal amount of \$450 million. The notes bear interest, payable on the second Thursday of each succeeding month with respect to the principal amount drawn down by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date. On December 1, 2002, the interest rate was changed to ninety-nine percent (99%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of the note activity for the year ended June 30, 2004 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$51,070	\$334,085	\$111,915	\$273,240

The \$273.24 million of notes outstanding at year end are Series 2002CN-1, which mature on December 8, 2005.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

L. Nonmajor component units – long term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2004, are shown below (expressed in thousands):

Revenue bonds, 1.95% to 5.125%, due in generally decreasing amounts of principal and interest from \$4.511 million in 2005 to \$16 thousand in 2022	\$ 34,463
Less: Unamortized bond refunding costs	<u>(1,689)</u>
Net Bonds Payable	<u>\$ 32,774</u>
Revenue bond anticipation notes, \$48.134 million at 3% due May 31, 2005	<u>\$ 48,134</u>

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

Prior Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds of the Community Provider Programs by placing the proceeds of general obligation notes in an irrevocable trust to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2004, \$8.305 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2004, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2005	\$ 2,922	\$ 1,589	\$ 4,511
2006	2,807	1,468	4,275
2007	2,457	1,357	3,814
2008	2,552	1,260	3,812
2009	2,667	1,145	3,812
2010-2014	12,467	3,951	16,418
2015-2019	7,973	1,128	9,101
2020-2022	618	51	669
	<u>\$ 34,463</u>	<u>\$ 11,949</u>	<u>\$ 46,412</u>

The above principal for revenue bonds does not reflect a \$1.689 million deduction from bonds payable for the deferred amount on refunding.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2004, are shown below (expressed in thousands):

Revenue bonds, various Series, 1.3% to 7.75%, due in decreasing amounts of principal and interest from \$47.396 million in 2005 to \$2.996 million in 2034	\$ 536,763
Less: Unamortized bond refunding costs	<u>(9,378)</u>
Net Bonds Payable	<u>\$ 527,385</u>
Commercial paper, interest rates ranging from .75% to 1.28% for tax exempt and 1.03% to 1.28% for taxable varying maturities	<u>\$ 32,156</u>

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

On December 23, 2003, the authority issued \$2.445 million of Qualified Zone Academy Bonds (QZAB) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The bonds are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on bonds. On each December 23rd, the 2003 QZAB borrowers make annual principal payments into a bond fund held by the State Treasurer to pay the bonds at maturity on December 23, 2018.

On March 25, 2004, the authority issued three series of bonds—2004 Series A, B and C. 2004 Series B tax-exempt bonds in the amount of \$60.575 million was issued to redeem \$42.415 million of commercial paper and 2004 Series C taxable bonds in the amount of \$37.23 million was used to redeem \$8.98 million of commercial paper. The balance of the proceeds was used for new loans and to pay cost of issuance.

2004 Series A bonds were issued in the amount of \$67.965 million for a current and an advance refunding. In addition to the bond proceeds, a \$963 thousand debt service reserve contribution, \$3.423 million in borrower prepayments, and \$10 thousand equity contribution were used to currently refund \$3.45 million of 1967 Series A bonds and \$1.17 million of 1987 Series A bonds. In addition, a majority of the 1996 Series A bonds in the amount of \$62.795 million were advance refunded. The monies were placed in an irrevocable trust and the bonds are considered to be defeased. The refundings resulted in a difference between reacquisition price and the net carrying amount of the old debt of \$7.31 million for the advance refunding and \$20 thousand for the current refunding. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2026 using the straight-line method. The refundings were completed to reduce the authority's total debt service payments over the next 22 years by \$6.028 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1.661 million.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2004, \$38.39 million of bonds outstanding are considered defeased.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2004, are as follows (expressed in thousands):

For the Year(s) <u>Ended June 30</u>	<u>Revenue Bonds</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2005	\$ 21,205	\$ 26,191	\$ 47,396
2006	20,756	24,622	45,378
2007	21,065	23,786	44,851
2008	21,863	23,031	44,894
2009	22,726	22,202	44,928
2010-2014	118,673	88,140	206,813
2015-2019	112,085	61,775	173,860
2020-2024	91,458	38,425	129,883
2025-2029	66,642	18,378	85,020
2030-2034	<u>31,971</u>	<u>3,871</u>	<u>35,842</u>
	<u>\$ 528,444</u>	<u>\$ 330,421</u>	<u>\$ 858,865</u>

The above principal for revenue bonds is more than that presented on the accompanying financial statements by \$1.059 million. Of this amount, \$8.319 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2005-2010). In addition, \$9.378 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed \$150 million. At June 30, 2004, \$30.836 million of tax-exempt and \$1.32 million of taxable commercial paper was outstanding.

The commercial paper is a special obligation of the Authority. The commercial paper dealer is J. P. Morgan. Commercial paper principal and interest may be paid from: (i) the proceeds of draws on the Liquidity Facility, (ii) Available Revenues, (iii) the moneys and securities (if any) on deposit in the commercial paper and reimbursement account and in the Debt Service Fund, (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (v) the proceeds of bonds, notes or other evidences of indebtedness to the extent set aside to make such payments. The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from .75% to 1.28% 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 an Advance Agreement, is *Westdeutsche Landesbank Girozentrale*, New York branch. The total available commitment is \$152.25 million. The obligation of *Westdeutsche Landesbank Girozentrale* is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

M. Component units – changes in long term obligations

A summary of changes in long term obligations for the year ended June 30, 2004, follows (expressed in thousands).

Changes In Long Term Obligations

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee Loans and Notes Payable	\$ 215,734	\$ 142,524	\$ (128,095)	\$ 230,163	\$ 12,570
Tennessee Board of Regents Loans and Notes Payable	238,361	44,590	(31,782)	251,169	12,141
Tennessee Housing Development Agency Bonds Payable	1,776,991	413,846	(690,669)	1,500,168	95,459
Less Deferred Amount on Refunding	(7,485)	(4,246)	862	(10,869)	
Tennessee Housing Development Agency Notes Payable	51,070	334,085	(111,915)	273,240	
Nonmajor Component Units Bonds, Notes, and Loans Payable	635,474	265,838	(214,755)	686,557	76,891
Less Deferred Amount on Refunding	<u>(4,086)</u>	<u>(7,784)</u>	<u>351</u>	<u>(11,519)</u>	<u> </u>
Total Revenue Bonds, Notes and Loans Payable	\$ 2,906,059	\$ 1,188,853	\$ (1,176,003)	\$ 2,918,909	\$ 197,061
University of Tennessee Compensated Absences	63,758	41,339	(42,125)	62,972	42,125
University of Tennessee Due to Grantors, Deferred Revenue, and Annuities Payable	60,402	1,518	(1,764)	60,156	
Tennessee Board of Regents Compensated Absences	44,636	14,639	(15,326)	43,949	11,008
Tennessee Board of Regents Due to Grantors and Deferred Revenue	20,167	1,314	(1,250)	20,231	
Tennessee Housing Development Agency Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	17,218	10,020	(5,575)	21,663	1,343
Tennessee Housing Development Agency Compensated Absences	627	334	(389)	572	275
Tennessee Education Lottery Deferred Lease		1,027	(44)	983	68
Nonmajor Component Units Compensated Absences	1,532	1,376	(1,413)	1,495	845
Nonmajor Component Units Capital Leases	<u>129</u>	<u>2</u>	<u>(103)</u>	<u>28</u>	<u>20</u>
Component Units Long-Term Obligations	<u>\$ 3,114,528</u>	<u>\$ 1,260,422</u>	<u>\$ (1,243,992)</u>	<u>\$ 3,130,958</u>	<u>\$ 252,745</u>

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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 \$147.56 million (\$2.744 million due within one year).

N. Endowments – component units

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2004, net appreciation of \$135.258 million is available to be spent, of which \$130.516 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, 2004, net appreciation of \$7.909 million is available to be spent, of which \$7.614 million is restricted to specific purposes.

NOTE 6 – Other information

A. Risk management

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2004, included 122 local education agencies and two education cooperatives, with 42,528 teachers and support personnel, and 3,861 retirees enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State retains an immaterial risk of loss by this fund.

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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. At June 30, 2004, the Local Education Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 10% for the PPO, POS and HMO options. 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 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

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):

	<u>2004</u>	<u>2003</u>
Unpaid Claims at Beginning of Year	\$ 22,823	\$ 23,943
Incurred Claims:		
Provision for insured events of the current year	263,736	228,230
Increase (decrease) in provision for insured events of prior years	<u>854</u>	<u>(4,939)</u>
Total Incurred Claims Expenses	<u>264,590</u>	<u>223,291</u>
Payments:		
Claims attributable to insured events of the current year	237,363	205,407
Claims attributable to insured events of prior years	<u>23,677</u>	<u>19,004</u>
Total Payments	<u>261,040</u>	<u>224,411</u>
Total Unpaid Claims at End of the Year	<u>\$ 26,373</u>	<u>\$ 22,823</u>

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, 2004, included 39 counties, 88 municipalities and 227 quasi-governmental organizations, with 15,260 employees and 418 retirees maintaining coverage through one of four options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2004, the Local Government Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 10% for the PPO, POS and HMO options. 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 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

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

	<u>2004</u>	<u>2003</u>
Unpaid Claims at Beginning of Year	\$ 10,984	\$ 11,807
Incurred Claims:		
Provision for insured events of the current year	87,809	99,857
Increase (decrease) in provision for insured events of prior years	<u>(2,636)</u>	<u>(2,177)</u>
Total Incurred Claims Expenses	<u>85,173</u>	<u>97,680</u>
Payments:		
Claims attributable to insured events of the current year	79,028	88,873
Claims attributable to insured events of prior years	<u>8,348</u>	<u>9,630</u>
Total Payments	<u>87,376</u>	<u>98,503</u>
Total Unpaid Claims at End of the Year	<u>\$ 8,781</u>	<u>\$ 10,984</u>

3. **Risk Management** - It is the policy of the State not to purchase commercial insurance for the risks of losses for general liability, automobile liability, professional malpractice and workers' compensation. The State management believes it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The State purchases commercial insurance for real property, flood, earthquake, and builder's risk losses and surety bond coverage on the State's officials and employees. The RMF is also responsible for claims for damages to state owned property up to the amount of the property insurance aggregate deductible amount. The insurance policy deductibles vary from \$25,000 per occurrence to an aggregate of \$7.5 million. All agencies and authorities of the State participate in RMF, except for the Dairy Promotion Board, Certified Cotton Growers' Organization (a component unit) and the Tennessee Education Lottery Corporation (a component unit). 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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

both experience and exposures. This charge considers recent trends in actual claims experience of the State as a whole.

RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. At June 30, 2004, the present value of the casualty liability as actuarially determined was \$84.739 million (discounted at 3.0%). An additional liability of \$7.818 million for incurred property and other losses not considered in the actuary estimates has been included in the total claims liability at June 30, 2004. Changes in the balances of claims liabilities during fiscal years 2003 and 2004 were as follows (expressed in thousands):

	Beginning of Fiscal Year <u>Liability</u>	Current Year Claims and <u>Changes in Estimates</u>	Claim <u>Payments</u>	Balance at Fiscal <u>Year-End</u>
2002-2003	\$ 80,910	\$ 35,481	\$ (29,054)	\$ 87,337
2003-2004	\$ 87,337	\$ 33,141	\$ (27,921)	\$ 92,557

At June 30, 2004, RMF held \$101.1 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2004, included 65,802 employees and 6,602 retirees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2004, the State Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 10% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

	<u>2004</u>	<u>2003</u>
Unpaid Claims at Beginning of Year	\$ 42,806	\$ 45,537
Incurred Claims:		
Provision for insured events of the current year	476,729	428,064
Increase (decrease) in provision for insured events of prior years	<u>(3,206)</u>	<u>(7,166)</u>
Total Incurred Claims Expenses	<u>473,523</u>	<u>420,898</u>
Payments:		
Claims attributable to insured events of the current year	429,056	385,258
Claims attributable to insured events of prior years	<u>39,600</u>	<u>38,371</u>
Total Payments	<u>468,656</u>	<u>423,629</u>
Total Unpaid Claims at End of the Year	<u>\$ 47,673</u>	<u>\$ 42,806</u>

5. Medicare Supplement Insurance – In 1988, the State of Tennessee adopted legislation authorizing the provision of Medicare Supplement coverage for qualified retired state employees and teachers. Instituted in January 1989, the coverage was offered on a fully insured basis through December 2000. On January 1, 2001, the financial arrangement was converted to self-insured and a third plan option offered to participants.

In accordance with Tennessee Code Annotated 8-27-701, et. seq, the State Insurance Committee established a Medicare Supplement Insurance Fund, a public entity risk pool, on January 1, 2001. Fund members at June 30, 2004, include 22,497 retirees and dependents who selected one of three plan offerings; Plan One (NAIC Plan D), Plan Two (NAIC Plan H) and Plan Three (a PPO maintenance of benefit option).

The Medicare Supplement Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient for 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 law and regulation. Plan participants are required to: pay premiums on time, provide for the filing of claims for services received, and report changes in eligibility of themselves and their dependents.

The Medicare Supplement Insurance Fund establishes claims liabilities for the self-insured coverage based on estimates of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2004, reserve requirements were established of 14%, based upon claim payments for the prior 12 months. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Medicare Supplement Insurance Fund considers investment income in determining if a premium deficiency exists.

The Medicare Supplement Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Eighth Avenue North, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 741-0431.

As discussed above, the Medicare Supplement 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):

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

	<u>2004</u>	<u>2003</u>
Unpaid Claims at Beginning of Year	\$ 5,533	\$ 4,867
Incurred Claims:		
Provision for insured events of the current year	38,155	34,580
Increase (decrease) in provision for insured events of prior years	<u>(794)</u>	<u>(169)</u>
Total Incurred Claims Expenses	<u>37,361</u>	<u>34,411</u>
Payments:		
Claims attributable to insured events of the current year	32,813	29,047
Claims attributable to insured events of prior years	<u>4,739</u>	<u>4,698</u>
Total Payments	<u>37,552</u>	<u>33,745</u>
Total Unpaid Claims at End of the Year	<u>\$ 5,342</u>	<u>\$ 5,533</u>

B. Related organizations

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

C. Jointly governed organizations

The State in conjunction with 34 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states and Puerto Rico are members of the Southern Growth Policies Board. Tennessee paid \$42,463 in fiscal year 2004 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid \$18,000 in fiscal year 2004 for membership dues.

The Compact for Education was entered into with 49 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid \$68,700 in fiscal year 2004 for membership dues.

The Interstate Mining Compact has 17 member states, including Tennessee. Tennessee paid \$15,528 in fiscal year 2004 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid \$34,267 in fiscal year 2004 for membership dues.

The Southeast Interstate Low Level Radioactive Waste Compact has 7 member states, including Tennessee.

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

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

D. Joint ventures

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

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

	<u>2003</u>	<u>2002</u>
Current Assets	\$ 286	\$ 271
Capital Assets	<u>33</u>	<u>33</u>
Total Assets	<u>319</u>	<u>304</u>
Invested in General Fixed Assets	33	33
Fund Balance	<u>286</u>	<u>271</u>
Total Liabilities and Fund Balance	<u>319</u>	<u>304</u>
Revenues	319	293
Expenditures	<u>304</u>	<u>290</u>
Excess of Revenues over (under) Expenditures	15	3
Beginning Fund Balance	<u>271</u>	<u>268</u>
Ending Fund Balance	<u>\$ 286</u>	<u>\$ 271</u>

E. Post employment health insurance benefits

1. General - The State offers an opportunity to its employees and eligible retirees to participate in a self-insured indemnity policy (preferred provider plan), a point of service plan, or health maintenance organizations. This post employment benefit is authorized under Tennessee Code Annotated 8-27-205. The indemnity policy provides benefits to plan participants in a comprehensive, major medical format involving a \$300 calendar year deductible and a \$1,300 per individual out-of-pocket limit. The plans incorporate typical provisions relating to utilization review, medical necessity, pre-existing conditions, coordination of benefits and subrogation of expenses. The plans offer benefit incentives for the use of designated providers and the plans maintain limitations on benefits provided for the treatment of mental illness and substance abuse.
2. Retirees - Retirees who are not yet eligible for Medicare benefits may continue participation in the plan subject to certain length of service and participation requirements. Upon Medicare eligibility, the retiree is afforded the opportunity to participate in a self-insured supplement policy not associated with the plan. The State pays a service determined amount for retirees who participate in the state sponsored Medicare supplement policy.

The funds collected for the plan's operation are recorded in the employee group insurance account. The plan's premiums are intended to fund benefits on a pay-as-you-go basis and no specified reserves have been established to fund retiree health benefits. Current retiree premium rates are based upon the retiree's length of service and range from 20 percent to 40 percent of the plan's total premium. The State provides no direct funding of retiree health benefits.

During the 2003-2004 fiscal year, the State Plan provided approximately \$55.6 million in benefits to an average of 6,433 retired employee participants.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

3. 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 266 former employees during fiscal year 2003-2004, and the State Plan paid approximately \$2.5 million in benefits to this group.

F. Gain contingencies

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 includes base payments to all states and territories totaling \$206 billion from 1998 through 2023, and continues in perpetuity. Tennessee's share of the settlement is expected to be \$4.8 billion through the year 2025. Third party lawsuits may affect future payments to Tennessee. Although Tennessee's share of the base payments may not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in the payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear.

G. Pension plans

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

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

Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 7.29% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2004, 2003, and 2002, were \$271.298 million, \$264.321 million and \$243.498 million respectively, equal to the required contributions for each year.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

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 418 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEPP 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 SETHEPP. 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.

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

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were \$74.7 million for the year ending June 30, 2004.

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

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

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2004, contributions totaling \$68.9 million were made by employees participating in the plans. Another \$5.9 million was contributed by the State as matching contributions up to \$20 per employee per month for the 401(k) plan match.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

H. Investment pool

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

A copy of the SPIF report can be obtained by writing Tennessee Treasury Department, Accounting Division, 9th Floor Andrew Jackson Building, Nashville, TN 37243-0231 or by calling (615) 741-1337.

I. 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 the student loans up to 100% of their principal amounts. At June 30, 2004, TSAC was guarantor of \$4.713 billion in student loans, substantially all of which were reinsured by the USDE. The State has no obligation under these student loan guarantees in the event of default.

J. Nashville correctional facilities revenue bonds

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville which were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2004, of \$13.53 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

K. Litigation

A class action suit has been brought against the State, alleging that the State has failed to provide services to individuals with mental retardation and other developmental disabilities, which they are entitled to under Medicaid. Presently the State limits the number of individuals served under the Home and Community-Based Services Waiver and the plaintiffs assert that this is a violation of the Medicaid Act.

The small school systems in the State have previously filed suit against the State challenging the constitutionality of the funding formula for elementary and secondary education. In declaring the State's K-12 Better Education Program and its funding formula constitutional, the State Supreme Court also stated that the State must equalize teachers' salaries according to the BEP formula. In response, the General Assembly enacted the Teachers Salary Equity Plan, which plaintiff small school systems have challenged as inadequate. The Supreme Court ruled in the plaintiffs' favor and the Legislature must now address this issue.

A lawsuit has been filed which challenges the constitutionality of certain deductions used in the calculation of the franchise tax base, as being a violation of the interstate commerce clause. Should the State lose this case, the State could be exposed to significant refunds of franchise tax collections.

The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. Some of these lawsuits, including the three enumerated above, may have a future budgetary programmatic impact. They will be addressed in future budgets.

STATE OF TENNESSEE
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2004

L. 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.

The Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration (HCFA) performed a review of the provider taxes collected for the period beginning fiscal year 1992 through September 2000. The purpose of the review was to determine whether there was a positive correlation between the nursing home provider taxes and a state grant program for private pay patients of nursing homes (Grant Assistance Program). Because CMS believes there is a positive correlation between the nursing home provider taxes and the nursing home grant assistance program, it concluded that the provider taxes are impermissible resulting in a reduction in federal financial participation. On January 19, 2001, the State received a notice of disallowance for this tax for the period October 1, 1992 through September 30, 2000. On February 16, 2001, the State appealed the disallowance. On June 11, 2001, the State received a second notice of disallowance for the period October 1, 2000 through March 31, 2001. On July 6, 2001, the State appealed the second disallowance and the two disallowances have been consolidated for appeal. If the disallowances were ultimately upheld, then CMS would offset the disallowed amounts against future federal participation in TennCare. The State eliminated the Grant Assistance Program effective August 1, 2001, and does not believe that the collection of provider taxes after that date will be challenged by CMS.

