Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

TN Tennessee State Government

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2018

BILL HASLAM, Governor

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

DEPARTMENT OF FINANCE AND ADMINISTRATION
LARRY B. MARTIN, Commissioner
Division of Accounts
MIKEL J. CORRICELLI, Chief of Accounts

Front Cover: Upper Cumberland Plateau
Photograph obtained from Tennessee Department of General Services, Printing and Media Services

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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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INTRODUCTORY SECTION

December 21, 2018

To the Citizens, Governor, and Members of the Legislature of the State of Tennessee

As part of its responsibility under Tennessee Code Annotated 4-3-1007 to maintain a system of general accounts embracing all the financial transactions of state government, the Department of Finance and Administration is pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee's fiscal year ended June 30, 2018. Prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board (GASB), the objective of this report is to present a clear picture of our government as a single comprehensive reporting entity.

Responsibility for both the accuracy of the data and the completeness and fairness of this report, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief the information presented is accurate in all material respects, and, all disclosures necessary for a reasonable understanding of the state's financial activities are included.

The aforementioned belief is based on a comprehensive framework of internal control that has been established by state government management to provide a reasonable basis for asserting Tennessee's financial statements are free of material misstatement. The concept of reasonable assurance recognizes that the cost of a system of internal and operational control should not exceed the benefits derived, and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

The State of Tennessee Comptroller of the Treasury, Department of Audit, considered by federal and state government to be independent auditors, has examined the accompanying financial statements, and issued an unmodified opinion. Its report is located at the front of the financial section of this report. The state also coordinates the Single Audit effort of all federal funds through the Department of Audit. The Single Audit Report for the state will be issued under separate cover and at a later date. We acknowledge the Department of Audit's staff for their many contributions to the preparation of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report in the financial section of this CAFR. Introducing the basic financial statements, MD&A furnishes an objective and easily readable analysis of the state's financial activities. This letter of transmittal is intended to complement the MD&A, and we therefore encourage you to read it in conjunction with this letter.

Department of Finance and Administration • State Capitol • Nashville, Tennessee 37243
https://www.tn.gov/finance.html

State Profile

Tennessee is a landlocked state in the U.S. south. Its capital, centrally located in Nashville, is the heart of the country music scene, with the long running Grand Ole Opry, the Country Music Hall of Fame and Museum and a legendary stretch of honky-tonks and dance halls. Memphis, in the far southwest, is the home of Elvis Presley's Graceland, rock-and-roll pioneering Sun Studio and the blues clubs of Beale Street.

Tennessee is only the 36th largest state in the country by area, but it is the 20th most densely populated (current estimated population for 2018 is 6.78 million, up from 6.34 million at the 2010 Census). The state is geographically, culturally, economically, and legally divided into three Grand Divisions: East Tennessee, Middle Tennessee, and West Tennessee. The three five pointed stars featured on the Tennessee state flag symbolize these grand divisions, and the circle around the three stars represents the unity of the divisions.

State government powers in Tennessee are by state constitution divided into three distinct branches, the legislative, the executive and the judicial. The legislative branch of government consists of a bicameral General Assembly with a Senate and House of Representatives. Members of the General Assembly, or Legislature, are elected by popular vote from districts across the state. The Legislature enacts laws, provides a forum for debate and secures financing for the operation of state government. In the case of the executive branch, the constitution places the "Supreme Executive Power" of the state with the governor. The governor and his executive branch agencies "execute" or administer laws, mandates and new programs created by the General Assembly by statute. The judicial branch, serves as a check on the powers of both the legislative and executive branches.

For financial reporting purposes, the state's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable, and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. The criteria for inclusion in the reporting entity and its presentation are defined by GASB in its GASB Codification Section 2100. Additional information about the state's reporting entity can be found in Note 1 to the financial statements.

The state and its component units provide a wide range of services and funding to the citizens of Tennessee, including education; health and social services; law, safety and correction; resources and regulation; transportation, business and economic development; and general government services. The financial activities associated with these services are reflected in both summary and detail throughout this report.

Tennessee's constitution requires the state to maintain a balanced budget, and state legislation grants the governor the authority and duty to develop and submit to the General Assembly a recommended budget.

Preparation of the governor's annual budget for the State of Tennessee is the responsibility of the Commissioner of Finance and Administration, who is the state budget director. Within the Department of Finance and Administration, the Division of Budget is responsible for budget development using the modified accrual basis of accounting. Annual budgets are adopted for the departments in the general fund and the special revenue funds (except Fraud and Economic Crime, Agricultural Promotion Boards, and Tennessee Promise Endowment Scholarship Fund), and for the debt service fund.

At the time the budget document is presented to the General Assembly, the appropriation process is initiated. The general appropriations act reflects the General Assembly's approval of the annual budget, and once passed and signed, the budget, in the form of the appropriations act, becomes the state's financial plan for the coming year. This act appropriates funds at the program level. No expenditures may be made, and no allotments increased, except pursuant to appropriations made by law. Budgetary control is maintained at the program level by the individual departments, acting in conjunction with the Department of Finance and Administration. Additional information regarding the state's budgetary process can be found in the Notes to Required Supplementary Information within this report.