Other audits of the Medical Assistance Program (TennCare) have resulted in likely questioned costs that could be determined to be disallowances by the U.S. Department of Health and Human Services (HHS). These questioned costs relate to expenditures of resources for Certified Public Expenditures as it relates to Graduate Medical Education facilities and the allowable federal match for administrative expenditures related to one of the Behavioral Health Organizations. The ultimate liability to the federal government, is currently under dispute and if HHS were to impose a liability, the State would appeal the decision.

M. Subsequent events

Primary Government

Subsequent to June 30, the State issued \$20 million in general obligation commercial paper. Also, in July 2004, the State issued 2004 Series A and B taxable general obligation bonds in the amount of \$11.885 million and \$42.95 million to refund 1997 Series B, 1999 Series C, and \$8.125 million of 1998 Series A bonds. In September 2004, the State issued 2004 Series C tax-exempt general obligation bonds in the amount of \$215.165 million to refund parts of 1996A, 1997A, 1998B, 1999B, 2000A, and 2002A Series bonds.

Component Units

Subsequent to June 30, Tennessee Housing Development Authority (THDA) issued \$100 million of revenue bonds in July 2004. THDA called revenue bonds in the amount of \$137.721 million and redeemed notes in the amount of \$43.92 million through October. Also, in July the agency drew \$39.185 million of Series 2002CN-1 Notes and in August the agency drew \$34.145 million of Series 2004CN-1 Notes.

Subsequent to June 30, the Tennessee State School Bond Authority issued \$13 million in commercial paper. On November 24, the Authority issued \$12.6 million of Qualified Zone Academy Bonds.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

**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, are inspected annually and rated in accordance with the MRI criteria. The following elements are rated: traveled pavement; shoulders; various roadside elements such as debris, grass height, slope erosion, and fencing; drainage elements such as culverts, cross drain pipes, and drain inlets; and traffic services such as signage, pavement markings, and guardrails. The MRI is a numerical score from 1 to 100, with 100 being a perfect score. The average MRI of all the rated segments is the reported condition level.

Established Condition Level

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

Assessed Conditions

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

<u>For the Period Ended</u>	<u>Maintenance Rating Index</u>
June 30, 2004	90.93
June 30, 2003	90.41
June 30, 2002	87.75

BRIDGES

Measurement Scale

The state maintains information on its 8,071 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as “structurally deficient.” A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as “functionally obsolete.” A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

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

Assessed Conditions

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

<u>For the Two-Year Period Ended</u>	<u>Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete</u>
June 30, 2004	80.00%
June 30, 2002	79.86%
June 30, 2000	82.35%

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
Infrastructure Assets Reported Using the Modified Approach
(Continued)

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

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

For the Period Ended <u>June 30</u>	<u>Roadways</u>		<u>Bridges</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
2004	290,027	260,066	29,247	36,514
2003	289,516	285,459	28,787	39,557
2002	290,583	278,683	28,830	20,527

Actual and estimated maintenance/preservation expenses are determined using the accrual basis of accounting. Additional years will be reported when data is available.

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, 2004
(Expressed in Thousands)

	General Fund			Variance With Final Budget - Positive (Negative)
	Budgeted Amounts		Actual (Budgetary Basis)	
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	\$ 758,285	\$ 758,285	\$ 758,285	
Add:				
Prior year encumbrances reappropriated	7,274	7,274	7,274	
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	<u>765,559</u>	<u>765,559</u>	<u>765,559</u>	
Revenues:				
Taxes	4,511,543	4,511,543	4,863,109	\$ 351,566
Licenses, fines, fees, and permits	155,429	155,429	169,382	13,953
Interest on investments	10,000	10,000	14,182	4,182
Federal	6,629,236	7,482,163	7,024,459	(457,704)
Departmental services	1,815,596	1,860,509	1,988,170	127,661
Other	14,347	14,347	356,271	341,924
Other financing sources:				
Transfers in		121,510	121,510	
Bond authorizations				
Total sources of financial resources	<u>13,901,710</u>	<u>14,921,060</u>	<u>15,302,642</u>	<u>381,582</u>
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	44,412	42,902	27,506	15,396
Secretary of State	39,235	40,424	33,075	7,349
Comptroller	67,053	72,364	67,411	4,953
Treasurer	34,259	35,553	32,174	3,379
Governor	12,243	8,213	5,171	3,042
Commissions	67,571	68,871	61,709	7,162
Finance and Administration	71,164	71,761	51,269	20,492
Personnel	9,967	12,962	10,481	2,481
General Services	19,375	19,341	17,172	2,169
Revenue	63,010	63,010	58,228	4,782
Miscellaneous Appropriations	33,086	27,457	17,296	10,161
Education				
Health and social services				
Veterans Affairs	3,221	3,221	3,077	144
Labor and Workforce Development	208,576	212,850	179,556	33,294
TennCare	7,333,127	8,047,359	7,631,267	416,092
Mental Health and Mental Retardation	839,652	878,531	829,010	49,521
Health	458,318	464,589	435,776	28,813
Human Services	1,596,936	1,738,833	1,687,682	51,151
Children's Services	561,875	584,113	544,186	39,927
Law, justice and public safety				
Judicial	205,786	208,580	198,904	9,676
Correction	542,906	534,897	500,030	34,867
Probation and Parole	58,092	58,092	54,978	3,114
Military	96,169	144,278	97,262	47,016
Bureau of Criminal Investigation	48,984	50,713	43,297	7,416
Safety	171,259	164,531	145,868	18,663
Recreation and resource development				
Agriculture	58,358	61,851	56,616	5,235
Tourist Development	12,072	12,072	11,876	196
Environment and Conservation	211,950	212,379	184,657	27,722
Economic and Community Development	99,444	99,444	68,748	30,696
Regulation of business and professions				
Commerce and Insurance	55,150	55,394	47,654	7,740
Financial Institutions	9,361	9,457	9,033	424
Transportation				
State Shared Taxes Paid to Local Governments	362,895	362,895	362,895	
Other financing uses				
Transfers out	449,482	484,549	484,549	
Total uses of financial resources	<u>13,844,988</u>	<u>14,851,486</u>	<u>13,958,413</u>	<u>893,073</u>
Fund balances (budgetary basis), June 30	<u>\$ 56,722</u>	<u>\$ 69,574</u>	<u>\$ 1,344,229</u>	<u>\$ 1,274,655</u>

Education Fund				Highway Fund			
Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final			Original	Final		
\$ 43,979	\$ 43,979	\$ 43,979		\$ 6,573	\$ 6,573	\$ 6,573	
				4,413	4,413	4,413	
				195,515	195,515	195,515	
<u>43,979</u>	<u>43,979</u>	<u>43,979</u>		<u>206,501</u>	<u>206,501</u>	<u>206,501</u>	
3,425,500	3,425,500	3,487,793	\$ 62,293	738,000	738,000	753,409	\$ 15,409
1,900	1,900	1,794	(106)	204,500	204,500	208,525	4,025
						9	9
713,985	899,093	724,776	(174,317)	710,959	2,585,121	638,943	(1,946,178)
9,270	12,029	6,997	(5,032)	35,781	46,165	34,171	(11,994)
		127,877	127,877	3,400	3,400	4,091	691
					74,000	74,000	
				<u>74,000</u>		<u>74,000</u>	
<u>4,585,854</u>	<u>4,782,686</u>	<u>4,793,401</u>	<u>10,715</u>	<u>1,973,141</u>	<u>3,857,687</u>	<u>1,919,649</u>	<u>(1,938,038)</u>

4,652,509 4,851,413 4,623,456 227,957

				1,643,518	3,535,744	1,562,073	1,973,671
				284,759	284,759	284,759	
				<u>67,104</u>	<u>67,104</u>	<u>67,104</u>	
				<u>1,995,381</u>	<u>3,887,607</u>	<u>1,913,936</u>	<u>1,973,671</u>
\$ <u>(66,907)</u>	\$ <u>(70,864)</u>	\$ <u>167,808</u>	\$ <u>238,672</u>	\$ <u>(22,240)</u>	\$ <u>(29,920)</u>	\$ <u>5,713</u>	\$ <u>35,633</u>

State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2004

(Expressed in thousands)

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

	<u>General Fund</u>	<u>Education Fund</u>	<u>Highway Fund</u>
Sources of financial resources			
Actual amounts (budgetary basis)	\$ 15,302,642	\$ 4,793,401	\$ 1,919,649
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(765,559)	(43,979)	(206,501)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial statement purposes.	<u>(121,510)</u>	<u>(400,185)</u>	<u>(74,000)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 14,415,573</u>	<u>\$ 4,349,237</u>	<u>\$ 1,639,148</u>
Uses of financial resources			
Actual amounts (budgetary basis)	\$ 13,958,413	\$ 4,625,593	\$ 1,913,936
Differences - budget to GAAP:			
Encumbrances for supplies, equipment, and construction are reported in the year the order is placed for budgetary purposes, but in the year the goods or services are received for financial reporting purposes.	(7,198)	(688)	(243,160)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	<u>(484,549)</u>	<u>(2,137)</u>	<u>(67,104)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	<u>\$ 13,466,666</u>	<u>\$ 4,622,768</u>	<u>\$ 1,603,672</u>

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

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

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

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

Permanent Funds – Description of these funds is found later in this section.

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2004

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	\$ 228,692	\$ 270	\$ 189,144	\$ 25,603	\$ 443,709
Investments				214,887	214,887
Receivables:					
Taxes	3,365	4,338		26	7,729
Due from other governments	3,535		1,730		5,265
Interest				1,696	1,696
Other	170			5	175
Due from other funds	8				8
Due from component units			490	577	1,067
Loans receivable	10,946	9,870			20,816
Restricted assets:					
Cash and cash equivalents			18,511		18,511
Total assets	\$ 246,716	\$ 14,478	\$ 209,875	\$ 242,794	\$ 713,863
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	\$ 38,925	\$ 391	\$ 7,762	\$ 2	\$ 47,080
Due to other funds	320				320
Due to component units			4,296	2,425	6,721
Unearned revenue	2,427	10,520			12,947
Deposits payable	1				1
Payable from restricted assets			2,660		2,660
Total liabilities	41,673	10,911	14,718	2,427	69,729
Fund balances:					
Reserved for:					
Encumbrances and contracts	1,670		34,808		36,478
Specific purposes:					
Wildlife Resources	28,743				28,743
Environmental programs	33,381				33,381
Job skills	22,237				22,237
Enhanced 911 service	49,684				49,684
Parks acquisition	15,425				15,425
Community development	20,059				20,059
Capital projects			160,349		160,349
Other specific purposes	33,844	3,567			37,411
Permanent funds:					
Expendable				13,959	13,959
Nonexpendable				226,408	226,408
Total fund balances	205,043	3,567	195,157	240,367	644,134
Total liabilities and fund balances	\$ 246,716	\$ 14,478	\$ 209,875	\$ 242,794	\$ 713,863

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, 2004

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues					
Taxes:					
Sales		\$ 41,403			\$ 41,403
Fuel	\$ 17,984	74,000			91,984
Business	5	104,600			104,605
Other	15,053				15,053
Licenses, fines, fees, and permits	120,399	2,668		\$ 2,770	125,837
Interest on investments	2,741			17,170	19,911
Federal	25,241		\$ 4,115		29,356
Departmental services	11,605	2,640	27,669		41,914
Other	511			19	530
Total revenues	193,539	225,311	31,784	19,959	470,593
Expenditures					
Current:					
General government	19,511				19,511
Education				7,526	7,526
Law, justice and public safety	4,736				4,736
Recreation and resources development	159,191			167	159,358
Regulation of business and professions	31,897				31,897
Debt service:					
Bond principal retirement		73,843			73,843
Commercial paper retirement		2,500	3,900		6,400
Bond interest		48,999			48,999
Commercial paper interest		957			957
Debt issuance costs		1,945			1,945
Capital outlay			128,167		128,167
Total expenditures	215,335	128,244	132,067	7,693	483,339
Excess (deficiency) of revenues over (under) expenditures	(21,796)	97,067	(100,283)	12,266	(12,746)
Other financing sources (uses)					
Bond and commercial paper proceeds			206,933		206,933
Commercial paper redeemed			(155,796)		(155,796)
Premium on bond sale		6,485			6,485
Transfers in	1,905	3,986	59,226	252	65,369
Transfers out		(137,704)	(235)		(137,939)
Total other financing sources (uses)	1,905	(127,233)	110,128	252	(14,948)
Net changes in fund balances	(19,891)	(30,166)	9,845	12,518	(27,694)
Fund balances, July 1	224,934	33,733	185,312	227,849	671,828
Fund balances, June 30	\$ 205,043	\$ 3,567	\$ 195,157	\$ 240,367	\$ 644,134

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

Community Development - This fund is used to account for the federal monies received under the Community Development Block Grant Program.

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

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

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

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

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

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

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

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

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

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

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2004

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Environmental Protection
Assets					
Cash and cash equivalents	\$ 31,159	\$ 9,811	\$ 15,383	\$ 23,048	\$ 11,460
Receivables:					
Taxes	58	379	1,374	4	
Due from other governments	2,466				
Other	11		1		
Due from other funds	2			6	
Loans receivable					
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 33,696</u>	<u>\$ 10,190</u>	<u>\$ 16,758</u>	<u>\$ 23,058</u>	<u>\$ 11,460</u>
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	\$ 3,075	\$ 5,810	\$ 3,476	\$ 819	\$ 16
Due to other funds	215		7	2	
Unearned revenue					
Deposits payable					
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>3,290</u>	<u>5,810</u>	<u>3,483</u>	<u>821</u>	<u>16</u>
Fund balances:					
Reserved for:					
Encumbrances and contracts	1,663		3		
Specific purposes:					
Wildlife Resources	28,743				
Environmental programs			13,272		11,444
Job skills				22,237	
Enhanced 911 service					
Parks acquisition					
Community development					
Other specific purposes		4,380			
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>30,406</u>	<u>4,380</u>	<u>13,275</u>	<u>22,237</u>	<u>11,444</u>
Total liabilities and fund balances	<u>\$ 33,696</u>	<u>\$ 10,190</u>	<u>\$ 16,758</u>	<u>\$ 23,058</u>	<u>\$ 11,460</u>

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development	Driver Education
\$ 4,717	\$ 17,834	\$ 2,764	\$ 7,644	\$ 61,988	\$ 9,113	\$ 982
229	350	151	1,488 287 1			48
					10,946	
<u>\$ 4,946</u>	<u>\$ 18,184</u>	<u>\$ 2,915</u>	<u>\$ 9,420</u>	<u>\$ 61,988</u>	<u>\$ 20,059</u>	<u>\$ 1,030</u>
\$ 1,407 21 1,302	\$ 2,759	\$ 66 13	\$ 8,280 28 1,112	\$ 12,301 3		\$ 9 1
<u>2,730</u>	<u>2,759</u>	<u>79</u>	<u>9,420</u>	<u>12,304</u>		<u>10</u>
2,216	15,425	2,836		49,684	\$ 20,059	1,017
<u>2,216</u>	<u>15,425</u>	<u>2,836</u>		<u>49,684</u>	<u>20,059</u>	<u>1,020</u>
<u>\$ 4,946</u>	<u>\$ 18,184</u>	<u>\$ 2,915</u>	<u>\$ 9,420</u>	<u>\$ 61,988</u>	<u>\$ 20,059</u>	<u>\$ 1,030</u>

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2004

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
Assets					
Cash and cash equivalents	\$ 867	\$ 1,270	\$ 3,466	\$ 210	\$ 2
Receivables:					
Taxes					
Due from other governments					
Other					
Due from other funds					
Loans receivable					
Total assets	\$ 867	\$ 1,270	\$ 3,466	\$ 210	\$ 2
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	\$ 1	\$ 132	\$ 2	\$ 10	\$ 2
Due to other funds				4	
Unearned revenue					
Deposits payable					
Total liabilities	1	132	2	14	2
Fund balances:					
Reserved for:					
Encumbrances and contracts					
Specific purposes:					
Wildlife Resources					
Environmental programs	866	1,138			
Job skills					
Enhanced 911 service					
Parks acquisition					
Community development					
Other specific purposes			3,464	196	
Total fund balances	866	1,138	3,464	196	
Total liabilities and fund balances	\$ 867	\$ 1,270	\$ 3,466	\$ 210	\$ 2

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Telecommunication	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
\$ 5,019	\$ 3,851	\$ 4,988	\$ 11,212	\$ 142	\$ 1,762	\$ 228,692
				14		3,365
		203				3,535
		6				170
						8
						10,946
<u>\$ 5,019</u>	<u>\$ 3,851</u>	<u>\$ 5,197</u>	<u>\$ 11,212</u>	<u>\$ 156</u>	<u>\$ 1,762</u>	<u>\$ 246,716</u>
\$ 571		\$ 179		\$ 10		\$ 38,925
2		37				320
						2,427
		1				1
<u>573</u>		<u>217</u>		<u>10</u>		<u>41,673</u>
1						1,670
						28,743
4,445						33,381
						22,237
						49,684
						15,425
						20,059
	\$ 3,851	4,980	\$ 11,212	146	\$ 1,762	33,844
<u>4,446</u>	<u>3,851</u>	<u>4,980</u>	<u>11,212</u>	<u>146</u>	<u>1,762</u>	<u>205,043</u>
<u>\$ 5,019</u>	<u>\$ 3,851</u>	<u>\$ 5,197</u>	<u>\$ 11,212</u>	<u>\$ 156</u>	<u>\$ 1,762</u>	<u>\$ 246,716</u>

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Environmental Protection
Revenues					
Taxes:					
Fuel	\$ 515				
Business				\$ 5	
Other	1,422	\$ 4,641	\$ 5,611		
Licenses, fines, fees, and permits	29,973	2,625	5,281		\$ 32,145
Interest on investments	325	79	166	248	119
Federal	16,451	4,971			
Departmental services	7,996		41		
Other		509			
Total revenues	<u>56,682</u>	<u>12,825</u>	<u>11,099</u>	<u>253</u>	<u>32,264</u>
Expenditures					
General government		12,623			
Law, justice and public safety					
Recreation and resources development	65,802		12,104	1,513	32,035
Regulation of business and professions					
Total expenditures	<u>65,802</u>	<u>12,623</u>	<u>12,104</u>	<u>1,513</u>	<u>32,035</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,120)</u>	<u>202</u>	<u>(1,005)</u>	<u>(1,260)</u>	<u>229</u>
Other financing sources (uses)					
Transfers in	<u>891</u>				
Total other financing sources (uses)	<u>891</u>				
Net change in fund balances	(8,229)	202	(1,005)	(1,260)	229
Fund balances, July 1	<u>38,635</u>	<u>4,178</u>	<u>14,280</u>	<u>23,497</u>	<u>11,215</u>
Fund balances, June 30	<u>\$ 30,406</u>	<u>\$ 4,380</u>	<u>\$ 13,275</u>	<u>\$ 22,237</u>	<u>\$ 11,444</u>

(continued on next page)

<u>Hazardous Waste</u>	<u>Parks Acquisition</u>	<u>Supreme Court Boards</u>	<u>Underground Storage Tanks</u>	<u>Enhanced Emergency 911 Service</u>	<u>Community Development</u>	<u>Driver Education</u>
			\$ 17,469			
\$ 48	\$ 1,422	\$ 2,809	2,405	\$ 32,233		\$ 585
1,530	207	26	66	598	\$ 583	
3,199	656	149	1,254			
	4	2	174			
<u>4,777</u>	<u>2,289</u>	<u>2,986</u>	<u>21,368</u>	<u>32,831</u>	<u>583</u>	<u>585</u>
		2,593				277
7,659	6,574		21,368		6,742	
				<u>31,580</u>		
<u>7,659</u>	<u>6,574</u>	<u>2,593</u>	<u>21,368</u>	<u>31,580</u>	<u>6,742</u>	<u>277</u>
<u>(2,882)</u>	<u>(4,285)</u>	<u>393</u>		<u>1,251</u>	<u>(6,159)</u>	<u>308</u>
<u>1,014</u>						
<u>1,014</u>						
(1,868)	(4,285)	393		1,251	(6,159)	308
<u>4,084</u>	<u>19,710</u>	<u>2,443</u>		<u>48,433</u>	<u>26,218</u>	<u>712</u>
<u>\$ 2,216</u>	<u>\$ 15,425</u>	<u>\$ 2,836</u>	<u>\$ -</u>	<u>\$ 49,684</u>	<u>\$ 20,059</u>	<u>\$ 1,020</u>

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
Revenues					
Taxes:					
Fuel					
Business					
Other		\$ 656			\$ 1,186
Licenses, fines, fees, and permits	\$ 14		\$ 253	\$ 625	
Interest on investments	9	14	37		
Federal					
Departmental services			9		
Other					
Total revenues	23	670	299	625	1,186
Expenditures					
General government					
Law, justice and public safety				650	
Recreation and resources development		386			1,191
Regulation of business and professions			317		
Total expenditures		386	317	650	1,191
Excess (deficiency) of revenues over (under) expenditures	23	284	(18)	(25)	(5)
Other financing sources (uses)					
Transfers in					
Total other financing sources (uses)					
Net change in fund balances	23	284	(18)	(25)	(5)
Fund balances, July 1	843	854	3,482	221	5
Fund balances, June 30	\$ 866	\$ 1,138	\$ 3,464	\$ 196	\$ -

<u>Drycleaner's Environmental Response</u>	<u>Agricultural Regulatory Fund</u>	<u>Tennessee Regulatory Authority</u>	<u>Small and Minority Telecommunication</u>	<u>Sex Offender Treatment Program</u>	<u>Fraud and Economic Crime</u>	<u>Total Nonmajor Special Revenue Funds</u>
						\$ 17,984
				\$ 115		5
\$ 1,172	\$ 2,739	\$ 6,742	\$ 118		\$ 798	15,053
55	42	352			1	120,399
27		2		31		2,741
						25,241
						11,605
						511
<u>1,254</u>	<u>2,781</u>	<u>7,096</u>	<u>118</u>	<u>146</u>	<u>799</u>	<u>193,539</u>
		6,867	21			19,511
				200	1,016	4,736
1,223	2,594					159,191
						31,897
<u>1,223</u>	<u>2,594</u>	<u>6,867</u>	<u>21</u>	<u>200</u>	<u>1,016</u>	<u>215,335</u>
<u>31</u>	<u>187</u>	<u>229</u>	<u>97</u>	<u>(54)</u>	<u>(217)</u>	<u>(21,796)</u>
						1,905
						1,905
31	187	229	97	(54)	(217)	(19,891)
<u>4,415</u>	<u>3,664</u>	<u>4,751</u>	<u>11,115</u>	<u>200</u>	<u>1,979</u>	<u>224,934</u>
<u>\$ 4,446</u>	<u>\$ 3,851</u>	<u>\$ 4,980</u>	<u>\$ 11,212</u>	<u>\$ 146</u>	<u>\$ 1,762</u>	<u>\$ 205,043</u>

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 36,268	\$ 36,268	
Add:			
Prior year encumbrances liquidated	1,244	1,244	
Adjusted fund balances (budgetary basis), July 1	37,512	37,512	
Revenues:			
Taxes	2,173	1,937	\$ (236)
Licenses, fines, fees, and permits	34,427	29,973	(4,454)
Interest on investments		325	325
Federal	23,417	16,451	(6,966)
Departmental services	8,477	7,996	(481)
Other			
Other financing sources - transfers in	891	891	
Total sources of financial resources	106,897	95,085	(11,812)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	78,971	66,342	12,629
Economic and Community Development			
Commerce and Insurance			
Total uses of financial resources	78,971	66,342	12,629
Fund balances (budgetary basis), June 30	\$ 27,926	\$ 28,743	\$ 817

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 4,178	\$ 4,178		\$ 14,280	\$ 14,280	
<u>4,178</u>	<u>4,178</u>		<u>14,280</u>	<u>14,280</u>	
	4,641	\$ 4,641	5,568	5,611	\$ 43
	2,625	2,625	4,936	5,281	345
	79	79		166	166
4,451	4,971	520			
	509	509	234	41	(193)
<u>8,629</u>	<u>17,003</u>	<u>8,374</u>	<u>25,018</u>	<u>25,379</u>	<u>361</u>
12,676	12,623	53			
			12,893	12,107	786
<u>12,676</u>	<u>12,623</u>	<u>53</u>	<u>12,893</u>	<u>12,107</u>	<u>786</u>
\$ <u>(4,047)</u>	\$ <u>4,380</u>	\$ <u>8,427</u>	\$ <u>12,125</u>	\$ <u>13,272</u>	\$ <u>1,147</u>

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Budget	Job Skills Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 23,497	\$ 23,497	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	23,497	23,497	
Revenues:			
Taxes		5	\$ 5
Licenses, fines, fees, and permits			
Interest on investments	600	248	(352)
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	24,097	23,750	(347)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	9,404	1,513	7,891
Commerce and Insurance			
Total uses of financial resources	9,404	1,513	7,891
Fund balances (budgetary basis), June 30	\$ 14,693	\$ 22,237	\$ 7,544

(continued on next page)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 11,215	\$ 11,215		\$ 4,084	\$ 4,084	
11,215	11,215		4,084	4,084	
37,146	32,145	\$ (5,001)		48	\$ 48
	119	119	2,061	1,530	(531)
			3,593	3,199	(394)
			1,014	1,014	
48,361	43,479	(4,882)	10,752	9,875	(877)
37,146	32,035	5,111	11,023	7,659	3,364
37,146	32,035	5,111	11,023	7,659	3,364
\$ 11,215	\$ 11,444	\$ 229	\$ (271)	\$ 2,216	\$ 2,487

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, 2004

(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 19,710	\$ 19,710	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	19,710	19,710	
Revenues:			
Taxes	1,422	1,422	
Licenses, fines, fees, and permits			
Interest on investments		207	\$ 207
Federal		656	656
Departmental services		4	4
Other			
Other financing sources - transfers in			
Total sources of financial resources	21,132	21,999	867
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	7,162	6,574	588
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Total uses of financial resources	7,162	6,574	588
Fund balances (budgetary basis), June 30	\$ 13,970	\$ 15,425	\$ 1,455

(continued on next page)

Supreme Court Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 2,443	\$ 2,443	
<u>2,443</u>	<u>2,443</u>	
	2,809	\$ 2,809
	26	26
	149	149
	2	2
<u>2,443</u>	<u>5,429</u>	<u>2,986</u>
2,773	2,593	180
<u>2,773</u>	<u>2,593</u>	<u>180</u>
\$ <u>(330)</u>	\$ <u>2,836</u>	\$ <u>3,166</u>

Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 18,240	\$ 17,469	\$ (771)
3,050	2,405	(645)
	66	66
2,248	1,254	(994)
	174	174
<u>23,538</u>	<u>21,368</u>	<u>(2,170)</u>
23,409	21,368	2,041
<u>23,409</u>	<u>21,368</u>	<u>2,041</u>
\$ <u>129</u>	\$ <u>-</u>	\$ <u>(129)</u>

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 48,431	\$ 48,431	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	48,431	48,431	
Revenues:			
Taxes			
Licenses, fines, fees, and permits		32,233	\$ 32,233
Interest on investments		598	598
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	48,431	81,262	32,831
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	31,716	31,578	138
Total uses of financial resources	31,716	31,578	138
Fund balances (budgetary basis), June 30	\$ 16,715	\$ 49,684	\$ 32,969

(continued on next page)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 712	\$ 712		\$ 843	\$ 843	
712	712		843	843	
418	585	\$ 167	500	149	\$ (486) 9
1,130	1,297	167	1,343	866	(477)
418	280	138	500		500
418	280	138	500		500
\$ 712	\$ 1,017	\$ 305	\$ 843	\$ 866	\$ 23

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, 2004

(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 854	\$ 854	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	854	854	
Revenues:			
Taxes	656	656	
Licenses, fines, fees, and permits			
Interest on investments	100	14	\$ (86)
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,610	1,524	(86)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture	756	386	370
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Total uses of financial resources	756	386	370
Fund balances (budgetary basis), June 30	\$ 854	\$ 1,138	\$ 284

(continued on next page)

Regulatory Boards			Salvage Title Enforcement		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 3,482	\$ 3,482		\$ 214	\$ 214	
3,482	3,482		214	214	
	253	\$ 253	758	625	\$ (133)
	37	37			
	9	9			
3,482	3,781	299	972	839	(133)
			758	643	115
366	317	49			
366	317	49	758	643	115
\$ 3,116	\$ 3,464	\$ 348	\$ 214	\$ 196	\$ (18)

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, 2004

(Expressed in Thousands)

	Drycleaner's Environmental Response		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 4,414	\$ 4,414	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	4,414	4,414	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,447	1,172	\$ (1,275)
Interest on investments		55	55
Federal		27	27
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	6,861	5,668	(1,193)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	2,447	1,223	1,224
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Total uses of financial resources	2,447	1,223	1,224
Fund balances (budgetary basis), June 30	\$ 4,414	\$ 4,445	\$ 31

(continued on next page)

Agricultural Regulatory Fund			Tennessee Regulatory Authority		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 3,664	\$ 3,664		\$ 4,751	\$ 4,751	
<u>3,664</u>	<u>3,664</u>		<u>4,751</u>	<u>4,751</u>	
2,354	2,739	\$ 385	7,048	6,742	\$ (306)
120	42	(78)	350	352	2
			4	2	(2)
<u>6,138</u>	<u>6,445</u>	<u>307</u>	<u>12,153</u>	<u>11,847</u>	<u>(306)</u>
			7,402	6,867	535
2,824	2,594	230			
<u>2,824</u>	<u>2,594</u>	<u>230</u>	<u>7,402</u>	<u>6,867</u>	<u>535</u>
\$ <u>3,314</u>	\$ <u>3,851</u>	\$ <u>537</u>	\$ <u>4,751</u>	\$ <u>4,980</u>	\$ <u>229</u>

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Small and Minority Telecommunication		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 11,115	\$ 11,115	
Add:			
Prior year encumbrances liquidated			
Adjusted fund balances (budgetary basis), July 1	11,115	11,115	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments	80	118	\$ 38
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	11,195	11,233	38
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	80	21	59
Commerce and Insurance			
Total uses of financial resources	80	21	59
Fund balances (budgetary basis), June 30	\$ 11,115	\$ 11,212	\$ 97

Sex Offender Treatment Program			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 200	\$ 200		\$ 194,355	\$ 194,355	
			1,244	1,244	
200	200		195,599	195,599	
	115	\$ 115	28,059	31,856	\$ 3,797
			93,084	119,601	26,517
			900	2,157	1,257
	31	31	32,527	25,241	(7,286)
			12,308	11,605	(703)
				511	511
			1,905	1,905	
200	346	146	364,382	388,475	24,093
			2,773	2,593	180
			12,676	12,623	53
			7,402	6,867	535
200	200		200	200	
			1,176	923	253
			3,580	2,980	600
			94,580	80,966	13,614
			78,971	66,342	12,629
			9,484	1,534	7,950
			32,082	31,895	187
200	200		242,924	206,923	36,001
\$ -	\$ 146	\$ 146	\$ 121,458	\$ 181,552	\$ 60,094

DEBT SERVICE FUND

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

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 33,733	\$ 33,733	
Revenues:			
Taxes	219,300	220,003	\$ 703
Licenses, fines, fees, and permits	2,700	2,668	(32)
Other		2,640	2,640
Other financing sources			
Transfers in	3,986	3,986	
Bond Premium	6,485	6,485	
Total sources of financial resources	<u>266,204</u>	<u>269,515</u>	<u>3,311</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	231,387	128,244	103,143
Other financing uses - transfers out	137,704	137,704	
Total uses of financial resources	<u>369,091</u>	<u>265,948</u>	<u>103,143</u>
Fund balances (budgetary basis), June 30	<u>\$ (102,887)</u>	<u>\$ 3,567</u>	<u>\$ 106,454</u>

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PERMANENT FUNDS

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

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

Other – Various smaller funds that are legally restricted to the extent that only earnings, not principal can be spent.

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2004

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Assets				
Cash and cash equivalents	\$ 3,387	\$ 6	\$ 22,210	\$ 25,603
Investments	211,740	3,147		214,887
Receivables:				
Taxes			26	26
Interest	1,696			1,696
Other			5	5
Due from component units	577			577
 Total assets	\$ 217,400	\$ 3,153	\$ 22,241	\$ 242,794
 Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals		\$ 2		\$ 2
Due to component units	\$ 2,425			2,425
 Total liabilities	2,425	2		2,427
 Fund balances:				
Reserved for:				
Expendable	12,292	446	\$ 1,221	13,959
Nonexpendable	202,683	2,705	21,020	226,408
 Total fund balances	214,975	3,151	22,241	240,367
 Total liabilities and fund balances	\$ 217,400	\$ 3,153	\$ 22,241	\$ 242,794

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	<u>Chairs of Excellence</u>	<u>Academic Scholars</u>	<u>Other</u>	<u>Total Permanent Funds</u>
Revenues				
Licenses, fines, fees and permits			\$ 2,770	\$ 2,770
Interest on investments	\$ 16,767	\$ 185	218	17,170
Other			19	19
	<u>16,767</u>	<u>185</u>	<u>3,007</u>	<u>19,959</u>
Expenditures				
Education	7,035	491		7,526
Recreation and resources development			167	167
	<u>7,035</u>	<u>491</u>	<u>167</u>	<u>7,693</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,732</u>	<u>(306)</u>	<u>2,840</u>	<u>12,266</u>
Other financing sources (uses)				
Transfers in		252		252
Total other financing sources (uses)		<u>252</u>		<u>252</u>
Net change in fund balances	9,732	(54)	2,840	12,518
Fund balances, July 1	<u>205,243</u>	<u>3,205</u>	<u>19,401</u>	<u>227,849</u>
Fund balances, June 30	<u>\$ 214,975</u>	<u>\$ 3,151</u>	<u>\$ 22,241</u>	<u>\$ 240,367</u>

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**GENERAL FUND
SUPPLEMENTARY SCHEDULES**

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2004 and 2003

(Expressed in Thousands)

<u>Revenues by Source</u>	<u>For the Year Ended</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Taxes:		
Sales and use	\$ 2,394,797	\$ 2,237,499
Gasoline	10,537	8,633
Motor fuel	3,180	2,947
Gasoline inspection	658	636
Total fuel taxes	<u>14,375</u>	<u>12,216</u>
Franchise	492,650	457,984
Excise	600,553	504,476
Gross receipts	216,679	214,457
Beer	15,206	14,923
Alcoholic beverage	35,705	34,059
Mixed drink	21,017	20,501
Tobacco	644	622
Business	94,925	40,482
Insurance companies premium	327,030	302,387
Retaliatory	5,100	5,406
Workers compensation premium	51,141	41,366
Medicaid provider	100,230	101,700
Other	1,789	1,516
Total business taxes	<u>1,962,669</u>	<u>1,739,879</u>
Income	139,992	102,939
Privilege	259,977	216,423
Inheritance and estate	90,718	83,148
Other	581	581
Total other taxes	<u>491,268</u>	<u>403,091</u>
Total taxes	<u>4,863,109</u>	<u>4,392,685</u>
Licenses, fines, fees and permits:		
Motor vehicle registration	41,149	39,830
Motor vehicle title registration fees	8,616	8,387
Drivers licenses	22,744	22,193
Arrests, fines and fees	9,821	9,299
Regulatory board fees	28,902	31,767
Other	58,150	51,282
Total licenses, fines, fees and permits	<u>169,382</u>	<u>162,758</u>
Interest on investments	<u>14,182</u>	<u>13,639</u>
Federal - earned by state departments	<u>7,024,459</u>	<u>6,442,962</u>
Departmental services:		
Charges to the public	345,369	340,956
Interdepartmental charges	956,969	958,947
Charges to cities, counties, etc.	685,832	317,823
Total departmental services	<u>1,988,170</u>	<u>1,617,726</u>
Federal tax relief	96,733	96,733
Other	259,538	278,630
Total revenues by source	<u>\$ 14,415,573</u>	<u>\$ 13,005,133</u>

State of Tennessee
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2004 and 2003

(Expressed in Thousands)

<u>Expenditures by function and department</u>	For the Year Ended	
	June 30, 2004	June 30, 2003
General government:		
Legislative	\$ 27,506	\$ 27,197
Secretary of State	32,819	28,414
Comptroller	67,071	69,075
Treasurer	32,174	34,056
Governor	5,171	3,957
Commissions	61,663	60,231
Finance and Administration	51,269	54,509
Personnel	10,481	10,176
General Services	17,172	17,283
Revenue	58,177	57,684
Miscellaneous Appropriations	17,055	12,875
Total general government	380,558	375,457
Health and social services:		
Veterans Affairs	3,077	3,277
Labor and Workforce Development	179,386	185,943
TennCare	7,631,266	6,864,487
Mental Health and Mental Retardation	828,372	771,531
Health	435,043	402,666
Human Services	1,687,674	1,597,681
Children's Services	544,053	517,097
Total health and social services	11,308,871	10,342,682
Law, justice and public safety:		
Judicial	198,904	192,298
Correction	498,383	472,882
Probation and Paroles	54,942	55,268
Military	97,097	52,971
Bureau of Criminal Investigation	43,245	45,225
Safety	145,203	145,347
Total law, justice and public safety	1,037,774	963,991
Recreation and resources development:		
Agriculture	56,131	52,495
Tourist Development	11,875	12,231
Environment and Conservation	183,151	160,154
Economic and Community Development	68,728	62,061
Total recreation and resources development	319,885	286,941
Regulation of business and professions:		
Commerce and Insurance	47,649	45,952
Financial Institutions	9,034	8,630
Total regulation of business and professions	56,683	54,582
State shared taxes paid to local governments	362,895	360,801
Total expenditures by function and department	\$ 13,466,666	\$ 12,384,454

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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.

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

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

Teacher Group Insurance - Established in January 1986, this fund is used to account for revenues received and claims paid on behalf of 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 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.

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

Medicare Supplement Insurance – Established in January 2001, this fund is used to account for revenues received and claims paid on behalf of retirees who are eligible for medicare coverage and elect coverage under the Medicare Supplement Insurance Plan.

Client Protection – This fund was created by the Tennessee Supreme Court to protect clients from dishonest conduct by attorneys. Revenue is mainly generated through annual registration fees for attorneys.