Information Useful in Assessing Tennessee's Economic Condition

Local economy (*Prepared by The Boyd Center for Business and Economic Research at the University of Tennessee*)

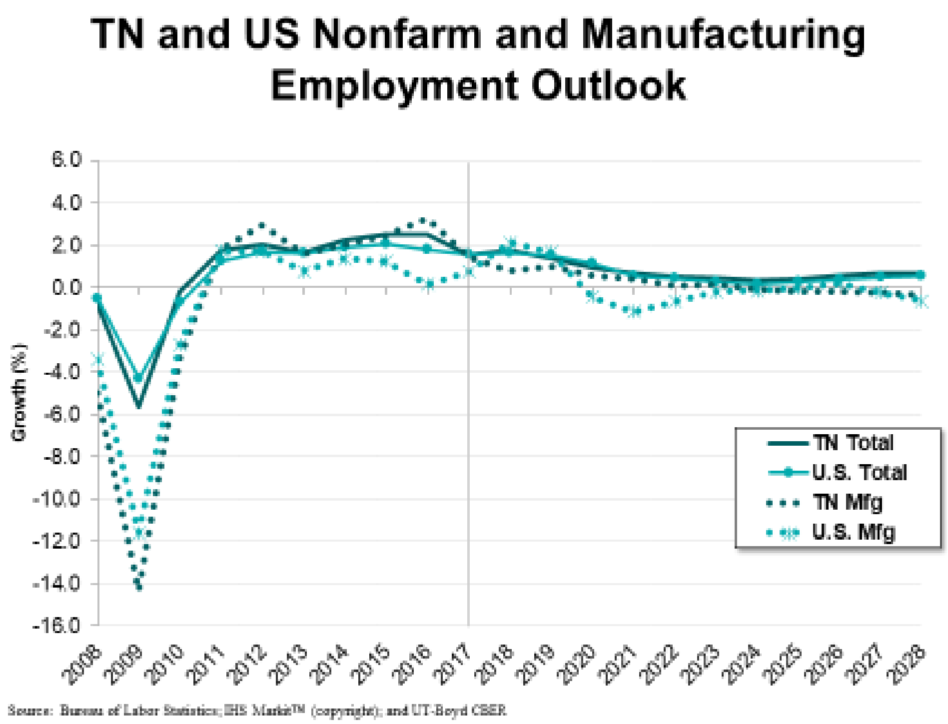
The state and national economies are in the midst of one of the longest economic expansions on record. Over the long window of time from 2008 to 2018, the Tennessee economy outperformed the nation with nonfarm job growth up at an annual rate of 1.0 percent compared to 0.8 percent growth for the U.S. In 2017, the state's pace of job growth was 1.5 percent while the nation's pace of job creation was 1.6 percent. The state's manufacturing sector showed a robust 1.4 percent gain in 2017, building on several years of uninterrupted growth. Tennessee's unemployment rate peaked at 10.5 percent in 2009 while the economy was mired in the Great Recession. The unemployment rate has fallen significantly since then and came in at an annualized rate of 3.7 percent in 2017, well below the 4.4 percent national rate of unemployment. By October 2018, the national rate of unemployment had dipped to 3.7 percent, the same rate the prevailed in Tennessee in the same month.

While the economy remains healthy, there are clear signs of a slowdown, consistent with an economy that has enjoyed many years of uninterrupted growth. A variety of factors will contribute to slower growth over the course of the next two years. First and foremost, the economy is operating on the frontiers of full employment, meaning there is simply little to no capacity for economic acceleration. State and national labor markets are indicative of these capacity constraints. Second, the influence of fiscal stimulus from federal tax cuts will fade as 2019 unfolds. Third, interest rates are on the ascent with further increases on the horizon. Fourth, the dollar has appreciated in international currency markets, reducing the attractiveness of exports from Tennessee and the U.S., and encouraging imports. Finally, brewing trade wars have shaken business confidence, disrupted supply chains and raised production costs, and increased consumer prices. Financial markets are keenly aware of these trends and this has contributed to financial market volatility.

The economic outlook remains positive, though the risk of recession is rising. A key point to recognize at this point in the business cycle is that the economy continues to expand and there are few signs of outright contraction. Tennessee's inflation-adjusted GDP should be up 2.6 percent in 2019 and 1.9 percent in 2020, slower than the 2.7 percent growth expected for 2018.

The national economy will show largely similar growth. The state unemployment rate should hover around 3.5 percent over the next two years, though there may be upward pressure if tight labor markets draw additional discouraged workers into the labor force.

As shown in the following figure, Tennessee's nonfarm employment and manufacturing sector employment will continue to engineer near-term gains, though growth will decelerate. By mid-decade, manufacturing employment will begin to contract, consistent with long-term historical trends. Primary explanations for slower growth include weak growth in the labor force (confined to new entrants to the labor market) and anemic growth in productivity. Tennessee should see nonfarm jobs grow at a 1.4 percent pace in 2019 and grow 0.9 percent in 2020. The U.S. should see employment gains of 1.5 percent and 1.1 percent in the same years. The state's manufacturing sector will see 1.6 percent job growth in 2019 with growth slowing appreciably to 0.6 percent in 2020. Tennessee's nominal personal income will be up 4.3 percent and 4.5 percent in the next two years, roughly on par with the nation.



Tax expenditures (exemptions, deductions and abatements)
(*Prepared by Tennessee Departments of Revenue and Economic and Community Development*)

State law requires Tennessee's annual budget document to include a schedule of exemptions from state taxes. To the extent practicable all exemptions from state taxes are to be identified, along with an estimate of the amount of revenue that would have been collected by the state in the ensuing fiscal year, if the exemptions were not to exist. Because the state does not collect the data necessary to estimate the amount of revenue lost for each of the tax exemptions found in the Tennessee Code Annotated, only those that can be estimated with a reasonable degree of accuracy are presented in the budget document. In addition, the estimates of revenue loss do not take into account the impact of a change in a particular tax provision on taxpayer behavior that may impact other taxes (i.e. secondary or feedback effects).

Tennessee's incentive programs and tax credits are developed and administered by the

Tennessee Department of Economic and Community Development (TNECD) and Department of Revenue (DOR). Business relocations and expansions are encouraged through a variety of statutory tax credits. These credits support hiring and investment, drive wage growth, and make Tennessee businesses more productive in an ever increasing, competitive global market. Tennessee's tax credits are one of many factors companies evaluate and compare across different locations in site selection decisions. They, along with other grant and incentive programs, are used as part of overall incentive packages that allow Tennessee to compete for significant business investments.

TNECD's vision (and the goal of Tennessee's governor) is to help make Tennessee the #1 location in the Southeast for high-quality jobs, and Tennessee's job growth and economic development success speak to the effectiveness of state incentives in achieving this vision. Between 2011 and the third quarter of 2018, TNECD has secured more than 167,000 job commitments and $33.5 billion of investment from companies. Job creation is taking place all across the state and the percentage of job commitments in rural counties has increased from 36.2 to 50.1 percent over the last five years.

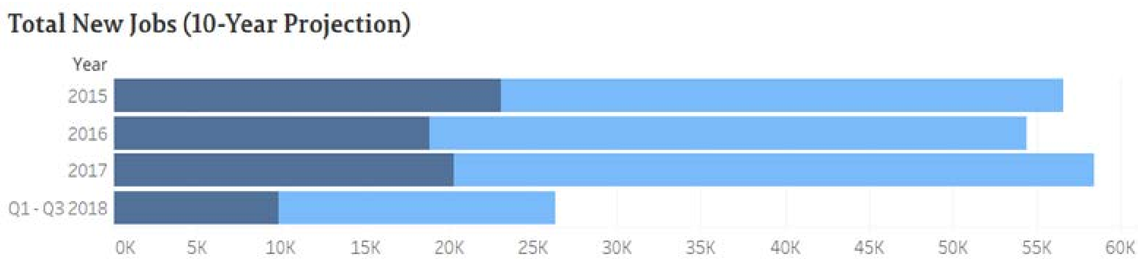
During the first three quarters of 2018, TNECD located 80 projects that received a FastTrack grant commitment to expand or re-locate in Tennessee. The department forecasts that over the next ten years, these projects will generate 26,289 new job opportunities across the state. This includes 9,829 jobs directly created by the company expansion and recruitment activity as well as 16,460 indirect and induced jobs from across the supplier network and other industries as a result of expanded economic growth.

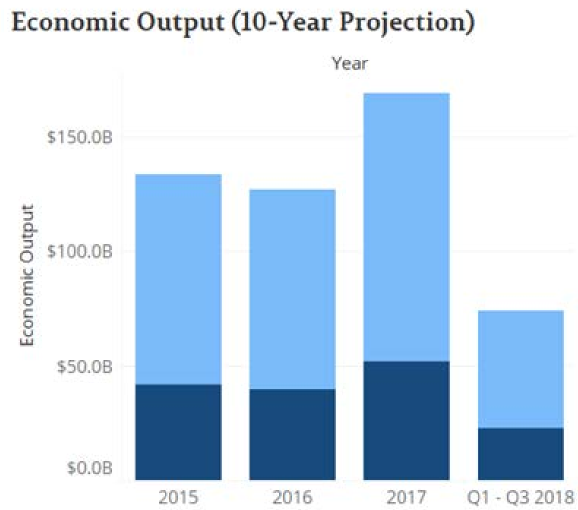
Over the next ten years, TNECD forecasts these projects will increase Tennessee's economic output by nearly $51 billion and generate almost $11.8 billion in new salaries.

The state's investments in projects during the first three quarters of 2018 have a projected annual rate of return of 39.9 percent. The costs of incentives are projected to be returned to the state in 2.7 years as a result of additional revenues the projects will generate. (These return on investment figures take into consideration additional costs of providing state services as well as tax credits companies may be eligible for.)

The state is proactive in its analysis of its incentive packages and the economic benefits, and, operates in a fiscally responsible way when recruiting new business and supporting existing business growth. TNECD has developed a key performance indicator (KPI) transparency platform to provide current information measuring its strategic objectives that features an interactive dashboard for tracking economic data and strategic initiatives; and, using a model built by an economic consulting firm, forecasts the fiscal benefits each of its project will generate over a ten year time period, and measures this return relative to the state's investment in the form of grants and tax credits.

TNECD's OpenECD website https://www.tn.gov/content/tn/transparenttn/jobs-economic-development/open-ecd.html/ has been designed to provide the above mentioned and additional information and documents pertaining to TNECD grants and incentives in a user-friendly manner.





Indirect and Induced
Direct

Tax credits and incentives are a critical component of Tennessee's long-run economic growth, business-friendly environment and strong record of job creation. More Tennesseans are working now than ever before. Statewide unemployment was 3.6 percent in September 2018 and has held below 4.0 percent since April 2017.

Tennessee's GDP totaled $345.2 billion in 2017, the highest level in state history. During the past decade, Tennessee's economy has grown 17.1 percent, the largest growth rate in the Southeast and 11th in the country. Tennessee's real GDP growth rate during this time is more than double the rate of the Southeast as a whole.

Economic growth has led to higher household income levels in Tennessee. In the last five years, the median household income in Tennessee increased by an inflation-adjusted 11.8 percent. On a percentage basis, Tennessee ranks second in the Southeast for income per capita growth over the last three years at 11.1 percent.

Long-term financial planning and relevant financial policies

- Committed to controlling pension obligations, the state has met the full actuarially required contribution each year since 1972 and periodically revisits benefit provisions, including shifting to a hybrid plan as of July 1, 2014.

  For employees hired after June 30, 2014, the traditional defined benefit plan (where financial risk was borne entirely by the employer) was replaced with a combination of a defined benefit and a defined contribution plan.

  This hybrid plan includes greater controls over employer costs and unfunded liabilities. For example, the statute governing the hybrid plan provides for a minimum employer contribution, and for employer contributions in excess of the actuarially determined contribution rate to be deposited into a stabilization reserve to help keep contribution rates stable.

- To help ensure the fiscal integrity and sustainability of employee health insurance benefits for current, former and future employees the state has eliminated retiree insurance and the associated subsidies for state, higher education, local education and local government employees first hired, and elected officials first elected, after July 1, 2015.

  In addition, beginning in fiscal year 2019, the state will begin advance-funding its largest other postemployment benefits (OPEB) obligation (i.e. the obligation to provide subsidized health benefits to pre age 65 employees and retirees of the primary government and its component units that commenced employment prior to July 1, 2015). An investment trust has been established, and the state intends to annually make the full actuarially determined contribution.

  More information regarding the state's opening of an OPEB trust in fiscal year 2019 can be found in the "Facts, Decisions, or Conditions with Expected Future Impact" section of this report's MD&A.

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

  The revenue fluctuation reserve was $800 million on June 30, 2018. It is the current legislative intent that this reserve be not less than $861 million by June 30, 2019 (or, the highest level in state history and more than three times its size in 2011).