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2004

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,500	\$ 20,144	\$ 46,267	\$ 2,628
Receivables:				
Accounts receivable			1,444	504
Loans receivable-current	2,830	1,513		
Due from component units				
Inventory				
Total current assets	6,330	21,657	47,711	3,132
Noncurrent assets:				
Deferred charges	59			
Loans receivable	5,199	4,404		
Total noncurrent assets	5,258	4,404		
Total assets	11,588	26,061	47,711	3,132
Liabilities				
Current liabilities:				
Accounts payable and accruals	479		26,379	8,786
Due to other funds				
Bonds payable-current	2,830			
Unearned revenue			1,244	112
Total current liabilities	3,309		27,623	8,898
Noncurrent liabilities:				
Bonds payable, net	5,241			
Other noncurrent liabilities				
Total noncurrent liabilities	5,241			
Total liabilities	8,550		27,623	8,898
Net assets				
Restricted				
Unrestricted (deficit)	3,038	26,061	20,088	(5,766)
Total net assets	\$ 3,038	\$ 26,061	\$ 20,088	\$ (5,766)

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
\$ 12,625	\$ 3,543	\$ 365	\$ 28,251	\$ 1,766	\$ 119,089
		118	464		2,530
1,413					5,756
		1			1
		12			12
<u>14,038</u>	<u>3,543</u>	<u>496</u>	<u>28,715</u>	<u>1,766</u>	<u>127,388</u>
					59
<u>38,308</u>					<u>47,911</u>
<u>38,308</u>					<u>47,970</u>
<u>52,346</u>	<u>3,543</u>	<u>496</u>	<u>28,715</u>	<u>1,766</u>	<u>175,358</u>
5		207	5,348		41,204
		5			5
					2,830
			783		<u>2,139</u>
<u>5</u>		<u>212</u>	<u>6,131</u>		<u>46,178</u>
		36			5,241
					36
		36			<u>5,277</u>
<u>5</u>		<u>248</u>	<u>6,131</u>		<u>51,455</u>
52,341					52,341
	3,543	248	22,584	1,766	<u>71,562</u>
<u>\$ 52,341</u>	<u>\$ 3,543</u>	<u>\$ 248</u>	<u>\$ 22,584</u>	<u>\$ 1,766</u>	<u>\$ 123,903</u>

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Operating revenues				
Charges for services	\$ 305	\$ 249		
Investment income	42	204		
Premiums			\$ 287,449	\$ 98,283
Other			36	11
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating revenues	347	453	287,485	98,294
Operating expenses				
Personal services				
Contractual services	29		22,003	6,691
Materials and supplies				
Rentals and insurance				
Interest	483			
Depreciation and amortization	10			
Benefits			260,924	83,854
Other	21		1,165	504
	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	543		284,092	91,049
Operating income (loss)	<hr/> (196)	<hr/> 453	<hr/> 3,393	<hr/> 7,245
Nonoperating revenues (expenses)				
Operating grants	(25)	156		
Interest expense				(1)
Interest income			368	
	<hr/>	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	(25)	156	368	(1)
Income (loss) before transfers	(221)	609	3,761	7,244
Transfers in			8,027	
Change in net assets	(221)	609	11,788	7,244
Net assets, July 1	<hr/> 3,259	<hr/> 25,452	<hr/> 8,300	<hr/> (13,010)
Net assets, June 30	<hr/> <u>\$ 3,038</u>	<hr/> <u>\$ 26,061</u>	<hr/> <u>\$ 20,088</u>	<hr/> <u>\$ (5,766)</u>

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
\$ 654		\$ 1,955		\$ 156	\$ 3,319
147			\$ 36,805		393
					422,537
					47
<u>801</u>		<u>1,955</u>	<u>36,805</u>	<u>156</u>	<u>426,296</u>
		736			736
375		429	5,438	68	35,033
		480			480
		273			273
					483
					10
			35,875		380,653
	\$ 117	49	299	2	2,157
<u>375</u>	<u>117</u>	<u>1,967</u>	<u>41,612</u>	<u>70</u>	<u>419,825</u>
<u>426</u>	<u>(117)</u>	<u>(12)</u>	<u>(4,807)</u>	<u>86</u>	<u>6,471</u>
16,448					16,579
	38		290	19	(1) 715
<u>16,448</u>	<u>38</u>		<u>290</u>	<u>19</u>	<u>17,293</u>
16,874	(79)	(12)	(4,517)	105	23,764
<u>1,679</u>			<u>5,653</u>		<u>15,359</u>
18,553	(79)	(12)	1,136	105	39,123
<u>33,788</u>	<u>3,622</u>	<u>260</u>	<u>21,448</u>	<u>1,661</u>	<u>84,780</u>
<u>\$ 52,341</u>	<u>\$ 3,543</u>	<u>\$ 248</u>	<u>\$ 22,584</u>	<u>\$ 1,766</u>	<u>\$ 123,903</u>

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Cash flows from operating activities				
Receipts from customers and users			\$ 289,531	\$ 98,903
Receipts from interfund services provided				
Payments to suppliers			(280,644)	(93,236)
Payments to employees				
Payments for interfund services used	\$ (29)		(1,165)	(503)
Net cash from (used for) operating activities	(29)		7,722	5,164
Cash flows from noncapital financing activities				
Operating grants received		\$ 156		
Negative cash balance implicitly repaid				(2,535)
Transfers in			8,027	
Payments to component units	(25)			
Principal payments	(2,990)			
Interest paid	(541)			
Subsidy to borrowers	(35)			
Net cash from (used for) noncapital financing activities	(3,591)	156	8,027	(2,535)
Cash flows from investing activities				
Loans issued		(696)		
Collection of loan principal	3,149	1,678		
Interest paid				(1)
Interest received	347	409	368	
Net cash from (used for) investing activities	3,496	1,391	368	(1)
Net increase (decrease) in cash and cash equivalents	(124)	1,547	16,117	2,628
Cash and cash equivalents, July 1	3,624	18,597	30,150	-
Cash and cash equivalents, June 30	\$ 3,500	\$ 20,144	\$ 46,267	\$ 2,628
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	\$ (196)	\$ 453	\$ 3,393	\$ 7,245
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	10			
Investment income	(42)	(204)		
Charges for services	(305)	(249)		
Interest expense	483			
Subsidy to borrowers	21			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			520	155
(Increase) decrease in due from component units				19
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			3,556	(2,242)
Increase (decrease) in due to other funds				
Increase (decrease) in due to component units				(2)
Increase (decrease) in unearned revenue			253	(11)
Total adjustments	167	(453)	4,329	(2,081)
Net cash provided by (used for) operating activities	\$ (29)	\$ -	\$ 7,722	\$ 5,164

Drinking Water	Grain Indemnity	Property Utilization	Medicare Supplement Insurance	Client Protection	Total Nonmajor Enterprise Funds
		\$ 1,623	\$ 36,717	\$ 156	\$ 426,930
		277			277
\$ (29)	\$ (117)	(615)	(41,498)	(68)	(416,207)
		(731)		(2)	(733)
<u>(346)</u>		<u>(494)</u>	<u>(299)</u>		<u>(2,836)</u>
<u>(375)</u>	<u>(117)</u>	<u>60</u>	<u>(5,080)</u>	<u>86</u>	<u>7,431</u>
16,448					16,604
1,679			5,653		(2,535)
					15,359
					(25)
					(2,990)
					(541)
					<u>(35)</u>
<u>18,127</u>			<u>5,653</u>		<u>25,837</u>
(19,945)					(20,641)
760					5,587
800	38		290	19	(1)
<u>(18,385)</u>	<u>38</u>		<u>290</u>	<u>19</u>	<u>2,271</u>
(633)	(79)	60	863	105	(12,784)
13,258	3,622	305	27,388	1,661	20,484
<u>\$ 12,625</u>	<u>\$ 3,543</u>	<u>\$ 365</u>	<u>\$ 28,251</u>	<u>\$ 1,766</u>	<u>\$ 98,605</u>
<u>\$ 426</u>	<u>\$ (117)</u>	<u>\$ (12)</u>	<u>\$ (4,807)</u>	<u>\$ 86</u>	<u>\$ 6,471</u>
					10
(147)					(393)
(654)					(1,208)
					483
					21
		(59)	(227)		389
		4			23
		6			6
		119	(185)		1,248
		2			2
					(2)
			139		381
<u>(801)</u>		<u>72</u>	<u>(273)</u>		<u>960</u>
<u>\$ (375)</u>	<u>\$ (117)</u>	<u>\$ 60</u>	<u>\$ (5,080)</u>	<u>\$ 86</u>	<u>\$ 7,431</u>

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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 - This division functions as the data and voice service bureau for state government.

Risk Management - This fund, administered by the Treasury Department, 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 – This division 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 - This agency 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 - This fund was created in 1989 to provide for the maintenance, repair and total housing needs of state government. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan counties. In fiscal year 91-92, the fund encompassed all office and warehouse space in the state, except institutional space.

Employee Group Insurance Fund - Established in January 1978, this fund is used to account for transactions pertaining to the state's self-insured group medical plan. Prior to 1978, medical insurance was provided by a private carrier. Group life and accident insurance premiums paid to a private insurance company are also recorded in this fund.

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

Postal Services, a division of the Department of General Services - This agency processes and distributes incoming, outgoing and interdepartmental mail for state agencies located in Nashville.

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

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

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

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

Division of Accounts, a division of the Department of Finance and Administration – This division is responsible for the centralized accounting function for the state.

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

State of Tennessee
Combining Statement of Net Assets
Internal Service Funds
June 30, 2004

(Expressed in Thousands)

Assets	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Current assets:						
Cash and cash equivalents	\$ 76,552	\$ 101,059	\$ 6,224	\$ 105	\$ 37,892	\$ 118,853
Accounts receivable	463		597		304	2,115
Due from other funds	3,445				29	
Due from component units	456	137	6			
Inventories, at cost	741		9	88		
Prepaid expenses						
Total current assets	<u>81,657</u>	<u>101,196</u>	<u>6,836</u>	<u>193</u>	<u>38,225</u>	<u>120,968</u>
Noncurrent assets:						
Deferred charges					457	
Lease receivable					<u>3,322</u>	
Capital assets:						
Land, at cost					54,164	
Structures and improvements, at cost					401,622	
Machinery and equipment, at cost	89,573		126,520	1,312	403	
Less-accumulated depreciation	(70,007)		(74,330)	(761)	(163,461)	
Construction in progress					<u>11,751</u>	
Total capital assets, net of accumulated depreciation	<u>19,566</u>		<u>52,190</u>	<u>551</u>	<u>304,479</u>	
Total noncurrent assets	<u>19,566</u>		<u>52,190</u>	<u>551</u>	<u>308,258</u>	
Total assets	<u>101,223</u>	<u>101,196</u>	<u>59,026</u>	<u>744</u>	<u>346,483</u>	<u>120,968</u>
Liabilities						
Current liabilities:						
Accounts payable and accruals:						
Accounts payable	15,662	448	1,284	54	5,755	48,516
Accrued payroll and related deductions	1,968		99	124		
Due to other funds	224		8	12		
Lease obligations payable				66		
Bonds payable- current					13,286	
Unearned revenue	16	7	1,423	19		30,672
Other		<u>35,982</u>				
Total current liabilities	<u>17,870</u>	<u>36,437</u>	<u>2,814</u>	<u>275</u>	<u>19,041</u>	<u>79,188</u>
Noncurrent liabilities:						
Lease obligations payable				291		
Commercial paper payable					12,684	
Bonds payable, net					127,589	
Other noncurrent liabilities	<u>1,036</u>	<u>56,575</u>	<u>67</u>	<u>78</u>		
Total noncurrent liabilities	<u>1,036</u>	<u>56,575</u>	<u>67</u>	<u>369</u>	<u>140,273</u>	
Total liabilities	<u>18,906</u>	<u>93,012</u>	<u>2,881</u>	<u>644</u>	<u>159,314</u>	<u>79,188</u>
Net assets						
Invested in capital assets, net of related debt	19,566		52,190	194	150,920	
Unrestricted (deficit)	<u>62,751</u>	<u>8,184</u>	<u>3,955</u>	<u>(94)</u>	<u>36,249</u>	<u>41,780</u>
Total net assets	<u>\$ 82,317</u>	<u>\$ 8,184</u>	<u>\$ 56,145</u>	<u>\$ 100</u>	<u>\$ 187,169</u>	<u>\$ 41,780</u>

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 1,192 22	\$ 638	\$ 258	\$ 371		\$ 188	\$ 3,808 1	\$ 9,705 541	\$ 356,845 4,043 3,474 618 6,988 114
	349 94	26 20		\$ 993			19 4,782	
<u>1,214</u>	<u>1,081</u>	<u>304</u>	<u>371</u>	<u>993</u>	<u>188</u>	<u>3,809</u>	<u>15,047</u>	<u>372,082</u>
								457 <u>3,322</u>
215 15,752 3,343 (5,548)	2,110 (2,030)	797 (723)	23 (3)	7 (7)	235 (189)	45 (27)	6,726 (3,335)	54,379 417,374 231,094 (320,421) <u>11,751</u>
<u>13,762</u>	<u>80</u>	<u>74</u>	<u>20</u>	<u>-</u>	<u>46</u>	<u>18</u>	<u>3,391</u>	<u>394,177</u>
<u>13,762</u>	<u>80</u>	<u>74</u>	<u>20</u>		<u>46</u>	<u>18</u>	<u>3,391</u>	<u>397,956</u>
<u>14,976</u>	<u>1,161</u>	<u>378</u>	<u>391</u>	<u>993</u>	<u>234</u>	<u>3,827</u>	<u>18,438</u>	<u>770,038</u>
556 15 1	29 128 12	6 22	8 121 14	354 45 531	15 44 5 9	8 287 32	1,443 523 47 6	74,138 3,376 886 75 13,286 32,143 35,982
<u>572</u>	<u>169</u>	<u>28</u>	<u>143</u>	<u>930</u>	<u>73</u>	<u>327</u>	<u>2,019</u>	<u>159,886</u>
					35			326 12,684 127,589 58,489
<u>11</u>	<u>78</u>	<u>20</u>	<u>66</u>	<u>25</u>	<u>26</u>	<u>157</u>	<u>350</u>	<u>199,088</u>
<u>11</u>	<u>78</u>	<u>20</u>	<u>66</u>	<u>25</u>	<u>61</u>	<u>157</u>	<u>350</u>	<u>358,974</u>
<u>583</u>	<u>247</u>	<u>48</u>	<u>209</u>	<u>955</u>	<u>134</u>	<u>484</u>	<u>2,369</u>	
13,762 631	80 834	74 256	20 162	38	2 98	18 3,325	3,391 12,678	240,217 170,847
<u>\$ 14,393</u>	<u>\$ 914</u>	<u>\$ 330</u>	<u>\$ 182</u>	<u>\$ 38</u>	<u>\$ 100</u>	<u>\$ 3,343</u>	<u>\$ 16,069</u>	<u>\$ 411,064</u>

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenue:						
Charges for services	\$ 141,848	\$ 63,084	\$ 27,015	\$ 3,531	\$ 104,583	
Premiums						\$ 550,185
Other				6		61
Total operating revenues	<u>141,848</u>	<u>63,084</u>	<u>27,015</u>	<u>3,537</u>	<u>104,583</u>	<u>550,246</u>
Operating expenses						
Personal services	27,632		1,273	1,780		
Contractual services	94,488	8,401	1,283	798	52,617	39,699
Materials and supplies	15,696		13,167	772	5,484	
Rentals and insurance	3,720	1,737	377	378	24,333	7,852
Depreciation and amortization	6,937		11,910	113	9,667	
Benefits		33,141				469,257
Other	252		57	13	120	2,491
Total operating expenses	<u>148,725</u>	<u>43,279</u>	<u>28,067</u>	<u>3,854</u>	<u>92,221</u>	<u>519,299</u>
Operating income (loss)	<u>(6,877)</u>	<u>19,805</u>	<u>(1,052)</u>	<u>(317)</u>	<u>12,362</u>	<u>30,947</u>
Nonoperating revenues (expenses)						
Taxes		3				
Interest income		800			431	952
Interest expense				(2)	(7,601)	
Total nonoperating revenues (expenses)		<u>803</u>		<u>(2)</u>	<u>(7,170)</u>	<u>952</u>
Income (loss) before contributions and transfers	(6,877)	20,608	(1,052)	(319)	5,192	31,899
Capital contributions	4				100	
Transfers in	2,586	3,271	4,558	233	683	483
Change in net assets	(4,287)	23,879	3,506	(86)	5,975	32,382
Net assets, July 1	<u>86,604</u>	<u>(15,695)</u>	<u>52,639</u>	<u>186</u>	<u>181,194</u>	<u>9,398</u>
Net assets, June 30	<u>\$ 82,317</u>	<u>\$ 8,184</u>	<u>\$ 56,145</u>	<u>\$ 100</u>	<u>\$ 187,169</u>	<u>\$ 41,780</u>

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 4,200	\$ 16,096	\$ 837	\$ 3,738	\$ 7,740	\$ 1,230	\$ 9,960	\$ 23,561	\$ 407,423
								550,185
								67
<u>4,200</u>	<u>16,096</u>	<u>837</u>	<u>3,738</u>	<u>7,740</u>	<u>1,230</u>	<u>9,960</u>	<u>23,561</u>	<u>957,675</u>
181	1,905	510	1,799	746	721	4,252	7,313	48,112
3,958	747	332	1,738	908	253	5,739	3,461	214,422
2	12,413	107	38	5,874	7	24	10,385	63,969
30	434	27	156	417	213	201	846	40,721
638	81	66	3		26	9	430	29,880
								502,398
<u>146</u>	<u>34</u>		<u>20</u>	<u>23</u>	<u>48</u>	<u>13</u>	<u>490</u>	<u>3,707</u>
<u>4,955</u>	<u>15,614</u>	<u>1,042</u>	<u>3,754</u>	<u>7,968</u>	<u>1,268</u>	<u>10,238</u>	<u>22,925</u>	<u>903,209</u>
<u>(755)</u>	<u>482</u>	<u>(205)</u>	<u>(16)</u>	<u>(228)</u>	<u>(38)</u>	<u>(278)</u>	<u>636</u>	<u>54,466</u>
								3
								2,183
								(7,605)
								(5,419)
(755)	482	(205)	(16)	(228)	(40)	(278)	636	49,047
								104
								11,836
<u>(755)</u>	<u>482</u>	<u>(205)</u>	<u>6</u>	<u>(228)</u>	<u>(40)</u>	<u>(278)</u>	<u>636</u>	<u>60,987</u>
<u>15,148</u>	<u>432</u>	<u>535</u>	<u>176</u>	<u>266</u>	<u>140</u>	<u>3,621</u>	<u>15,433</u>	<u>350,077</u>
<u>\$ 14,393</u>	<u>\$ 914</u>	<u>\$ 330</u>	<u>\$ 182</u>	<u>\$ 38</u>	<u>\$ 100</u>	<u>\$ 3,343</u>	<u>\$ 16,069</u>	<u>\$ 411,064</u>

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Cash flows from operating activities						
Receipts from customers and users	\$ 4,640	\$ 18,099	\$ 496	\$ 68	\$ 1,547	\$ 221,288
Receipts from interfund services provided	138,243	44,849	27,114	3,464	103,008	347,523
Payments to suppliers	(98,601)	(32,253)	(12,574)	(1,209)	(65,802)	(527,184)
Payments to employees	(27,484)		(1,296)	(1,804)		
Payments for interfund services used	(13,100)	(5,786)	(4,895)	(776)	(16,712)	(2,492)
Net cash from (used for) operating activities	<u>3,698</u>	<u>24,909</u>	<u>8,845</u>	<u>(257)</u>	<u>22,041</u>	<u>39,135</u>
Cash flows from noncapital financing activities						
Negative cash balance implicitly financed						
Transfers in	2,586	3,271	4,558	233	683	483
Tax revenues received		3				
Net cash from (used for) noncapital financing activities	<u>2,586</u>	<u>3,274</u>	<u>4,558</u>	<u>233</u>	<u>683</u>	<u>483</u>
Cash flows from capital and related financing activities						
Purchase of capital assets	(10,086)		(16,843)		(10,906)	
Bond and commercial paper proceeds					17,662	
Proceeds from sale of capital assets			1,777		302	
Bond issuance cost					(38)	
Principal payments				(5)	(19,573)	
Interest paid				(1)	(7,335)	
Net cash from (used for) capital and related financing activities	<u>(10,086)</u>		<u>(15,066)</u>	<u>(6)</u>	<u>(19,888)</u>	
Cash flows from investing activities						
Interest received		801			431	952
Net cash from (used for) investing activities		<u>801</u>			<u>431</u>	<u>952</u>
Net increase (decrease) in cash and cash equivalents	(3,802)	28,984	(1,663)	(30)	3,267	40,570
Cash and cash equivalents, July 1	<u>80,354</u>	<u>72,075</u>	<u>7,887</u>	<u>135</u>	<u>34,625</u>	<u>78,283</u>
Cash and cash equivalents, June 30	<u>\$ 76,552</u>	<u>\$ 101,059</u>	<u>\$ 6,224</u>	<u>\$ 105</u>	<u>\$ 37,892</u>	<u>\$ 118,853</u>
Reconciliation of operating income to net cash provided (used) by operating activities						
Operating income (loss)	\$ (6,877)	\$ 19,805	\$ (1,052)	\$ (317)	\$ 12,362	\$ 30,947
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	6,937		11,910	113	9,683	
Loss on disposal of capital assets	91		39		64	
Gain on disposal of capital assets				(6)		
Bond issuance cost					38	
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	27		(12)			946
(Increase) decrease in due from other funds	886				(29)	
(Increase) decrease in due from component units	145	(138)	(2)			
(Increase) decrease in inventories	93		1	(7)		
(Increase) decrease in prepaid expenses	75					
Increase (decrease) in accounts payable	2,295	5,240	(2,656)	(39)	(51)	4,960
Increase (decrease) in due to other funds	50		(1)	(1)	(26)	
Increase (decrease) in unearned revenue	(24)	2	618			2,282
Total adjustments	<u>10,575</u>	<u>5,104</u>	<u>9,897</u>	<u>60</u>	<u>9,679</u>	<u>8,188</u>
Net cash provided by (used for) operating activities	<u>\$ 3,698</u>	<u>\$ 24,909</u>	<u>\$ 8,845</u>	<u>\$ (257)</u>	<u>\$ 22,041</u>	<u>\$ 39,135</u>
Noncash investing, capital and financing activities						
Contributed capital assets	\$ 4				\$ 100	
Capital asset acquired by capital lease				\$ 363		
Total noncash investing, capital and financing activities	<u>\$ 4</u>			<u>\$ 363</u>	<u>\$ 100</u>	

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 535	\$ 165	\$ 13	\$ 23	\$ 50	\$ 24	\$ 526	\$ 5,474	\$ 252,948
3,682	15,931	824	3,716	7,690	1,206	9,435	18,107	724,792
(3,830)	(13,013)	(428)	(386)	(6,338)	(50)	(945)	(14,812)	(777,425)
(184)	(1,935)	(512)	(1,810)	(749)	(722)	(4,257)	(7,472)	(48,225)
<u>(106)</u>	<u>(654)</u>	<u>(37)</u>	<u>(1,560)</u>	<u>(994)</u>	<u>(418)</u>	<u>(5,185)</u>	<u>(1,351)</u>	<u>(54,066)</u>
97	494	(140)	(17)	(341)	40	(426)	(54)	98,024
				341				341
			22					11,836
								3
			<u>22</u>	<u>341</u>				<u>12,180</u>
			(23)				(1,032)	(38,890)
								17,662
								2,079
								(38)
					(20)			(19,598)
					<u>(2)</u>			<u>(7,338)</u>
			<u>(23)</u>		<u>(22)</u>		<u>(1,032)</u>	<u>(46,123)</u>
								2,184
								<u>2,184</u>
97	494	(140)	(18)		18	(426)	(1,086)	66,265
<u>1,095</u>	<u>144</u>	<u>398</u>	<u>389</u>	<u>-</u>	<u>170</u>	<u>4,234</u>	<u>10,791</u>	<u>290,580</u>
<u>\$ 1,192</u>	<u>\$ 638</u>	<u>\$ 258</u>	<u>\$ 371</u>	<u>\$ -</u>	<u>\$ 188</u>	<u>\$ 3,808</u>	<u>\$ 9,705</u>	<u>\$ 356,845</u>
<u>\$ (755)</u>	<u>\$ 482</u>	<u>\$ (205)</u>	<u>\$ (16)</u>	<u>\$ (228)</u>	<u>\$ (38)</u>	<u>\$ (278)</u>	<u>\$ 636</u>	<u>\$ 54,466</u>
638	81	66	3		26	9	430	29,896
139					43		1	377
								(6)
								38
16			1			1	18	997
								857
	(32)	5		(223)			4	9
	(29)	1					(741)	(904)
59	(7)	(7)	(5)	111	9	(97)	(404)	47
	(1)			(1)		(61)	2	(39)
								2,878
<u>852</u>	<u>12</u>	<u>65</u>	<u>(1)</u>	<u>(113)</u>	<u>78</u>	<u>(148)</u>	<u>(690)</u>	<u>43,558</u>
<u>\$ 97</u>	<u>\$ 494</u>	<u>\$ (140)</u>	<u>\$ (17)</u>	<u>\$ (341)</u>	<u>\$ 40</u>	<u>\$ (426)</u>	<u>\$ (54)</u>	<u>\$ 98,024</u>
								\$ 104
					\$ 48			<u>411</u>
					<u>48</u>			<u>\$ 515</u>

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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, 2003. As of that date there were 198,917 active members and 83,121 retired members representing a 2.2% and 6.9% increase, respectively, since the previous actuarial valuation in 2001.

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

Private-Purpose Trust Funds:

Baccalaureate Education - This trust was created by the General Assembly in 1996, for the purpose of allowing parents and other interested persons to purchase tuition units on behalf of a designated beneficiary. These units entitle the beneficiary to the payment of qualified tuition, room and board, fees, costs of books, supplies and equipment required for the enrollment or attendance at any accredited public or private, in-state or out-of-state institution.

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

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

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

Other - Other 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.

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2004

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	\$ 1,102,225	\$ 185,470	\$ 1,287,695	\$ 444	\$ 1,288,139
Receivables:					
Member contributions	17,686	3,954	21,640		21,640
Employer contributions	12,473	11,108	23,581		23,581
Accrued interest	100,997	16,995	117,992		117,992
Accrued dividends	15,718	2,645	18,363		18,363
Foreign currency	39,400	6,630	46,030		46,030
Investments sold	72,395	12,182	84,577		84,577
Total receivables	<u>258,669</u>	<u>53,514</u>	<u>312,183</u>		<u>312,183</u>
Due from other funds	3,813		3,813	196	4,009
Due from component units	3,620		3,620	3	3,623
Investments, at fair value:					
Short term securities	483,318	81,327	564,645		564,645
Government bonds	9,302,636	1,565,340	10,867,976		10,867,976
Corporate bonds	1,607,676	270,521	1,878,197		1,878,197
Corporate stocks	8,796,542	1,480,181	10,276,723		10,276,723
Real estate	396,641	66,742	463,383		463,383
Total investments	<u>20,586,813</u>	<u>3,464,111</u>	<u>24,050,924</u>		<u>24,050,924</u>
Total assets	<u>21,955,140</u>	<u>3,703,095</u>	<u>25,658,235</u>	643	<u>25,658,878</u>
Liabilities					
Accounts payable and accruals	20,641	4,559	25,200	105	25,305
Foreign currency payable	39,819	6,700	46,519		46,519
Total liabilities	<u>60,460</u>	<u>11,259</u>	<u>71,719</u>	105	<u>71,824</u>
Net assets					
Held in trust for:					
Pension benefits	21,894,680	3,691,836	25,586,516		25,586,516
Employees' flexible benefits				538	538
Total net assets	<u>\$ 21,894,680</u>	<u>\$ 3,691,836</u>	<u>\$ 25,586,516</u>	<u>\$ 538</u>	<u>\$ 25,587,054</u>

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2004

(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	\$ 154,333	\$ 50,650	\$ 204,983	\$ 5,565	\$ 210,548
Employers	271,299		271,299		271,299
Political subdivisions		139,808	139,808		139,808
Total contributions	425,632	190,458	616,090	5,565	621,655
Investment income:					
Net increase in fair value of investments	1,124,041	186,771	1,310,812		1,310,812
Interest	579,748	96,331	676,079		676,079
Dividends	157,233	26,126	183,359		183,359
Real estate income	22,357	3,715	26,072		26,072
Total investment income	1,883,379	312,943	2,196,322		2,196,322
Less: Investment expenses	12,406	2,062	14,468		14,468
Net investment income	1,870,973	310,881	2,181,854		2,181,854
Total additions	2,296,605	501,339	2,797,944	5,565	2,803,509
Deductions					
Annuity benefits:					
Retirement benefits	678,022	108,324	786,346		786,346
Cost of living	145,768	17,860	163,628		163,628
Death benefits	3,149	1,329	4,478		4,478
Other benefits				5,417	5,417
Refunds	15,305	14,621	29,926		29,926
Administrative expenses	2,935	2,599	5,534		5,534
Total deductions	845,179	144,733	989,912	5,417	995,329
Change in net assets held in trust for:					
Pension benefits	1,451,426	356,606	1,808,032		1,808,032
Employees' flexible benefits				148	148
Net assets, July 1	20,443,254	3,335,230	23,778,484	390	23,778,874
Net assets, June 30	\$ 21,894,680	\$ 3,691,836	\$ 25,586,516	\$ 538	\$ 25,587,054

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2004

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	\$ 5,321	\$ 19,785	\$ 4,171	\$ 9,684	\$ 1,116	\$ 40,077
Receivables:						
Taxes					57	57
Interest and dividends	268					268
Due from sale of investments	22,592					22,592
Total receivables	22,860				57	22,917
Due from other funds	10					10
Investments, at fair value:						
Government bonds	33,094					33,094
Mutual funds	12,542					12,542
Total investments	45,636					45,636
Total assets	73,827	19,785	4,171	9,684	1,173	108,640
Liabilities						
Accounts payable and accruals	22,432	119				22,551
Total liabilities	22,432	119				22,551
Net assets						
Held in trust for:						
Individuals, organizations and other governments	\$ 51,395	\$ 19,666	\$ 4,171	\$ 9,684	\$ 1,173	\$ 86,089

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	Duck River Water Supply	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		\$ 7,604	\$ 1,000			\$ 8,604
Private	\$ 9,256				\$ 587	9,843
Other		2,982			95	3,077
Total contributions	9,256	10,586	1,000		682	21,524
Investment income:						
Net increase in fair value of investments	578					578
Interest	1,345	193	40	\$ 103	11	1,692
Total investment income	1,923	193	40	103	11	2,270
Total additions	11,179	10,779	1,040	103	693	23,794
Deductions						
Payments made under trust agreements	2,182	5,040		89	695	8,006
Refunds	296	2,289				2,585
Administrative expenses	313					313
Total deductions	2,791	7,329		89	695	10,904
Change in net assets held in trust for:						
Individuals, organizations and other governments	8,388	3,450	1,040	14	(2)	12,890
Net assets, July 1	43,007	16,216	3,131	9,670	1,175	73,199
Net assets, June 30	\$ 51,395	\$ 19,666	\$ 4,171	\$ 9,684	\$ 1,173	\$ 86,089

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2004

(Expressed in Thousands)

	Local Government	Contingent Revenue	Total Agency Funds
Assets			
Cash and cash equivalents	\$ 212,700	\$ 67,953	\$ 280,653
Receivables:			
Taxes	260,399		260,399
Due from other funds		8,009	8,009
Due from component units		52	52
	473,099	76,014	549,113
Liabilities			
Accounts payable and accruals	473,099	17,987	491,086
Amounts held in custody for others		58,027	58,027
	473,099	76,014	549,113
Total liabilities	\$ 473,099	\$ 76,014	\$ 549,113

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

<u>Local Government Fund</u>	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>Assets</u>				
Cash and cash equivalents	\$ 216,970	\$ 2,836,999	\$ 2,841,269	\$ 212,700
Accounts receivable	253,435	278,637	271,673	260,399
Total assets	\$ 470,405	\$ 3,115,636	\$ 3,112,942	\$ 473,099
<u>Liabilities</u>				
Accounts payable and accruals	\$ 470,405	\$ 2,508,768	\$ 2,506,074	\$ 473,099
Total liabilities	\$ 470,405	\$ 2,508,768	\$ 2,506,074	\$ 473,099
<u>Contingent Revenue Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 72,448	\$ 1,299,660	\$ 1,304,155	\$ 67,953
Due from other funds	7,916	8,108	8,015	8,009
Due from component units	47	52	47	52
Total assets	\$ 80,411	\$ 1,307,820	\$ 1,312,217	\$ 76,014
<u>Liabilities</u>				
Accounts payable and accruals	\$ 17,778	\$ 302,247	\$ 302,038	\$ 17,987
Amount held in custody for others	62,633	660,791	665,397	58,027
Total liabilities	\$ 80,411	\$ 963,038	\$ 967,435	\$ 76,014
<u>Totals- All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 289,418	\$ 4,136,659	\$ 4,145,424	\$ 280,653
Accounts receivable	253,435	278,637	271,673	260,399
Due from other funds	7,916	8,108	8,015	8,009
Due from component units	47	52	47	52
Total assets	\$ 550,816	\$ 4,423,456	\$ 4,425,159	\$ 549,113
<u>Liabilities</u>				
Accounts payable and accruals	\$ 488,183	\$ 2,811,015	\$ 2,808,112	\$ 491,086
Amount held in custody for others	62,633	660,791	665,397	58,027
Total liabilities	\$ 550,816	\$ 3,471,806	\$ 3,473,509	\$ 549,113

COMPONENT UNITS

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

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

Northeast Community Services Agency
 East Tennessee Community Services Agency
 Upper Cumberland Community Services Agency
 Southeast Community Services Agency
 Mid-Cumberland Community Services Agency
 South Central Community Services Agency
 Northwest Community Services Agency
 Southwest Community Services Agency
 Davidson County Community Services Agency
 Knox County Community Services Agency
 Shelby County Community Services Agency
 Hamilton County Community Services Agency

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

Tennessee Education Lottery Corporation - Created by the General Assembly in 2003, the purpose of the corporation is to operate a state lottery with net proceeds to be given to the State to be used for educational programs and purposes in accordance with the Constitution of Tennessee.

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

UNIVERSITIES

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

COMMUNITY COLLEGES

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

TECHNOLOGY CENTERS

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

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.

Child Care Facilities - This organization was formed to create new child care slots in Tennessee by guaranteeing loans, making direct loans, and making grants. The sources of revenues are interest on loans made and grants from the federal government.

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

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

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2004

(Expressed in Thousands)

	Governmental Fund Types					
	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid- Cumberland
Assets						
Cash and cash equivalents	\$ 2,666	\$ 445	\$ 1,175	\$ 306	\$ 659	\$ 404
Cash on deposit with fiscal agent						
Investments						
Investments with fiscal agent						
Receivables, net	317	30	14	60	7	23
Due from primary government		883	1,113	266	958	1,057
Inventories, at cost						
Prepayments			8	1	2	22
Loans receivable	5,904					
Deferred charges and other						
Restricted assets:						
Cash and cash equivalents						
Investments						
Receivables, net						
Capital assets:						
Land, at cost						
Infrastructure						
Structures and improvements, at cost						
Machinery and equipment, at cost	20	31	168	66	87	242
Less accumulated depreciation	(20)	(25)	(131)	(30)	(68)	(197)
Construction in progress						
Total assets	<u>8,887</u>	<u>1,364</u>	<u>2,347</u>	<u>669</u>	<u>1,645</u>	<u>1,551</u>
Liabilities						
Accounts payable and accruals	2,098	392	471	208	233	1,173
Due to primary government	14	353	217	32	491	30
Unearned revenue	127					
Advance from federal government	423					
Other						
Noncurrent liabilities:						
Due within one year	56	87	90	54	37	96
Due in more than one year	60	108	49	53	39	106
Total liabilities	<u>2,778</u>	<u>940</u>	<u>827</u>	<u>347</u>	<u>800</u>	<u>1,405</u>
Net assets						
Invested in capital assets, net of related debt		6	36	28	19	11
Restricted for:						
Debt service						
Capital projects						
Single family bond programs						
Other						
Permanent and endowment:						
Expendable						
Nonexpendable						
Unrestricted	<u>6,109</u>	<u>418</u>	<u>1,484</u>	<u>294</u>	<u>826</u>	<u>135</u>
Total net assets	<u>\$ 6,109</u>	<u>\$ 424</u>	<u>\$ 1,520</u>	<u>\$ 322</u>	<u>\$ 845</u>	<u>\$ 146</u>

Governmental Fund Types

South Central	Northwest	Southwest	Davidson County	Knox County	Shelby County	Hamilton County
\$ 240	\$ 480	\$ 542	\$ 444	\$ 127	\$ 231	\$ 280
521	25 530	2 542	273 631	1 373	28 2,346	286
1	2	7		5	1	2
26 (21)	36 (23)	36 (31)		55 (48)	318 (259)	28 (22)
<u>767</u>	<u>1,050</u>	<u>1,098</u>	<u>1,348</u>	<u>513</u>	<u>2,665</u>	<u>574</u>
153 148	181 384	324 255	1,085	188 45	1,184 89	151 32
31 <u>32</u>	76 <u>66</u>	101 <u>83</u>		48 <u>18</u>	159 <u>28</u>	28 <u>30</u>
<u>364</u>	<u>707</u>	<u>763</u>	<u>1,085</u>	<u>299</u>	<u>1,460</u>	<u>241</u>
5	12	5			56	6
<u>398</u>	<u>331</u>	<u>330</u>	<u>263</u>	<u>214</u>	<u>1,149</u>	<u>327</u>
<u>\$ 403</u>	<u>\$ 343</u>	<u>\$ 335</u>	<u>\$ 263</u>	<u>\$ 214</u>	<u>\$ 1,205</u>	<u>\$ 333</u>

(continued on next page)

(continued from previous page)

State of Tennessee
Combining Statement of Net Assets
Component Units
June 30, 2004

(Expressed in Thousands)

	Proprietary Fund Types			
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Assets				
Cash and cash equivalents	\$ 376,254	\$ 67,729	\$ 414,005	\$ 466,654
Cash on deposit with fiscal agent				
Investments	195,044		252,414	617,630
Investments with fiscal agent				
Receivables, net	35,214	11,044	122,580	245,788
Due from primary government	1	5	1,507	5,968
Inventories, at cost			5,503	8,269
Prepayments		1,480	2,359	9,575
Loans receivable	1,419,636			
Deferred charges and other	11,436		610	2,378
Restricted assets:				
Cash and cash equivalents	43	265		
Investments	184,336			
Receivables, net	2,412			
Capital assets:				
Land, at cost			84,715	56,153
Infrastructure			146,619	57,832
Structures and improvements, at cost		260	1,441,621	1,151,746
Machinery and equipment, at cost	87	2,220	339,767	359,696
Less accumulated depreciation	(71)	(166)	(855,008)	(708,301)
Construction in progress			77,121	167,004
Total assets	<u>2,224,392</u>	<u>82,837</u>	<u>2,033,813</u>	<u>2,440,392</u>
Liabilities				
Accounts payable and accruals	39,028	17,414	85,366	101,364
Due to primary government	65	61,572	3,485	2,218
Unearned revenue	1,450	554	33,688	68,616
Advance from federal government				
Other	1,000		9,841	16,764
Noncurrent liabilities:				
Due within one year	97,077	68	23,149	57,440
Due in more than one year	<u>1,687,697</u>	<u>915</u>	<u>292,200</u>	<u>443,411</u>
Total liabilities	<u>1,826,317</u>	<u>80,523</u>	<u>447,729</u>	<u>689,813</u>
Net assets				
Invested in capital assets, net of related debt	16	2,314	983,655	730,786
Restricted for:				
Debt service			14,111	449
Capital projects			13,204	23,904
Single family bond programs	384,955			
Other	3,958	2,314	87,886	219,316
Permanent and endowment:				
Expendable			7,909	135,258
Nonexpendable			160,771	365,838
Unrestricted	<u>9,146</u>	<u>(2,314)</u>	<u>318,548</u>	<u>275,028</u>
Total net assets	<u>\$ 398,075</u>	<u>\$ 2,314</u>	<u>\$ 1,586,084</u>	<u>\$ 1,750,579</u>

Proprietary Fund Types

Local Development Authority	Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Component Units
\$ 15,269	\$ 3,079	\$ 9	\$ 58,222	\$ 4,722	\$ 1,413,942
			1		1
1,393	29		5		1,066,510
226	285	403	4,395	173	420,888
	62				16,987
	6				13,834
77,144		28	495,243		13,471
339	58		5,496	470	1,997,955
	1,233		5,299		20,787
4,537			11,601		6,840
	194				200,474
	734				2,412
	10,353				141,062
	1,975				205,185
	(4,239)				2,603,980
	422				704,858
98,908	14,191	440	580,262	5,365	(1,568,660)
					244,547
1,052	1,210	127	4,176	95	7,505,078
	985	1			257,673
			10,365		70,416
	133	18			114,800
					423
51,054	160	5	22,420	3,253	27,756
35,654	3,753	5	537,121	21,600	255,489
87,760	6,241	156	574,082	24,948	3,023,028
	5,526				3,749,585
	479				1,722,481
	621				15,039
351					37,108
					384,955
					314,446
					143,167
10,797	1,324	284	6,180	(19,583)	526,609
11,148	7,950	284	6,180	(19,583)	611,688
\$ 11,148	\$ 7,950	\$ 284	\$ 6,180	\$ (19,583)	\$ 3,755,493