- The revenue estimating process in Tennessee generally starts twelve months before a fiscal year begins, and incorporates the "Good Practices in Revenue Estimating" endorsed by the National Association of State Budget Officers and the Federation of Tax Administrators. This requires using national and state economic forecasts, developing an official revenue estimate, monitoring and monthly reporting on revenue collections, and revising estimates when appropriate.

  More information about the methodology used in the making of the estimates, along with monthly reports comparing estimates to actuals, can be found at https://www.tn.gov/content/tn/finance/fa/fa-budget-information/fa-budget-rev.html.

- The state is authorized to issue general obligation tax revenue anticipation notes (TRANS) in anticipation of tax revenues in the then current fiscal year of the state.

- The state constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year. The state has not heretofore issued TRANS and has no current intent to do so.

- The state may issue general obligation bonds for one or more purposes authorized by the General Assembly of the state, however, the term of the bonds authorized and issued cannot exceed the expected life of the project being financed. Bond anticipation notes have been authorized to be issued for the purposes of all existing bond authorizations.

- The state's current practice is to annually budget for 5 percent of all authorized and unissued general obligation bonds to account for assumed principal redemption (on the basis of an assumed 20-year, level-principal issue), plus an amount for assumed interest currently at a rate of 6 percent annually.

  Independent of the appropriation act process discussed earlier in this letter, state law appropriates on a direct and continuing basis, a sum sufficient for payment of debt service on outstanding bonds and other debt obligations from any funds held in the state treasury not otherwise legally restricted.

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

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

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

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

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

- All state departments and institutions of higher education must under Tennessee law perform an annual management assessment of risk. Implementation guidance requires that this assessment utilize enterprise risk management practices that align with the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) enterprise risk management (ERM) framework, and, incorporate the Standards for Internal Control in the Federal Government's (known as the Green Book) adaption of COSO's Internal Control – Integrated Framework (2013). The guidance emphasizes the need to integrate and coordinate risk management and strong and effective internal control into existing business activities and as an integral part of managing a state department or institution of higher education.

Major initiatives

Tennessee's $37.7 billion dollar balanced budget for fiscal year 2018-19 has been described as focused on the four "e's" of Tennessee: employment, education, economic opportunity and enforcement of the law.

The budget continues Tennessee's strong commitment to education by providing an additional $247 million to fund K-12 education in Tennessee, including $105 million for teachers and $66.8 million for enrollment growth. It also provides $30.2 million for school safety and $13.3 million for the Response for Intervention Program which identifies the needs of struggling students to get them the help they need to succeed.

Tennessee has provided $1.5 billion in new funding over the last eight years for K-12 education, including $500 million for increased teacher salaries. As a result of these efforts, Tennessee students are posting the largest gains in the country and the highest high school graduation rates the state has ever seen.

The budget also invests $119 million in continuing higher education initiatives, including $7.1 million for the state's Drive to 55 Initiative. The Drive to 55 Initiative challenges the state with the mission of getting 55 percent of Tennesseans equipped with a college degree or certificate by the year 2025. Presently, the state is on pace to meet the Drive to 55 goal two years early.

On employment and economic opportunity, the budget provides $124 million in job growth investments, targeting programs in rural communities. Now experiencing the lowest unemployment rates in the state's history, Tennessee's strong commitment to creating high-quality jobs has resulted in a job growth rate of greater than 17 percent in the past seven years.

Related to enforcement of the law is the funding included for the TN Together initiative. TN Together is a multi-faceted plan, comprised of legislation, more than $30 million (state and federal funds) through the 2018-19 budget and other executive actions to attack the state's opioid epidemic through three major components: 1) prevention 2) treatment and 3) law enforcement.

Each day in Tennessee, at least three people die from an opioid-related overdose, which is more than the number of daily traffic fatalities. Since 1999, the number of opioid-related overdose deaths nationwide, including prescription opioids and heroin, has quadrupled. Tennessee is no exception to this epidemic. Through this multifaceted approach, Tennessee can be successful in its continued fight against the opioid epidemic and reverse the addiction, overdose and illicit distribution trends that continue to plague the state and nation.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. This was the thirty-eighth year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated staff of the Department of Finance and Administration, Division of Accounts, and, the department controllers, fiscal officers and staff at each state agency and component unit.

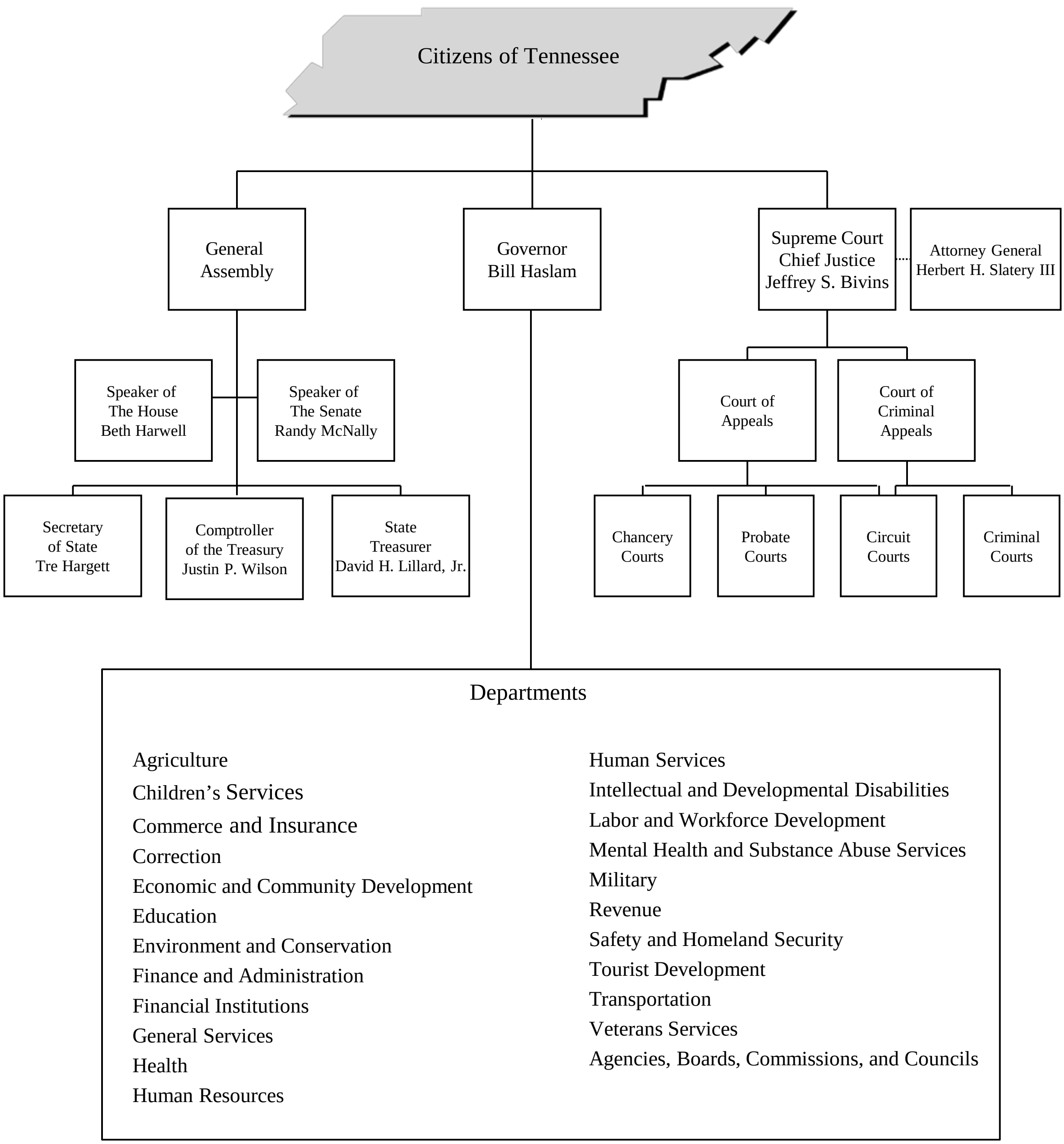
We express our sincere appreciation to these individuals; acknowledge the Governor and the members of the Legislature for their interest and support in planning and conducting the financial operations of the state in a very responsible and progressive manner; and, reaffirm our commitment to continue Tennessee's legacy of quality financial management and maintain the highest standards of accountability in financial reporting.

Respectfully submitted,

Larry B. Martin
Commissioner

Mikel J. Corricelli
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2018



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

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FINANCIAL SECTION

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

Members of the General Assembly
The Honorable Bill Haslam, Governor

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2018, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CORDELL HULL BUILDING | 425 Fifth Avenue North | Nashville, Tennessee 37243

Emphasis of Matters

As discussed in Note 4, the State of Tennessee implemented Governmental Accounting Standards Board Statement (GASBS) 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

As discussed in Note 5, the Tennessee Retiree Group Trust investment pool has investments valued at $9.3 billion, whose fair values have been estimated by management in the absence of readily determinable fair values. These investments make up 18.7% of net position of pension and other employee benefit trust funds, 0.08% of net position of investment trust funds, and 2.1% of total assets of agency funds. In addition, the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $641.8 million (8% of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 21, 2018, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Tennessee's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 21, 2018

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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, 2018. 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 2-11 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

Government-wide
Net Position–The assets and deferred outflows of resources of the state exceeded its liabilities and deferred inflows of resources at June 30, 2018, by $37.2 billion (net position). Of this amount, $5.5 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $29.6 billion represents net investment in capital assets.

Changes in Net Position–As a result of implementing GASB Statement 75, *Accounting and Financial Reporting for Postemployment benefits other than pensions*, the state adjusted beginning unrestricted net position as a result of recording a $88.9 million OPEB deferred outflow of resources and a $864.2 million increase to OPEB liabilities, which is the primary reason for a $790.7 million decrease to the beginning unrestricted net position in fiscal year 2018. After adjustment, the state's net position increased by $2.2 billion. The increase was the result of a significant increase in tax revenue collections from business and sales tax as well as an increase in capital assets.

Component units–Component units reported total net position of $8 billion, an increase of $365 million.

Fund Level
At June 30, 2018, the state's governmental funds reported combined ending fund balances of $7.8 billion, an increase of $902.5 million (see discussion on page 24) compared to the prior year. Of the combined fund balance, approximately $5.7 billion is spendable unrestricted (committed, assigned or unassigned) fund balance and is available for spending at the government's discretion or upon legislative approval; however, $800 million of this amount is set aside in a revenue fluctuation account (rainy day fund).

Long-Term Debt
The state's total debt decreased by $30.3 million during the fiscal year to total $2.3 billion. This change is primarily the net results from the 2018A and 2018B bond issuances that totaled $189.8 million and refunded bonds in the amount of $37.1 million. The commercial paper balance decreased by $27.8 million over the fiscal year. These increases and decreases combined with the payment of principal during the fiscal year accounts for the decrease in long-term debt.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 31-33) 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 36. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the state's operations in more detail than the government-wide statements by providing information about the state's most significant funds. The remaining statements provide financial information about activities for which the state acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Position and the Statement of Activities

Our analysis of the state as a whole begins on page 20. One of the most important questions asked about the state's finances is, "Is the state as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the state as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferred outflows/inflows using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

- Component units–significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the State University and Community College System, 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 24. The fund financial statements begin on page 36 and provide detailed information about the most significant funds–not the state as a whole. Some funds are required to be established by state law and by bond covenants. However, the state establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The state's two kinds of funds, governmental and proprietary, use different accounting approaches.

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

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

- Notes to the financial statements. Notes to the financial statements are also included and provide essential information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units. The notes to the financial statements can be found on pages 52-124.

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the state, assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by $37.2 billion as of June 30, 2018.