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2004

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Component units					
Higher education institutions:					
Board of Regents	\$ 1,576,409	\$ 563,166	\$ 364,753	\$ 31,762	\$ (616,728)
University of Tennessee	1,378,761	393,990	576,993	36,979	(370,799)
Total higher education institutions	<u>2,955,170</u>	<u>957,156</u>	<u>941,746</u>	<u>68,741</u>	<u>(987,527)</u>
Loan programs:					
Tennessee Student Assistance Corporation	45,440	1,780	2,328		(41,332)
Housing Development Agency	257,141	105,937	143,463		(7,741)
Local Development Authority	3,726	2,911	359		(456)
Child Care Facilities	447	1	343		(103)
State School Bond Authority	23,369	22,956	423		10
Total loan programs	<u>330,123</u>	<u>133,585</u>	<u>146,916</u>		<u>(49,622)</u>
Lottery program	<u>395,254</u>	<u>393,010</u>	<u>4,363</u>		<u>2,119</u>
Other programs:					
Northeast	5,967	496	5,370		(101)
East Tennessee	6,938	629	6,327		18
Upper Cumberland	4,078	355	3,613		(110)
Southeast	3,415	389	2,997		(29)
Mid-Cumberland	8,268	735	7,564		31
South Central	3,190	275	2,894		(21)
Northwest	4,118	122	3,954		(42)
Southwest	6,018	163	5,802		(53)
Davidson County	5,498		5,485		(13)
Knox County	2,780		2,776		(4)
Shelby County	7,799	533	7,271		5
Hamilton County	2,358		2,352		(6)
Veterans' Homes Board	12,489	12,126	46		(317)
Certified Cotton Growers'	11,968	11,167	1,932		1,131
Total other programs	<u>84,884</u>	<u>26,990</u>	<u>58,383</u>		<u>489</u>
Total	<u>\$ 3,765,431</u>	<u>\$ 1,510,741</u>	<u>\$ 1,151,408</u>	<u>\$ 68,741</u>	<u>\$ (1,034,541)</u>

General Revenues				Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous				
\$ 625,339	\$ 30,445	\$ 8,298	\$ 8,854	\$ 8,008	\$ 64,216	\$ 1,521,868	\$ 1,586,084
416,422	5,405	8,287		19,728	79,043	1,671,536	1,750,579
<u>1,041,761</u>	<u>35,850</u>	<u>16,585</u>	<u>8,854</u>	<u>27,736</u>	<u>143,259</u>	<u>3,193,404</u>	<u>3,336,663</u>
42,035		100			703	5,406	6,109
25					(7,641)	405,716	398,075
					(431)	11,579	11,148
					(103)	387	284
					10	6,170	6,180
<u>42,060</u>		<u>100</u>			<u>(7,462)</u>	<u>429,258</u>	<u>421,796</u>
		<u>195</u>			<u>2,314</u>	<u>-</u>	<u>2,314</u>
		3			(98)	522	424
		13			31	1,489	1,520
42		4			(64)	386	322
24		7			2	843	845
		2			33	113	146
9		2			(10)	413	403
		5			(37)	380	343
		5			(48)	383	335
		3			(10)	273	263
		1			(3)	217	214
		3			8	1,197	1,205
		3			(3)	336	333
	75				(242)	8,192	7,950
<u>4,095</u>		<u>34</u>			<u>5,260</u>	<u>(24,843)</u>	<u>(19,583)</u>
<u>4,170</u>	<u>75</u>	<u>85</u>			<u>4,819</u>	<u>(10,099)</u>	<u>(5,280)</u>
<u>\$ 1,087,991</u>	<u>\$ 35,925</u>	<u>\$ 16,965</u>	<u>\$ 8,854</u>	<u>\$ 27,736</u>	<u>\$ 142,930</u>	<u>\$ 3,612,563</u>	<u>\$ 3,755,493</u>

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, 2004

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast	Mid- Cumberland
Revenues						
Interest on investments		\$ 3	\$ 13	\$ 4	\$ 7	\$ 2
Federal	\$ 2,328			677	170	356
Departmental services	43,804	5,866	6,949	3,333	3,240	7,940
Other			8			2
Total revenues	46,132	5,869	6,970	4,014	3,417	8,300
Expenditures						
Education	45,399					
Health and social services		5,944	6,912	4,064	3,428	8,223
Total expenditures	45,399	5,944	6,912	4,064	3,428	8,223
Excess (deficiency) of revenues over (under) expenditures	733	(75)	58	(50)	(11)	77
Fund balances, July 1	5,492	689	1,564	443	913	227
Fund balances, June 30	\$ 6,225	\$ 614	\$ 1,622	\$ 393	\$ 902	\$ 304
Reconciliation to net assets:						
Fund balances per above	\$ 6,225	\$ 614	\$ 1,622	\$ 393	\$ 902	\$ 304
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		6	36	36	19	45
Long-term liabilities are not due and payable in the current period and therefore are not reported in in the fund.	(116)	(196)	(138)	(107)	(76)	(203)
Net assets on Statement of Net Assets	\$ 6,109	\$ 424	\$ 1,520	\$ 322	\$ 845	\$ 146

South Central	Northwest	Southwest	Davidson County	Knox County	Shelby County	Hamilton County	Total Governmental Fund Type Component Units
\$ 2	\$ 5	\$ 5	\$ 3	\$ 1	\$ 3	\$ 3	\$ 51
3,178	4,076	5,965	5,476	2,776	7,680	2,352	3,622
<u>3,180</u>	<u>4,081</u>	<u>5,970</u>	<u>5,488</u>	<u>2,777</u>	<u>7,765</u>	<u>2,355</u>	<u>102,635</u>
							10
<u>3,195</u>	<u>4,111</u>	<u>6,013</u>	<u>5,498</u>	<u>2,782</u>	<u>7,749</u>	<u>2,356</u>	<u>45,399</u>
<u>3,195</u>	<u>4,111</u>	<u>6,013</u>	<u>5,498</u>	<u>2,782</u>	<u>7,749</u>	<u>2,356</u>	<u>60,275</u>
(15)	(30)	(43)	(10)	(5)	16	(1)	644
<u>475</u>	<u>502</u>	<u>557</u>	<u>273</u>	<u>278</u>	<u>1,318</u>	<u>387</u>	<u>13,118</u>
<u>\$ 460</u>	<u>\$ 472</u>	<u>\$ 514</u>	<u>\$ 263</u>	<u>\$ 273</u>	<u>\$ 1,334</u>	<u>\$ 386</u>	<u>\$ 13,762</u>

\$ 460	\$ 472	\$ 514	\$ 263	\$ 273	\$ 1,334	\$ 386	\$ 13,762
6	12	5		7	58	5	235
<u>(63)</u>	<u>(141)</u>	<u>(184)</u>	<u></u>	<u>(66)</u>	<u>(187)</u>	<u>(58)</u>	<u>(1,535)</u>
<u>\$ 403</u>	<u>\$ 343</u>	<u>\$ 335</u>	<u>\$ 263</u>	<u>\$ 214</u>	<u>\$ 1,205</u>	<u>\$ 333</u>	<u>\$ 12,462</u>

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Operating revenue:				
Charges for services	\$ 103,549	\$ 392,741	\$ 731,604	\$ 775,162
Investment income	(67)		2,063	4,099
Other	2,388	269	35,778	28,704
Total operating revenues	<u>105,870</u>	<u>393,010</u>	<u>769,445</u>	<u>807,965</u>
Operating expenses				
Personal services	8,702	5,787	984,041	972,755
Contractual services	1,560	39,915		
Mortgage service fees	5,135			
Materials and supplies	559		402,023	293,540
Rentals and insurance	1,035	843		
Interest	83,326			
Depreciation and amortization	672	166	67,923	64,396
Lottery prizes		216,972		
Nursing home services				
Scholarships and fellowships			107,613	15,211
Other	6,342	6,228		
Total operating expenses	<u>107,331</u>	<u>269,911</u>	<u>1,561,600</u>	<u>1,345,902</u>
Operating income (loss)	<u>(1,461)</u>	<u>123,099</u>	<u>(792,155)</u>	<u>(537,937)</u>
Nonoperating revenues (expenses)				
Grant income	143,630		159,304	48,051
Grant expense	(149,810)			
Interest expense		(21)	(11,731)	(11,782)
Interest income		195	30,603	89,387
Payments from primary government			625,339	416,422
Grants and contributions				3,946
Gifts			11,185	35,327
Payments to primary government		(125,322)		
Other		4,363	2,694	(17,038)
Total nonoperating revenues (expenses)	<u>(6,180)</u>	<u>(120,785)</u>	<u>817,394</u>	<u>564,313</u>
Income (loss) before capital grants and contributions	(7,641)	2,314	25,239	26,376
Capital payments from primary government			27,686	21,725
Capital grants and gifts			4,076	15,253
Additions to permanent endowments			8,008	19,728
Other			(793)	(4,039)
Change in net assets	(7,641)	2,314	64,216	79,043
Net assets, July 1	<u>405,716</u>	<u>-</u>	<u>1,521,868</u>	<u>1,671,536</u>
Net assets, June 30	<u>\$ 398,075</u>	<u>\$ 2,314</u>	<u>\$ 1,586,084</u>	<u>\$ 1,750,579</u>

Local Development Authority	Veterans' Homes Board	Child Care Facilities	State School Bond Authority	Certified Cotton Growers'	Total Proprietary Fund Type Component Units
\$ 2,911	\$ 12,116	\$ 1	\$ 22,956	\$ 11,167	\$ 2,052,207
359	10	2	423		6,879
					67,149
<u>3,270</u>	<u>12,126</u>	<u>3</u>	<u>23,379</u>	<u>11,167</u>	<u>2,126,235</u>
		89			1,971,374
425			527	10,094	52,521
					5,135
		1			696,123
		1			1,879
2,860			22,273		108,459
26	436		229		133,848
	11,658				216,972
					11,658
					122,824
<u>415</u>	<u></u>	<u>15</u>	<u>340</u>	<u>42</u>	<u>13,382</u>
<u>3,726</u>	<u>12,094</u>	<u>106</u>	<u>23,369</u>	<u>10,136</u>	<u>3,334,175</u>
<u>(456)</u>	<u>32</u>	<u>(103)</u>	<u>10</u>	<u>1,031</u>	<u>(1,207,940)</u>
		341			351,326
		(341)			(150,151)
	(225)			(1,832)	(25,591)
	46			34	120,265
25				4,095	1,045,881
				1,932	5,878
	75				46,587
	(170)				(125,322)
					(10,151)
<u>25</u>	<u>(274)</u>	<u></u>	<u></u>	<u>4,229</u>	<u>1,258,722</u>
(431)	(242)	(103)	10	5,260	50,782
					49,411
					19,329
					27,736
					(4,832)
<u>(431)</u>	<u>(242)</u>	<u>(103)</u>	<u>10</u>	<u>5,260</u>	<u>142,426</u>
<u>11,579</u>	<u>8,192</u>	<u>387</u>	<u>6,170</u>	<u>(24,843)</u>	<u>3,600,605</u>
\$ <u>11,148</u>	\$ <u>7,950</u>	\$ <u>284</u>	\$ <u>6,180</u>	\$ <u>(19,583)</u>	\$ <u>3,743,031</u>

State of Tennessee
Statement of Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
June 30, 2004

(Expressed in Thousands)

Assets	
Cash and cash equivalents	\$ <u>62,937</u>
Receivables:	
Federal	1,236
Loans	<u>16,713</u>
Total receivables	<u>17,949</u>
 Total assets	 <u>80,886</u>
Liabilities	
Accounts payable and accruals	<u>2,128</u>
 Total liabilities	 <u>2,128</u>
Net assets	
Held in trust for student loans	\$ <u><u>78,758</u></u>

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

Additions	
Federal revenue	\$ 22,473
Interest income	620
Contribution from primary government	1,896
Other	23
	<hr/>
Total additions	25,012
	<hr/>
Deductions	
Collection costs	13,102
Administrative expenses	5,988
	<hr/>
Total deductions	19,090
	<hr/>
Change in net assets held in trust	5,922
Net assets, July 1	72,836
	<hr/>
Net assets, June 30	\$ 78,758
	<hr/> <hr/>

SUPPLEMENTARY SCHEDULES

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2004

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt			State Loan Program Fund Debt (Note 1)			Facilities Revolving Fund Debt (Note 2)		
	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments
2005	\$ 82,386	\$ 49,296	\$ 131,682	\$ 2,859	\$ 363	\$ 3,222	\$ 13,462	\$ 6,849	\$ 20,311
2006	82,248	45,068	127,316	1,674	222	1,896	13,440	6,146	19,586
2007	73,659	40,913	114,572	864	140	1,004	12,024	5,470	17,494
2008	68,444	37,382	105,826	899	101	1,000	11,589	4,896	16,485
2009	68,064	34,156	102,220	929	60	989	11,549	4,347	15,896
2010	66,539	30,905	97,444	959	27	986	10,480	3,814	14,294
2011	66,408	27,642	94,050				10,446	3,310	13,756
2012	62,706	24,340	87,046				10,408	2,798	13,206
2013	62,930	21,188	84,118				10,378	2,286	12,664
2014	57,016	18,019	75,035				10,117	1,774	11,891
2015	52,494	15,152	67,646				6,528	1,297	7,825
2016	48,328	12,509	60,837				5,527	1,079	6,606
2017	43,896	10,086	53,982				4,404	803	5,207
2018	36,491	7,878	44,369				3,674	581	4,255
2019	27,768	6,027	33,795				3,193	395	3,588
2020	24,162	4,615	28,777				3,035	236	3,271
2021	18,684	3,391	22,075				1,145	88	1,233
2022	18,732	2,562	21,294				1,133	46	1,179
2023	11,323	1,764	13,087				331	8	339
2024	11,108	1,461	12,569				318	5	323
2025	3,065	1,134	4,199						
2026	3,260	941	4,201						
2027	3,255	740	3,995						
2028	3,465	532	3,997						
2029	3,720	275	3,995						
TOTALS	<u>\$ 1,000,151</u>	<u>\$ 397,976</u>	<u>\$ 1,398,127</u>	<u>\$ 8,184</u>	<u>\$ 913</u>	<u>\$ 9,097</u>	<u>\$ 143,181</u>	<u>\$ 46,228</u>	<u>\$ 189,409</u>

Note 1: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by \$113 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by \$2.306 million, which is a deduction from bonds payable for the deferred amount on refunding.

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

Schedule 2

(Expressed in Thousands)

	June 30				
	2000	2001	2002	2003	2004
Enterprise Funds:					
State Loan Program General Obligation Bonds	\$ 20,347	\$ 17,213	\$ 13,924	\$ 11,070	\$ 8,071
Internal Service Funds:					
General Obligation Commercial Paper	38,754	9,485	4,131	7,936	12,684
Facilities Revolving Fund General Obligation Bonds	125,448	150,747	160,181	147,197	140,875
	164,202	160,232	164,312	155,133	153,559
General Long-Term Debt:					
General Obligation Bonds	858,273	898,709	974,700	900,334	1,000,151
General Obligation Commercial Paper	209,746	240,515	106,569	193,864	70,091
	1,068,019	1,139,224	1,081,269	1,094,198	1,070,242
Totals for Primary Government	\$ 1,252,568	\$ 1,316,669	\$ 1,259,505	\$ 1,260,401	\$ 1,231,872

State of Tennessee
 Schedule of General Obligation
 Commercial Paper Outstanding- By Purpose
 All Fund Types
 June 30, 2004

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	\$ 76,975
Purpose: To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable	
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities	5,800
Total Outstanding	\$ 82,775

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

Schedule 4

(Expressed in Thousands)

	June 30				
	2000	2001	2002	2003	2004
Component units:					
Mid-Cumberland Community Services Agency notes					\$ 23
Certified Cotton Growers' notes	\$ 7,530	\$ 23,704	\$ 32,306	\$ 29,386	24,853
Local Development Authority notes	37,631	45,025	51,513	48,950	48,134
Local Development Authority bonds	58,263	54,559	50,664	43,644	32,774
Tennessee Housing Development Agency bonds	1,872,661	1,850,495	1,820,394	1,769,506	1,489,299
Tennessee Housing Development Agency notes	31,180	84,865	67,909	51,070	273,240
Veterans' Homes Board loan					4,053
Veterans' Homes Board bonds	4,887	4,730	4,567	4,400	
Tennessee State School Bond Authority bonds	271,814	359,225	471,136	449,809	527,385
Tennessee State School Bond Authority commercial paper	102,700	60,277	13,757	46,747	32,156
University of Tennessee notes	51	31	10		75
University of Tennessee bonds					147,561
Board of Regents notes	1,778	798	1,284	688	746
Board of Regents bonds	1,175	872	551	236	80
	<u>\$ 2,389,670</u>	<u>\$ 2,484,581</u>	<u>\$ 2,514,091</u>	<u>\$ 2,444,436</u>	<u>\$ 2,580,379</u>

STATISTICAL AND ECONOMIC DATA

The Statistical Data are presented to give report users a better historical perspective and assist in assessing current financial status and trends of the governmental unit. Economic Data are presented to allow a broader understanding of the economic and social environment in which State government operates.

Table I

State of Tennessee
Revenues by Source and Transfers In
All Governmental Fund Types
For the Last Ten Years

(Expressed in Thousands)

Sources	For the Year Ended June 30									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Taxes	\$ 5,970,140	\$ 6,237,102	\$ 6,604,037	\$ 6,967,790	\$ 7,212,642	\$ 7,778,475	\$ 7,900,810	\$ 7,718,442	\$ 8,695,598	\$ 9,357,356
Licenses, fines, fees and permits	333,097	345,148	353,516	370,419	392,261	423,614	435,886	460,920	480,629	505,538
Interest on investments	36,580	24,183	19,296	35,977	47,683	53,819	92,127	36,618	28,429	34,102
Federal	4,209,340	4,335,071	4,636,905	4,831,199	5,124,273	5,537,353	6,184,126	6,694,648	7,646,384	8,417,534
Departmental services	1,198,117	1,258,672	1,034,678	1,129,859	1,282,634	1,512,483	1,748,165	1,607,251	1,716,159	2,071,252
Other	37,725	21,113	22,624	47,537	40,155	352,183	356,029	444,450	384,536	488,769
Transfers in	495,467	485,767	580,618	545,432	565,885	472,275	567,901	766,097	679,743	661,064
Total revenues and transfers in- all governmental fund types	\$ <u>12,280,466</u>	\$ <u>12,707,056</u>	\$ <u>13,251,674</u>	\$ <u>13,928,213</u>	\$ <u>14,665,533</u>	\$ <u>16,130,202</u>	\$ <u>17,285,044</u>	\$ <u>17,728,426</u>	\$ <u>19,631,478</u>	\$ <u>21,535,615</u>

Table II

State of Tennessee
Expenditures by Function and Transfers Out
All Governmental Fund Types
For the Last Ten Years

(Expressed in Thousands)

Function	For the Year Ended June 30									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General government	\$ 290,305	\$ 282,149	\$ 287,635	\$ 289,194	\$ 345,746	\$ 330,255	\$ 349,278	\$ 358,523	\$ 392,747	\$ 400,069
Education	2,283,546	2,368,196	2,535,513	2,731,599	2,859,303	2,947,577	3,059,538	4,218,637	4,432,071	4,630,294
Health and social services	5,615,339	5,790,343	5,829,651	6,094,595	6,596,034	7,446,923	8,641,777	9,250,026	10,342,682	11,308,871
Law, justice and public safety	717,364	729,663	694,610	742,714	825,010	872,353	897,805	914,307	970,042	1,042,510
Recreation and resources development	355,166	365,586	385,673	372,119	382,614	429,389	419,423	446,137	442,915	479,243
Regulation of business and professions	34,922	36,919	41,598	41,402	46,346	49,325	57,988	65,040	71,109	88,580
Transportation	1,003,796	1,023,381	1,079,683	1,145,536	1,164,776	1,271,170	1,269,773	1,311,654	1,357,941	1,318,913
State shared taxes paid to local governments	534,641	550,633	572,821	607,070	629,904	653,989	681,151	686,515	641,271	647,654
Debt service	93,400	94,575	92,286	100,556	111,530	123,783	122,221	123,707	126,722	132,144
Capital outlay	164,059	98,335	79,769	121,651	105,889	70,866	55,679	145,590	132,949	128,167
Transfers out	1,471,327	1,518,869	1,651,160	1,563,095	1,693,625	1,619,425	1,748,989	787,813	708,252	691,729
Total expenditures and transfers out - all governmental fund types	\$ <u>12,563,865</u>	\$ <u>12,858,649</u>	\$ <u>13,250,399</u>	\$ <u>13,809,531</u>	\$ <u>14,760,777</u>	\$ <u>15,815,055</u>	\$ <u>17,303,622</u>	\$ <u>18,307,949</u>	\$ <u>19,618,701</u>	\$ <u>20,868,174</u>

Note: The Governmental Fund Types include General, Education, Highway, Special Revenue, Debt Service, Capital Projects and Permanent Funds.

State of Tennessee
 Tax Revenues by Source
 All Governmental Fund Types
 For the Last Ten Years

(Expressed in Thousands)

Tax Revenue	For the Year Ended June 30									
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Sales and use	\$ 3,475,229	\$ 3,681,461	\$ 3,904,964	\$ 4,099,928	\$ 4,346,209	\$ 4,600,658	\$ 4,643,337	\$ 4,647,768	\$ 5,459,444	\$ 5,810,784
Services	513	424								
Gasoline	543,170	551,347	558,629	579,162	584,249	576,640	569,422	575,349	600,138	599,327
Motor fuel	120,876	125,177	125,397	131,632	140,887	152,771	173,418	151,034	155,403	167,731
Petroleum products	39,384	39,209	39,132	40,289	41,614	60,432	61,487	61,624	60,858	62,378
Income	101,285	114,750	128,273	161,304	160,352	179,904	199,397	171,073	102,939	139,992
Privilege	115,122	130,135	139,019	150,564	166,074	177,244	181,175	205,029	237,772	272,416
Gross receipts	180,012	175,878	188,202	188,808	197,542	213,147	229,210	230,582	216,536	219,129
Alcoholic beverage	66,201	67,595	69,869	71,522	74,736	77,221	79,854	81,616	90,237	93,866
Franchise	273,519	280,056	399,482	313,342	318,666	519,879	467,900	428,590	475,985	510,650
Excise	516,052	537,597	493,785	592,848	572,567	563,163	634,902	537,711	595,715	687,153
Inheritance and estate	55,665	60,356	58,970	121,847	83,198	94,704	89,676	104,481	83,148	90,718
Tobacco	85,160	85,371	85,449	86,093	84,492	82,540	82,814	85,596	114,717	119,689
Insurance companies premiums	211,302	204,557	224,099	243,355	242,849	271,194	280,561	265,473	302,388	327,031
Medicaid provider	115,263	110,853	115,755	118,885	117,366	116,190	115,909	100,976	101,700	100,229
Other	71,387	72,336	73,012	68,211	81,841	92,788	91,748	71,540	98,618	156,263
Total tax revenues- all governmental fund types	<u>\$ 5,970,140</u>	<u>\$ 6,237,102</u>	<u>\$ 6,604,037</u>	<u>\$ 6,967,790</u>	<u>\$ 7,212,642</u>	<u>\$ 7,778,475</u>	<u>\$ 7,900,810</u>	<u>\$ 7,718,442</u>	<u>\$ 8,695,598</u>	<u>\$ 9,357,356</u>

STATE OF TENNESSEE
DESCRIPTION OF TAX SOURCES
ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2004

Presented below is a brief description of the state's principal tax sources as shown in the preceding table.

SALES AND USE TAX – The retail sales and use tax, imposed in 1947, is the state's leading source of revenue. The current rate of 7.0% on most non-food items was made effective July 15, 2002. The rate on food remains at 6%. There is an additional tax of 2.75% on the sale or use of any single article on the amount in excess of \$1,600 up to \$3,200. The tax is applied to the sale, use, consumption, distribution, lease or rental of tangible personal property and certain services and, effective July 1, 1984, was extended to include most admission and amusement charges. Political subdivisions, governmental agencies, charitable and religious groups, non-profit organizations and certain items of tangible personal property, including prescription drugs, are exempt.

SERVICES TAX – The services tax was enacted as of July 1, 1992. Vendors are taxed at a rate of 6.75% for services provided such as repairs to equipment, installation of equipment and certain other specific services. This act repeals the state and local use tax on services and amusements as well as exempting certain services from the tax altogether. The services tax expired December 31, 1993.

GASOLINE TAX – The gasoline tax was first enacted in 1923. The tax was increased to 20 cents per gallon on July 1, 1989, and is charged on each gallon of gasoline or distillate refined, manufactured, sold, stored or distributed in Tennessee, as well as gasoline or distillate imported into the state. Refunds are granted on gasoline used for agricultural purposes, while political subdivisions and governmental agencies are exempt.

MOTOR FUEL TAX – The motor fuel tax was enacted in 1941. The tax was imposed on the sale of diesel fuel and as of April 1, 1990 the current rate is 17 cents per gallon. Effective July 1, 1984, a tax was levied on motor vehicles powered by liquified gas at rates ranging from \$70 for passenger cars to \$114 for the largest trucks. Owners of commercial vehicles may be charged additional tax based on number of miles driven in Tennessee. Effective April 1, 1989, out of state residents are taxed at a rate of 14 cents per gallon of liquified gas.

SPECIAL PETROLEUM PRODUCTS TAX – The special Petroleum Products Tax (formerly Gasoline Inspection Fee) was first enacted in 1899 for the purpose of assuring that gasoline and oil sold in the state met certain minimum standards. The rate was 1 cent per gallon in 1967 and went to 1.4 cents per gallon on May 1, 1990 when the 0.4 cent per gallon environmental assurance fee was added. Both are imposed on volatile substances having certain gravity levels, which are produced from petroleum, natural gas, oil shales, or coal.

INCOME TAX – Although Tennessee does not levy a general personal income tax, income derived from dividends and interest on stocks and bonds has been subject to tax since 1929. The tax rate is 6% on dividends from stocks, and interest on bonds, subject to an exemption of \$1,250 for individuals and \$2,500 for joint tax returns. Blind persons, pension trusts, profit-sharing trusts and qualifying low income persons 65 years of age or older are exempt from the tax.

PRIVILEGE TAX – The first state privilege tax in Tennessee was levied in 1799. During the ensuing 125 years, 132 business activities were made subject to the tax. Virtually all of these business-related privilege taxes were abolished in 1971 and re-enacted as part of other taxes. Currently, the privilege tax base is provided from litigation taxes, realty transfer, mortgage taxes, marriage license fees, professional taxes, tire taxes, auto rental taxes, bail bond fees, and auto oil tax.

GROSS RECEIPTS TAXES – There have been numerous additions, deletions and alterations in the group of taxable privileges comprising the gross receipts tax since it was first imposed in 1937. Currently, the tax covers bottlers, mixing bars, utilities, and firearms. TVA payments "in lieu of taxes" based on power sales in Tennessee make up over 85% of collections.

ALCOHOLIC BEVERAGE TAX – The alcoholic beverage tax was enacted in 1939, authorizing the sale of alcoholic beverages in counties and municipalities in Tennessee if approved by local referendum. It provided for a system of state licensing fees and established a gallonage tax on wines and liquors sold in the state. Currently, the tax is levied at the rate of \$4.40 per gallon on distilled spirits and \$1.21 per gallon on wines, with additional fees for regulatory purposes and for the issuance of licenses and permits.

FRANCHISE TAX – The franchise tax, first collected in 1937, imposes an annual tax for the privilege of engaging in business in the form of a corporation, Limited Liability Corporation and Limited Liability Partnership in the state. The tax is levied at the rate of .25% of the greater of net worth or real and tangible property on domestic and foreign corporations operating in Tennessee.

EXCISE TAX – The excise tax originated in 1923 and has always been a major revenue source. The tax is presently applied at the rate of 6.5% on annual net earnings from business corporations, co-operatives conducted for profit, joint stock associations, business trusts, state banks, national banks and savings and loan associations.

INHERITANCE, ESTATE AND GIFT TAXES – The inheritance tax was first enacted in 1891. Originally, the tax was applicable only to property going to collateral heirs, but was extended to direct heirs in 1909. The tax applies to all property, real and personal, with certain exemptions.

TOBACCO TAXES – Tobacco taxes were first levied in 1925. The present tax equates to 20 cents per pack of 20 cigarettes and 6.6% of the wholesale cost for all other tobacco products.

INSURANCE COMPANY PREMIUM TAX – This tax, first enacted in 1945, is applied to gross premiums paid by or for policyholders residing in this state or on property located in the state. The rate is 1.75% for domestic life insurance companies, 2% for foreign life insurance companies, 2.5% for property and casualty insurance companies and 4% for workers compensation premiums.

MEDICAID PROVIDER TAX – The Hospital Medicaid Provider Tax has been in effect since July 1, 1989. The tax is directly proportional to the hospital's Medicaid utilization rate, low income utilization rate, or large volume of Medicaid days per year. The Nursing Home Medicaid Provider Tax, which has been in effect since July 1, 1990, is based on the number of licensed beds physically located in the state.

State of Tennessee
Ratio of Net General Long-Term Debt to
Assessed Value and Net Debt Per Capita
For the Last Ten Years

Table IV

(Expressed in Thousands except Ratio and Per Capita Data)

For the Year Ended June 30	Population	Assessed Value	Total (Note)	<u>General Long-Term Debt</u>		<u>Net General Long-Term Debt</u>	
				Less Debt Service Fund	Net	Ratio to Assessed Value	Per Capita
1995	5,256	\$ 53,915,000	\$ 669,061	\$ 5,217	\$ 663,844	1.23%	\$ 126.30
1996	5,327	56,072,000	712,020	961	711,059	1.27%	133.48
1997	5,398	61,648,000	881,983	4,531	877,452	1.42%	162.55
1998	5,470	71,292,000	919,670	4,356	915,314	1.28%	167.33
1999	5,524	75,561,000	1,073,097	1,335	1,071,762	1.42%	194.02
2000	5,750	78,568,000	1,068,019	2,750	1,065,269	1.36%	185.26
2001	5,776	89,194,000	1,139,224	3,407	1,135,817	1.27%	196.64
2002	5,833	92,726,000	1,081,269	4,527	1,076,742	1.16%	184.59
2003	5,878	94,642,000 (Est)	1,094,198	33,733	1,060,465	1.12%	180.41
2004	5,919 (Est)	95,712,000 (Est)	1,070,242	3,567	1,066,675	1.11%	180.21

Note: Total General Long-term debt does not include State Loan Program and Facilities Revolving Fund General Obligation Bonds, Notes and Commercial Paper as follows:

<u>Year</u>	<u>Bonds, Notes and Commercial Paper</u>
1995	\$ 232,276
1996	210,684
1997	208,006
1998	212,239
1999	190,604
2000	184,549
2001	177,445
2002	178,236
2003	166,203
2004	161,630

These obligations are reported as debt of those enterprises in the accompanying financial statements.

Table V

State of Tennessee
Computation of Legal Debt Margin
June 30, 2004

(Expressed in Thousands)

Legal debt service limit (2004 pledged revenues of \$867,914/150%)	\$ 578,609
Less - 2004 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligation bonds	<u>143,702</u>
Legal debt service margin	<u>\$ 434,907</u>

	<u>Collections for Fiscal Year 2004</u>		Pledged Amount
	<u>Portion Pledged</u>	<u>Governmental Fund Types</u>	
Calculation of 2004 pledged revenues as above:			
Gasoline tax	29.3 %	\$ 599,326	\$ 175,603
Petroleum products fee	All	62,378	62,378
Motor vehicle registration fee	One-half	238,565	119,283
Franchise tax	All	<u>510,650</u>	<u>510,650</u>
Totals		\$ <u>1,410,919</u>	\$ <u>867,914</u>

Note: Pledged revenues for the last five years are shown below:

<u>Fiscal Year</u>	<u>Pledged Revenues</u>	<u>Percent Increase (Decrease)</u>
2000	\$ 870,302	37.7
2001	802,023	(7.8)
2002	768,696	(4.2)
2003	825,316	7.4
2004	867,914	5.2

Table VI

State of Tennessee
Ratio of Annual Debt Service for General
Long-Term Debt to Total Expenditures
All Governmental Fund Types
For the Last Ten Fiscal Years

(Expressed in Thousands except for Ratio Data)

For the Year Ended June 30	Debt Service	Total Expenditures	Ratio
1995	\$ 93,400	\$ 10,557,897	0.88
1996	94,575	10,789,147	0.88
1997	92,286	11,026,418	0.84
1998	100,556	11,639,366	0.86
1999	111,530	12,437,248	0.90
2000	123,783	13,541,641	0.91
2001	122,221	15,554,633	0.79
2002	123,707	17,520,136	0.71
2003	126,722	18,910,449	0.67
2004	128,244	20,176,445	0.64

Table VII

State of Tennessee
Schedule of Revenue Bond Coverage
Component Units
Tennessee Housing Development Agency Fund
For the Last Ten Fiscal Years

(Expressed in Thousands except for Coverage)

For the Year Ended June 30	Dedicated Revenues	Related Expenses	Net Available For Debt Service	Debt Service Requirements	Coverage
1995	\$ 133,765	\$ 4,518	\$ 129,247	\$ 106,750	1.21
1996	141,056	4,779	136,277	113,969	1.20
1997	197,309	5,041	192,268	162,327	1.18
1998	332,821	4,784	328,037	294,861	1.11
1999	308,454	4,843	303,611	271,574	1.12
2000	248,647	5,836	242,811	208,377	1.17
2001	257,258	6,070	251,188	218,726	1.15
2002	180,894	7,360	173,534	138,870	1.25
2003	222,312	7,737	214,575	181,901	1.18
2004	179,774	10,904	168,870	115,780	1.46

State of Tennessee
Schedule of Revenue Bond Coverage
Component Units
College and University Funds
For the Last Ten Fiscal Years

(Expressed in Thousands except for Coverage)

For the Year Ended June 30	Fees and Charges	Tennessee State School Bond Authority	Other Than Authority	Total	Coverage
1995	\$ 836,722	\$ 29,664	\$ 346	\$ 30,010	27.9
1996	865,204	29,810	352	30,162	28.7
1997	908,072	35,993	275	36,268	25.0
1998	908,650	38,182	272	38,454	23.6
1999	1,016,422	35,837	204	36,041	28.2
2000	835,841	29,760	784	30,544	27.4
2001	859,417	33,454	498	33,952	25.3
2002	936,385	45,616	488	46,104	20.3
2003	957,897	45,761	497	46,258	20.7
2004	945,682	47,397	503	47,900	19.7

State of Tennessee
 Schedule of Fees/Charges, Legislative Appropriations and Debt Service
 Component Units
 College and University Funds
 For the Last Ten 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)
1995	\$ 555,363	\$ 359,941	\$ 21	\$ 21,692
1996	563,302	369,853	21	21,749
1997	587,138	374,249	21	26,891
1998	592,661	367,938	21	28,657
1999	622,109	373,207	21	24,431
2000	410,086	375,872	21	16,872
2001	401,918	408,671	21	18,628
2002	438,956	406,146	21	24,804
2003	413,632	409,612	21	24,508
2004	417,191	406,033	75	25,317

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)
1995	\$ 17,722	\$ 24,610	\$ 48	\$ 535
1996	18,235	25,209	48	535
1997	19,178	25,733	48	641
1998	20,420	25,559	48	672
1999	23,188	27,444	48	651
2000	24,288	28,001	48	649
2001	26,555	28,051	48	649
2002	33,157	30,484	48	1,516
2003	36,201	31,100	48	1,515
2004	33,058	30,712	48	2,242

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)
1995	\$ 46,563	\$ 65,530	\$	\$ 1,636
1996	49,502	67,549	\$	1,636
1997	53,232	68,469	\$	1,597
1998	57,826	67,202	\$	1,588
1999	64,652	70,814	\$	1,743
2000	64,386	72,837	\$ 258	1,954
2001	59,516	75,937	261	1,916
2002	65,342	77,965	261	2,608
2003	68,805	79,735	319	2,609
2004	77,570	79,247	315	2,824

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1995	\$ 67,576	\$ 88,120	\$	\$ 2,444
1996	72,587	90,400	\$	2,451
1997	75,167	91,212	\$	2,889
1998	80,625	89,924	\$	2,991
1999	93,593	93,576	\$	3,054
2000	102,186	94,289	\$	2,353
2001	114,031	97,499	\$	3,777
2002	120,196	99,786	\$	6,334
2003	127,638	102,139	\$	6,291
2004	128,880	100,602	\$	5,609

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)
1995	\$ 49,083	\$ 60,371		\$ 1,164
1996	54,128	61,920		1,166
1997	57,341	63,529		1,668
1998	62,814	64,469		1,872
1999	70,530	70,576		3,357
2000	78,317	73,273		4,886
2001	86,328	76,159		5,472
2002	98,031	77,990		6,537
2003	93,953	83,208		6,540
2004	98,844	81,057		6,937

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1995	\$ 26,481	\$ 30,567	\$ 135	\$ 1,015
1996	31,231	31,477	135	1,100
1997	34,352	32,227	135	1,157
1998	39,141	32,052	135	1,257
1999	46,423	35,597	66	1,470
2000	52,156	36,337	66	2,056
2001	54,979	34,843	66	2,193
2002	45,119	35,067	66	3,137
2003	57,939	39,040		3,136
2004	53,840	40,621		3,001

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1995	\$ 26,204	\$ 37,473		\$ 1,178
1996	26,110	38,452		1,173
1997	27,208	38,164		1,150
1998	28,831	37,699		1,145
1999	31,616	39,259		1,075
2000	33,791	38,938		844
2001	37,065	43,568		639
2002	41,311	40,392		415
2003	53,518	45,813		897
2004	47,194	40,165		1,168

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)
1995	\$ 7,961	\$ 17,822	\$ 71	
1996	8,701	18,284	74	
1997	9,032	18,514	71	
1998	9,818	18,589	68	
1999	10,453	19,602	69	
2000	11,074	20,234	72	
2001	11,650	20,684	69	\$ 34
2002	12,380	21,233	70	73
2003	13,428	21,108	60	73
2004	11,937	20,979	65	73

(continued on next page)

State of Tennessee
 Schedule of Fees/Charges, Legislative Appropriations and Debt Service (continued)
 Component Units
 College and University Funds
 For the Last Ten Years

(Expressed in Thousands)

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)
1995	\$ 4,150	\$ 8,150		
1996	4,605	8,361		
1997	4,966	8,670		
1998	5,753	9,069		
1999	6,615	10,143		
2000	6,836	10,675		
2001	7,294	11,016		
2002	13,136	11,437		
2003	14,921	11,540		
2004	10,799	11,344		\$ 17

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)
1995	\$ 4,019	\$ 9,585		
1996	4,300	9,716		
1997	4,777	9,677		
1998	6,260	9,864		
1999	6,816	11,092		
2000	7,474	11,655		
2001	8,322	12,168		
2002	8,254	12,525		\$ 13
2003	13,519	13,099		13
2004	12,202	12,730		13

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)
1995	\$ 5,418	\$ 13,177		
1996	5,349	13,509		
1997	5,878	13,649		
1998	6,268	13,441		
1999	6,940	14,254		
2000	7,565	14,879	\$ 33	
2001	7,697	15,524	33	
2002	8,589	15,771		
2003	9,532	15,779		
2004	7,473	15,518		

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)
1995	\$ 8,853	\$ 17,549		
1996	9,250	17,988		
1997	9,712	18,174		
1998	9,837	17,898		
1999	9,991	18,527		\$ 56
2000	10,838	18,464		146
2001	18,325	34,451		146
2002	19,022	35,175		179
2003	21,839	34,827		179
2004	16,472	34,191		179