By far, the largest portion of the state's net position (80 percent) reflects its net investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment, construction in progress and software in development), less any related debt and deferred outflows of resources used to acquire those assets that is still outstanding. The state uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities		Business Type Activities		Total Primary Government	
	2018	2017*	2018	2017*	2018	2017*
Current and other assets	$ 11,626,421	$10,042,623	$ 2,927,574	$ 2,767,334	$14,553,995	$12,809,957
Capital assets	30,232,576	29,313,652	-	-	30,232,576	29,313,652
Total assets	41,858,997	39,356,275	2,927,574	2,767,334	44,786,571	42,123,609
Deferred ouflows of resources	780,735	693,662	-	-	780,735	693,662
Current and other liabilities	2,394,973	1,906,904	109,353	108,676	2,504,326	2,015,580
Noncurrent liabilities	5,717,618	4,928,919	11,379	10,506	5,728,997	4,939,425
Total liabilities	8,112,591	6,835,823	120,732	119,182	8,233,323	6,955,005
Deferred inflows of resources	124,786	82,469	-	-	124,786	82,469
Net position:						
Net investment in capital assets	29,616,706	28,617,760	-	-	29,616,706	28,617,760
Restricted	2,081,564	1,777,806	-	-	2,081,564	1,777,806
Unrestricted	2,704,085	2,736,079	2,806,842	2,648,152	5,510,927	5,384,231
Total net position	$ 34,402,355	$33,131,645	$ 2,806,842	$ 2,648,152	$37,209,197	$35,779,797

* The 2017 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2017 amounts was not available. See Note 4.

An additional portion of the state's net position (5.6 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position ($5.5 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted. Primarily as a result of a significant increase in tax revenue collections, unrestricted net position increased by $126.7 million (2.3 percent).

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

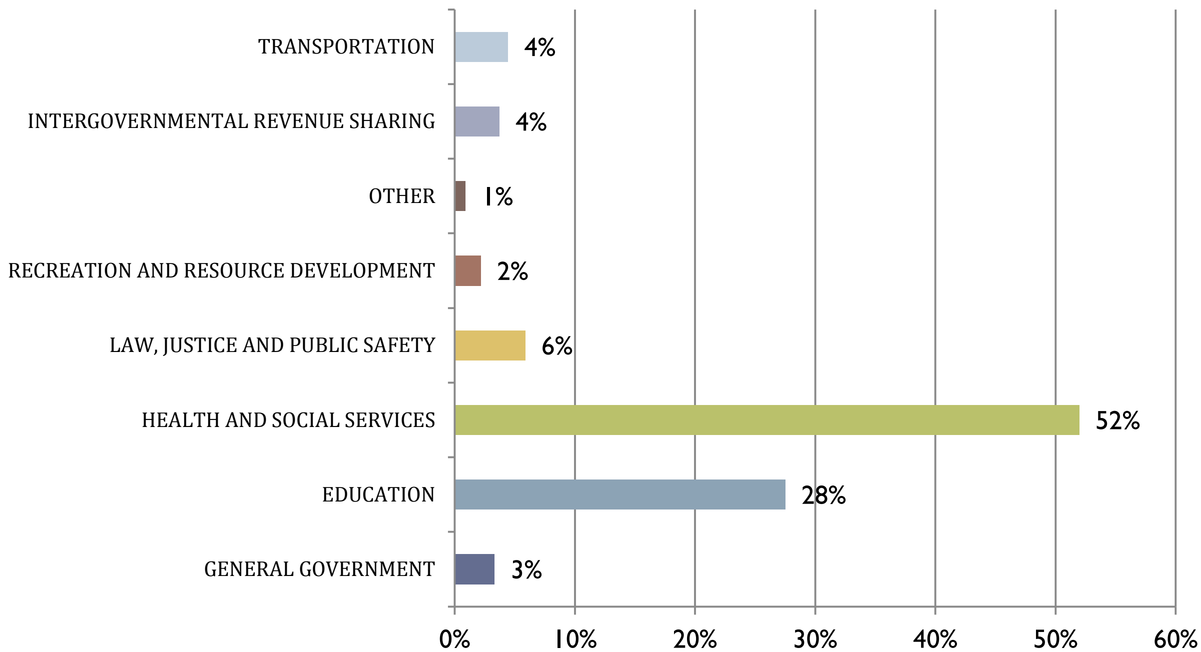
State of Tennessee
Changes inNet Position
For the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total Primary Government	
	2018	2017*	2018	2017*	2018	2017*
Revenues:						
Program revenues:						
Charges for services	$ 2,743,238	$ 2,606,075	$ 925,101	$ 899,090	$ 3,668,339	$ 3,505,165
Operating grants and contributions	12,064,641	11,742,175	88,198	57,418	12,152,839	11,799,593
Capital grants and contributions	738,173	695,029			738,173	695,029
General revenues:						
Sales Taxes	8,831,333	8,547,149			8,831,333	8,547,149
Other taxes	6,919,940	6,749,326			6,919,940	6,749,326
Other	368,403	270,734			368,403	270,734
Total revenues	31,665,728	30,610,488	1,013,299	956,508	32,679,027	31,566,996
Expenses:						
General government	870,036	961,058			870,036	961,058
Education	8,234,390	7,927,694			8,234,390	7,927,694
Health and social services	15,192,989	14,976,007			15,192,989	14,976,007
Law, justice and public safety	1,784,864	1,692,610			1,784,864	1,692,610
Recreation and resources development	716,104	628,906			716,104	628,906
Regulation of business and professions	215,749	205,684			215,749	205,684
Transportation	1,213,247	1,282,462			1,213,247	1,282,462
Intergovernmental revenue sharing	1,309,519	1,073,737			1,309,519	1,073,737
Interest on long-term debt	62,430	58,503			62,430	58,503
Payments to fiduciary funds	372	664			372	664
Employment security			222,988	232,690	222,988	232,690
Insurance programs			620,005	620,734	620,005	620,734
Loan programs			1,705	1,710	1,705	1,710
Other			1,014	216	1,014	216
Total expenses	29,599,700	28,807,325	845,712	855,350	30,445,412	29,662,675
Increase in net position before contributions and transfers	2,066,028	1,803,163	167,587	101,158	2,233,615	1,904,321
Transfers	(4,715)	(5,290)	4,715	5,290	-	-
Contributions to permanent funds	142	2,624			142	2,624
Increase (decrease) in net position	2,061,455	1,800,497	172,302	106,448	2,233,757	1,906,945
Net position, July 1	32,340,900	31,331,148	2,634,540	2,541,704	34,975,440	33,872,852
Net position, June 30	$ 34,402,355	$ 33,131,645	$ 2,806,842	$ 2,648,152	$ 37,209,197	$ 35,779,797

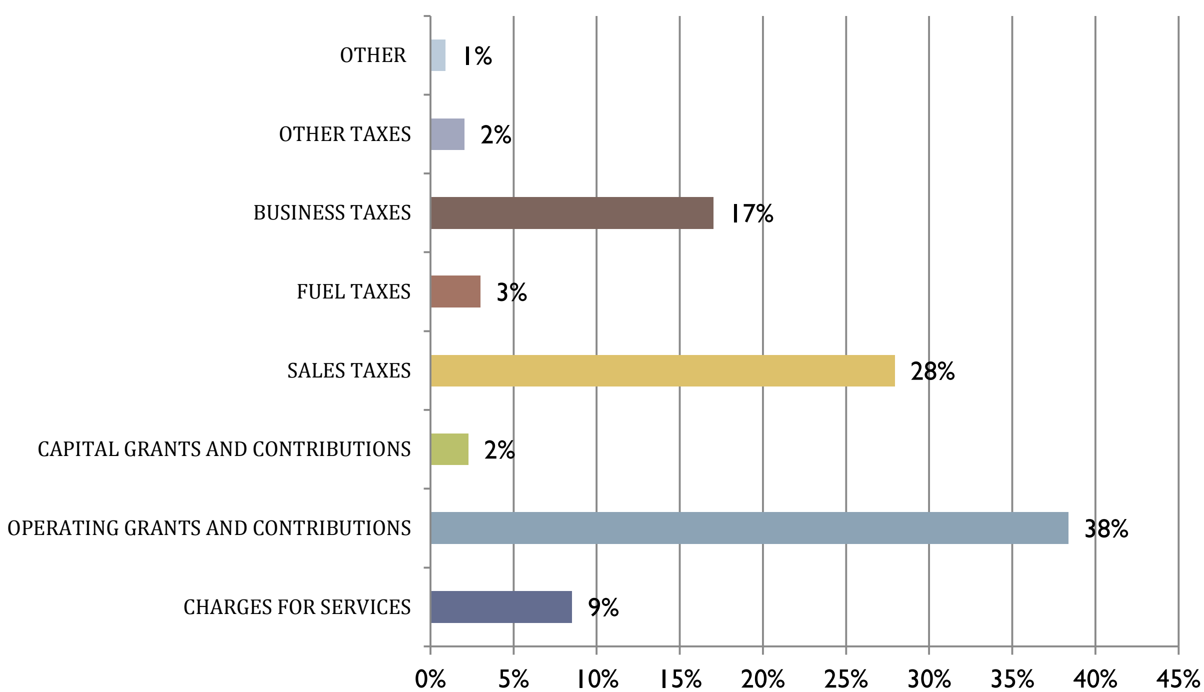
* The 2017 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2017 amounts was not available. See Note 4.

Governmental activities. Net position of the state's governmental activities increased by $2.1 billion (6.4 percent). This increase accounts for 92.3 percent of the total increase in net position of the primary government and is primarily the result of an increase in tax revenue as well as the capitalization of $588.5 million in expenses related to roadways and bridges and not recording depreciation expense for these assets.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net position of the state's business-type activities increased by $172.3 million (7 percent). This is primarily the result of the Sewer Treatment Loan program and Employment Security Trust fund experiencing an increase in net position of $126.9 million. The Employment Security Trust fund increase of $71.1 million is not considered to be significant and is generally due to a decrease in unemployment benefits paid as a result of a continued lower unemployment rate. The Sewer Treatment Loan program increase of $55.8 million is also not considered to be significant and is primarily due to increased operating grants received and loaned out during the year for clean water projects. The Nonmajor Enterprise funds' activity resulted in a $45.4 million increase in net position which is primarily attributable to an increase in operating grants received and loaned out during the year in the Drinking Water Loan program and an increase in net position of the Teacher and Local Government Group Insurance funds due to higher premiums charged while benefit payments did not increase at the same rate.

THE STATE'S FUNDS

At June 30, 2018, governmental funds reported an increase in total revenues and in total expenditures. Details are in the following paragraphs. The revenue fluctuation account (rainy day fund) reported as unassigned fund balance has been increased to $800 million or 4 percent of the general fund's expenditures.

The general fund reported a $106 million increase in fund balance. The majority of this increase in fund balance was attributable to an increase in revenues. The revenue increase occurred as a result of significant increases in the Sales and Business taxes, $125 million and $111 million respectively. These tax increases are the result of continued economic conditions and an increase in private company expansion commitments across the state.

The education fund reported an overall increase for inflows of $431.5 million (5.5%) and an increase of outflows of $395.4 million (5%). Most of the increase in outflows was due to the increased funding for the state's Basic Education Program (K-12 funding), for compensation enhancements for teachers and other positions in the local education agencies, for rising healthcare costs for K-12 and higher education employees, for higher education institutions' outcome-based formula growth, for student financial assistance for those with financial need, for capital maintenance projects at higher education institutions, and to provide grants for career and technical education equipment.

The overall fund balance increased in the education fund by $78.4 million. The majority of the increase is restricted for student financial assistance. Of the $780.3 million fund balance in the education fund, $361.4 million is not available for future use because it is legally or contractually required to be maintained intact and $368.8 million is legally restricted or committed for specific purposes. Refer to Note 14, Governmental Fund Balances on page 93, for additional information regarding those specific purposes.