Volunteer State Community College

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non-Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
1995	\$ 10,909	\$ 11,226		
1996	11,309	11,504		
1997	12,855	12,029		
1998	13,046	13,232		
1999	15,088	14,323		
2000	17,843	14,947		
2001	15,567	15,394		
2002	15,060	15,862		
2003	12,941	15,813		
2004	9,395	15,417		\$ 17

Walters State Community College

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non-Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
1995	\$ 6,420	\$ 12,018		
1996	6,595	12,308		
1997	7,236	12,658		
1998	8,350	13,132		
1999	8,408	14,265		
2000	9,001	14,767	\$ 286	
2001	10,170	15,173		
2002	17,832	15,595	88	
2003	20,031	16,045	70	
2004	20,827	15,821		

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, 2004

Table IX

<u>Institution</u>	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	\$ 148	\$ 4,450	\$ 13,532	\$ 2,288	\$ 2,820
University of Tennessee- Chattanooga	220	3,852	11,504	1,000	2,800
University of Tennessee- Martin	174	3,830	11,480	1,950	2,050
University of Tennessee- Memphis	54	6,044	17,606		4,320
Austin Peay State University	274	3,132	7,932	1,646	3,400
East Tennessee State University	160	3,132	7,932	1,900	2,000
University of Memphis	120	3,502	8,154	1,850	2,520
Middle Tennessee State University	166	3,132	7,932	2,100	2,756
Tennessee State University	130	3,132	7,932	2,460	1,570
Tennessee Technological University	68	3,132	7,932	2,550	2,520
Chattanooga State Technical Community College		1,824	5,464		
Columbia State Community College		1,824	5,464		
Nashville State Technical Community College		1,824	5,464		
Roane State Community College		1,824	5,464		
Southwest Tennessee Community College		1,824	5,464		
Volunteer State Community College		1,824	5,464		
Walters State Community College		1,824	5,464		

State of Tennessee
Principal Amount of Debt Outstanding by Institution
Component Units
College and University Funds
June 30, 2004

Table X

<u>Institution</u>	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	\$ 23,113	\$ 242,168	\$ 12,231	\$ 75	\$ 277,587
Austin Peay State University	1,184	28,893	1,343	48	31,468
East Tennessee State University	242	27,943	76	315	28,576
University of Memphis	889	51,049	1,444		53,382
Middle Tennessee State University	852	82,029	5,229		88,110
Tennessee State University	6,191	24,568	380		31,139
Tennessee Technological University	81	12,279			12,360
Chattanooga State Technical Community College		607	4,430	65	5,102
Columbia State Community College		144			144
Nashville State Technical Community College		82			82
Roane State Community College			75		75
Southwest Tennessee Community College		1,693			1,693
Volunteer State Community College		140			140
Walters State Community College			536		536
	<u>\$ 32,552</u>	<u>\$ 471,595</u>	<u>\$ 25,744</u>	<u>\$ 503</u>	<u>\$ 530,394</u>

State of Tennessee
Economic Characteristics*

Tennessee's Economic Growth

The economic future for Tennessee remains bright. Characteristics of the state which have been identified as important reasons why firms have chosen Tennessee sites include work-force related factors such as worker productivity, right-to-work laws and low unionization, as well as access to markets and pro-business attitude of the state. Other factors include relatively inexpensive energy, plentiful natural resources and sun-belt location.

(Expressed in Millions)

<u>Year</u>	<u>Personal Income</u>	<u>Disposable Personal Income</u>
1994	\$106,855	\$95,828
1995	114,260	101,914
1996	119,287	106,319
1997	125,456	111,581
1998	134,242	119,491
1999	141,118	125,704
2000	149,936	133,501
2001	154,130	138,975
2002	158,717	146,359
2003	164,461 (Est)	153,717 (Est)

Tennessee Employment by Sector

(Expressed in Thousands)

	<u>1993</u>	<u>1998</u>	<u>2003 (Est)</u>	<u>Percentage Change (From 1993 to 2003)</u>
Manufacturing	502.8	498.6	414.2	-17.6%
Construction	95.7	121.4	110.0	14.9%
Mining	5.1	5.3	4.4	-13.7%
Trade	382.5	437.1	439.1	14.8%
Services	513.5	652.3	723.3	40.9%
Finance, insurance and real estate	115.1	136.6	139.6	21.3%
Transportation, communication and public utilities	111.0	127.1	134.4	21.1%
Federal government	55.7	50.8	52.2	-6.3%
State & local government	306.3	334.7	360.7	17.8%
 Total all sectors	 <u>2,087.7</u>	 <u>2,363.9</u>	 <u>2,377.9</u>	 13.9%

Tennessee Average Annual Wage by Sector

	<u>1993</u>	<u>1998</u>	<u>2003 (Est)</u>	<u>Percentage Change (From 1993 to 2003)</u>
Manufacturing	\$29,492	\$32,322	\$40,388	36.9%
Construction	27,408	31,194	37,852	38.1%
Mining	34,257	45,412	36,853	7.6%
Trade	19,268	21,560	69,253	259.4%
Services	24,288	26,859	96,607	297.8%
Finance, insurance and real estate	32,153	38,854	47,431	47.5%
Transportation, communication and public utilities	33,133	33,335	41,608	25.6%
Federal government	41,238	42,282	52,090	26.3%
State & local government	22,573	24,600	29,600	31.1%
 Average all sectors	 \$25,473	 \$28,016	 \$45,168	 77.3%

* Except as otherwise noted, the source for all economic information presented is An Economic Report to the Governor of the State of Tennessee on the State's Economic Outlook (January 2004) developed by the Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville. The source for disposable personal income is the U.S. Department of Commerce, Bureau of Economic Analysis.

Manufacturing

Manufacturing investment in Tennessee totaled \$2.3 billion in 2003, marking the twenty-first consecutive billion dollar year for the state. The combined new plant and expansion projects announced are expected to create 15,780 new job opportunities. The tables which follow indicate the state's manufacturing employment and industrial expansion.

Tennessee Manufacturing Employment

(Expressed in Thousands)

	1993	1998	2003 (Est)	Percentage Change (From 1993 to 2003)
Durables:				
Furniture & fixtures	30.0	27.4	20.3	-32.3%
Fabricated metals	46.4	45.3	41.0	-11.6%
Machinery	31.9	41.4	33.1	3.8%
Electrical equipment	26.3	29.8	23.3	-11.4%
Transportation equipment	57.3	65.4	60.6	5.8%
Other	80.0	87.6	73.3	-8.4%
Total durables	271.9	296.9	251.6	-7.5%
Nondurables:				
Food	33.3	33.2	36.3	9.0%
Textiles	19.3	17.9	10.7	-44.6%
Apparel	55.5	29.5	9.6	-82.7%
Paper	20.7	21.0	19.1	-7.7%
Printing & publishing	24.4	25.1	20.3	-16.8%
Chemicals	36.8	32.5	28.0	-23.9%
Rubber & plastics	28.1	31.6	29.1	3.6%
Other	13.0	10.9	9.4	-27.7%
Total nondurables	231.1	201.7	162.5	-29.7%
Totals	503.0	498.6	414.1	-17.7%

Industrial Growth in Tennessee

New Plants and Expansions

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Number:										
New	81	80	105	80	63	80	66	56	57	35
Expansions	886	864	703	961	1,290	1,041	1,065	825	613	600
	967	944	808	1,041	1,353	1,121	1,131	881	670	635
Investment (In thousands):										
New	\$694,517	\$1,005,577	\$571,098	\$463,844	\$270,164	\$754,807	\$539,320	\$527,879	\$1,446,033	\$320,600
Expansion	1,787,295	2,254,233	3,232,541	2,400,932	3,035,618	2,960,216	4,413,085	3,508,749	2,272,410	2,007,678
	\$2,481,812	\$3,259,810	\$3,803,639	\$2,864,776	\$3,305,782	\$3,715,023	\$4,952,405	\$4,036,628	\$3,718,443	\$2,328,278
Job opportunities:										
New	9,538	4,862	8,588	4,904	3,310	6,410	5,636	3,964	3,915	3,211
Expansions	16,779	12,485	14,321	14,639	19,793	20,256	21,377	11,840	11,528	12,569
	26,317	17,347	22,909	19,543	23,103	26,666	27,013	15,804	15,443	15,780

Top Fifty Tennessee Companies

(Ranked by Number of Employees in Tennessee)

Company	Number of Employees	Company	Number of Employees
1. Wal-Mart Associates, Inc.	35,700	26. Sears Roebuck and Company	4,100
2. Federal Express, Inc.	33,700	27. Home Depot Co.	4,000
3. Vanderbilt University/Hospital	18,000	28. Wellmont Health System	3,900
4. Kroger Limited Partnership, Inc.	11,800	29. UT-Battelle, LLC	3,800
5. Lebonheur Childrens Medical Center	8,000	30. Blue Cross Blue Shield of TN	3,700
6. United Parcel Service	7,600	31. Carrier Corp. (Collierville)	3,700
7. Eastman Chemical Company	7,500	32. The Gap, Inc.	3,700
8. Nissan Motor Mfg. Corp. USA	7,100	33. O'Charleys, Inc.	3,700
9. Saturn Corporation	6,700	34. K-Mart Corporation	3,700
10. U. S. Xpress, Inc.	6,500	35. Union Planters Bank National Assoc.	3,600
11. Cracker Barrel Old Country Stores	6,200	36. International Paper Co.	3,600
12. Centennial Medical Center (HCA)	6,000	37. Connecticut General Life Insurance	3,400
13. Randstad Staffing Svcs, USA, Inc.	5,400	38. Bi-Lo LP	3,300
14. First Tennessee Bank	5,200	39. Bridgestone/Firestone Corporation	3,200
15. Covenant Transport Inc.	5,100	40. Food Lion, Inc	3,200
16. Gaylord Entertainment Co.	5,000	41. Quebecor World	3,200
17. K-VA-T Food Stores Inc.	4,900	42. Autozone, Inc.	3,100
18. Lowe's Home Centers, Inc.	4,900	43. GMRI, Inc	3,100
19. Walgreen Co.	4,800	44. Memorial Hospital	3,100
20. BWXT Y-12 LLC	4,700	45. St. Thomas Hospital	3,100
21. Baptist Memorial Hospital	4,600	46. Staffmark East, LLC	3,100
22. Mountain State Health Alliance	4,500	47. Target Stores	2,900
23. Bellsouth Telecommunications, Inc.	4,400	48. Goodyear Tire & Rubber Company	2,900
24. National Health Corp.	4,300	49. Adecco USA, Inc	2,800
25. Spherion Corp.	4,200	50. J. C. Penney Co. Inc.	2,600

Source: Tennessee Department of Economic and Community Development.

Agriculture

Important export commodities such as soybeans, tobacco, feed grains, cotton, and greenhouse and nursery products are among the top income earners for Tennessee farmers.

Cash Receipts

(Expressed in Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (Est)
Crops	\$1,199.9	\$1,227.8	\$1,374.1	\$1,245.2	\$1,166.1	\$956.5	\$1,006.9	\$988.4	\$1,120.3	\$1,267.8
Meat animals	498.4	420.2	463.0	485.4	435.7	423.1	477.4	455.5	377.5	473.5
Dairy products	247.4	239.4	253.6	225.6	236.9	222.8	193.2	215.5	172.9	159.6
Poultry and eggs	197.0	203.4	251.7	256.8	306.1	294.5	258.4	395.3	300.2	354.2
	<u>\$2,142.7</u>	<u>\$2,090.8</u>	<u>\$2,342.4</u>	<u>\$2,213.0</u>	<u>\$2,144.8</u>	<u>\$1,896.9</u>	<u>\$1,935.9</u>	<u>\$2,054.7</u>	<u>\$1,970.9</u>	<u>\$2,255.1</u>

Population and Employment Trend

The state's population has grown steadily in recent history by over one-half of 1% per year.

(Expressed in Thousands except Unemployment Rates)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (Est)
Population	5,176	5,256	5,327	5,398	5,470	5,524	5,750	5,776	5,833	5,878
Average labor force	2,663	2,712	2,759	2,708	2,760	2,819	2,798	2,818	2,926	2,910
Average total employment	2,536	2,571	2,623	2,562	2,644	2,705	2,688	2,692	2,776	2,741
Average unemployment	127	141	136	146	116	114	110	126	150	169
TN Unemployment rate	4.8%	5.2%	5.1%	5.4%	4.2%	4.0%	3.9%	4.4%	5.1%	5.8%
U.S. Unemployment rate	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%

Bank Deposits, Sales and Effective Buying Income

(Expressed in Millions)

(Expressed
in Thousands)

<u>Year</u>	<u>Bank Deposits</u>	<u>Sales</u>	<u>Effective Buying Income Median Household</u>
1994	\$48,531	\$53,778	\$31.8
1995	52,321	57,917	29.1
1996	57,219	60,661	39.4
1997	54,302	66,030	31.5
1998	76,542	66,259	32.0
1999	64,966	72,328	33.6
2000	62,113	74,651	34.6
2001	73,051	74,521	34.0
2002	79,206	74,808	34.6
2003	82,125	76,996	34.3

New Privately Owned Housing Units Authorized in Permit-Issuing Places

Valuation of Building Permits Issued

(Expressed in Thousands)

<u>Year</u>	<u>Valuation</u>	<u>Year</u>	<u>Valuation</u>
1994	\$2,538,773	1999	\$3,835,303
1995	2,838,290	2000	3,377,629
1996	3,334,419	2001	3,540,178
1997	3,103,939	2002	3,961,209
1998	3,613,835	2003	4,478,748

Source: The Tennessee Econometric Model, Tennessee Department of Labor and Workforce Development Labor Summary, Sales and Marketing Management, Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Tennessee Agricultural Statistics Service Cash Receipts Estimates and Tennessee Department of Financial Institutions Annual Report.

Population, Tax Base and Personal Income

(Expressed in Thousands)

Year	Population	Assessed Value	Appraised/ Estimated Current Value	Personal Income	Per Capita Income
1994	5,176	\$51,686,000	\$176,895,000	\$106,855,000	\$20.6
1995	5,256	53,915,000	191,993,000	114,260,000	21.7
1996	5,327	56,072,000	207,352,000	119,287,000	22.4
1997	5,398	61,648,000	228,083,000	125,456,000	23.2
1998	5,470	71,292,000	249,897,000	134,282,000	24.5
1999	5,524	75,561,000	270,007,000	141,046,000	25.5
2000	5,750	78,568,000	290,633,000	149,936,000	26.1
2001	5,776	89,194,000	313,276,000	164,130,000	28.4
2002	5,833	92,726,000	323,092,000	158,717,000	27.2
2003	5,878	94,642,000 (Est)	341,336,000 (Est)	164,461,000 (Est)	28.0

Public School Enrollment Grades K-12

Academic Year	Grades K-3	Grades 4-6	Grades 7-9	Grades 10-12	Total K-12
1994-95	300,440	213,703	222,982	179,552	916,677
1995-96	308,006	215,579	225,154	180,969	929,708
1996-97	316,094	217,823	226,287	183,852	944,056
1997-98	320,784	221,651	227,097	187,172	956,704
1998-99	314,781	221,913	226,859	187,313	950,866
1999-2000	317,830	232,230	232,616	191,050	973,726
2000-2001	311,184	234,407	230,094	190,849	966,534
2001-2002	297,072	228,790	225,930	187,110	938,902
2002-2003	296,940	227,897	232,813	190,363	948,013
2003-2004	297,732	224,197	236,435	191,321	949,685

Higher Education Enrollment

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Universities:										
Austin Peay State	5,740	5,763	6,072	5,968	5,816	5,717	5,670	5,769	6,079	6,278
East Tennessee State	9,312	9,355	9,450	9,549	9,792	9,392	9,112	9,271	9,664	9,936
Middle Tennessee State	14,226	14,504	14,916	15,455	15,655	16,164	16,330	17,125	18,151	18,735
Tennessee State	6,438	6,787	7,007	7,168	7,383	7,616	7,419	7,425	7,703	7,716
Tennessee Technological	7,353	7,303	7,230	7,287	7,112	7,221	7,208	7,372	7,554	7,509
University of Memphis	15,177	15,495	15,001	15,452	15,771	15,894	15,599	15,890	15,696	15,720
University of Tennessee:										
Chattanooga	6,438	6,540	6,608	6,816	7,040	7,019	6,832	6,955	7,050	7,138
Knoxville	21,575	21,454	21,528	21,819	22,476	23,277	22,960	23,269	23,291	22,730
Martin	5,308	5,497	5,376	5,607	5,480	5,268	5,310	5,379	5,311	5,265
Total universities	91,567	92,698	93,188	95,121	96,525	97,568	96,440	98,455	100,499	101,027
Community colleges:										
Chattanooga State Tech	5,144	4,982	5,427	5,227	5,140	5,037	4,832	5,269	5,264	5,186
Cleveland State	1,929	2,204	2,111	2,376	2,176	2,158	2,083	2,318	2,200	2,224
Columbia State	2,331	2,501	2,639	2,820	2,947	2,906	2,788	2,984	3,108	3,082
Dyersburg State	1,380	1,373	1,531	1,533	1,522	1,434	1,561	1,577	1,657	1,819
Jackson State	2,088	2,155	2,223	2,328	2,416	2,547	2,513	2,658	2,713	2,743
Motlow State	2,133	2,077	2,116	2,287	2,273	2,220	2,199	2,441	2,556	2,436
Nashville State Tech	2,749	2,778	3,112	3,357	3,492	3,523	3,545	3,631	3,757	3,769
Northeast State Tech	2,372	2,314	2,459	2,422	2,513	2,600	2,606	2,879	2,968	3,112
Pellissippi State Tech	4,866	4,768	5,003	5,217	5,258	5,078	5,077	5,151	5,208	5,013
Roane State	3,614	3,591	3,688	3,720	3,675	3,796	3,473	3,647	3,767	3,775
Southwest Tennessee*	9,416	9,019	8,640	7,852	7,359	7,334	7,056	7,743	7,141	7,361
Volunteer State	3,783	3,904	4,129	4,236	4,198	4,104	4,136	4,295	4,525	4,426
Walters State	3,602	3,507	3,731	3,807	3,666	3,593	3,664	3,909	3,867	4,067
Total community colleges	45,407	45,173	46,809	47,182	46,635	46,330	45,533	48,502	48,731	49,013
Total all institutions	136,974	137,871	139,997	142,303	143,160	143,898	141,973	146,957	149,230	150,040

* Effective July 1, 2000 State Technical Institute at Memphis (STIM) and Shelby State Community College (SSCC) were consolidated to form Southwest Tennessee Community College (STCC).

Sources: The Tennessee Econometric Model, State Board of Equalization, Tennessee Department of Education and the Higher Education Commission.

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**INDEX TO SECURITIES AND EXCHANGE COMMISSION
(SEC) DISCLOSURES**

<u>General Obligation Debt:</u>	<u>Page #</u>
Collections of Special Taxes	124
Total Sales and Use Tax Collections	170
Allocation of Sales and Use Tax to Debt Service	91
General Obligation Bonds Outstanding, and Authorized and Unissued	58-60, 165
General Obligation Commercial Paper Outstanding	59, 166
General Obligation Bonds Outstanding by Fiscal Year of Maturity	165
Outstanding Indebtedness of State Agencies and Authorities	58-59 165-166
Revenues by Source - All Governmental Fund Types	169
Expenditures by Function - All Governmental Fund Types	169
Tax Revenues by Source - All Governmental Fund Types	170
Ratio of Net General Long-Term Debt to Assessed Value and Net Debt Per Capita	172
Computation of Legal Debt Service Margin	172
Ratio of Annual Debt Service for General Long-Term Debt to Total Expenditures - All Governmental Fund Types	173
 <u>Component Unit Debt:</u>	 <u>Page #</u>
Tennessee Housing Development Agency:	
Schedule of Revenue Bond Coverage	173
College and University Funds:	
Schedule of Revenue Bond Coverage	173
Tennessee State School Bond Authority:	
Outstanding Bonds	68-69, 167
Student Fees and Charges by Institution	178
Schedules of Outstanding Debt by Institution	178
Total Equated Full-Time Student Enrollment by Institution	183
Schedule of Fees/Charges, Legislative Appropriations and Debt Service by Institution	174-177

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