The highway fund inflows increased by $185.1 million and outflows increased $246.3 million. Revenues increased primarily as a result of TDOT's increased user fees due to the Improve Act. Expenditures increased primarily as a result of TDOT's increased construction payments due to the Improve Act.

The capital projects fund had a $548.9 million increase in fund balance. The majority of this increase is due to an increase in revenues from appropriations transfers and the issuance of bonds to be used for anticipated future capital project expenditures. The increase in appropriations is due to improved economic conditions leading to an increase in general revenue collections. While inflows to the fund increased by $156.8 million, when compared to the previous year, outflows decreased by $145.1 million. The decrease in expenditures is due to a general decrease in capital outlay for current projects. Expenditures for capital projects are subject to various conditions that slow down construction progress. The restricted fund balance of $53.7 million does not significantly affect the availability of fund resources for future use.

The total plan net position of the pension trust funds are $49.7 billion, an increase of approximately $2.7 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $3.9 billion.

General Fund Budgetary Highlights

Federal revenue collections were below estimated levels (approx. 10%) primarily due to a continuing decline in the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program caseloads at the Department of Human Services (DHS). Because these programs are significantly funded by federal revenue, DHS's federal revenue saw a decrease of $433 million as a result of the decline in SNAP caseloads and $120 million as a result of the decline in TANF caseloads. The decline in TANF caseloads also led to a $25 million decline in the Child Care Development Fund (CCDF). The Department of Economic and Community Development had a decline in federal revenue due to 2 Community Development Block grant disaster programs that ended during FY18. Due to the drop in the unemployment rate, the divisions of Workforce Services had an unexpected decline in federal revenue. Adult education had a decline in federal revenue due to timing in sub-contracts sent of Adult education funding. The Department of Health experienced a decrease in Women, Infant and Children (WIC) food participants which led to a $30 million dollar unexpected decline in federal revenue. Lastly, at TennCare, there was a $106 million dollar savings resulting from pharmacy rebates which were budgeted too high. These rebates offset federal revenue making the federal estimate too high also. In addition, TennCare also was under-collected with Medicare services due to a significantly lower rate than anticipated.

Actual expenditures in Agriculture, Comptroller, Labor and Workforce Development, Economic and Community Development, and the TennCare program were significantly less than what was projected in the final budget primarily due to unexpended reserved amounts and multi–year projects that were appropriated in the current year as well as some of these projects including federal funding which contributed to the overestimate in federal revenue. As previously mentioned, the Department of Human Services experienced a favorable expenditure variance due to a decline in expenditures in the SNAP and TANF programs. Corrections had high employee vacancy and turnover of staff in the prisons and the local jail population was lower than projected creating a savings.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The state's investment in capital assets at June 30, 2018, of $30.2 billion, net of $2.1 billion accumulated depreciation, consisted of the following:

Capital Assets-Primary Government

(Expressed in Thousands)

	Governmental Activities	
	2018	2017
Land	$ 2,400,724	$ 2,333,917
Infrastructure	24,687,389	24,132,251
Construction in progress	973,284	1,051,208
Structures and improvements	2,797,582	2,496,895
Machinery and equipment	1,245,327	1,150,630
Software in development	188,482	114,506
Subtotal	32,292,788	31,279,407
Accumulated depreciation	(2,060,212)	(1,965,755)
Total	$ 30,232,576	$ 29,313,652

More detail of the activity during the fiscal year is presented in Note 8A to the financial statements.

Capital assets, including those under construction, increased from fiscal year 2017 to 2018 by approximately 3.1 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $555.1 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $670.8 million and decreased (projects completed and capitalized) by $588.5 million. Infrastructure right-of-way acreage increased the land classification by $54.2 million. The change in machinery and equipment of $94.7 million resulted largely from a $32 million mobile equipment upgrade for the Department of Transportation and a $44 million increase that resulted from system projects that were placed in operation and are now classified as equipment. The state had several system projects in the application development stage, resulting in the capitalization of $118 million in new software development costs.

In accordance with generally accepted accounting principles, the state is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the modified approach, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The state is responsible for approximately 15,000 miles of roadway and 8,415 bridges. Differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at targeted condition levels and the actual amounts of expense incurred for that purpose during the fiscal period are the results of timing differences. The budgeting process and the fact that projects are started at different times during the year and take more than 12 months to complete, results in spending in one year amounts that were budgeted in a previous fiscal year(s).

The decision to use the modified approach was essentially made because the state has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 126), indicated that bridges were rated at 10 points above the state's established condition level, on a 100 point scale using the MRI method, and roadways were 0.341 points above the state's benchmark level, on a 4.0 scale using the MQA method. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the fiscal year 2017-2018 reflects a $309.2 million increase from the previous year. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $547.4 million for higher education projects, $37.0 million for correction facilities and $58.8 million for state parks and various upgrades to state facilities.

Debt Administration

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

Purpose	Unissued 6/30/18
Highway	$ 824,800
Higher Education	199,183
General Government	300,567
Total	$ 1,324,550

More detail of the activity during the fiscal year is presented in Note 12A to the financial statements.

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

	Governmental Activities	
	6/30/2018	6/30/2017
Bonds, net	$2,160,357	$2,162,881
Commercial Paper	165,176	192,956
Total	$2,325,533	$2,355,837

The state issued $154.4 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short term basis, and to directly finance other capital projects. The state also issued $35.4 million of tax-exempt general obligation refunding bonds to provide for the current refunding of $37.1 million of general obligation bonds. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and State University and Community College System-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 12A to the financial statements.

The state's bonds are rated AAA, Aaa, and AAA by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to a maximum allowable debt service limitation based on a percentage of tax revenues allocated to the general fund, highway fund and debt service fund. As of June 30, 2018, the state's maximum allowable debt service of $1.3 billion was well above the maximum annual debt service of $238.1 million, with a legal debt service margin of $1.1 billion.

FACTS, DECISIONS, OR CONDITIONS WITH EXPECTED FUTURE IMPACT

Unemployment and Jobs Growth

In September 2018, the state's seasonally adjusted unemployment rate was 3.6 percent. Between September and October, Tennessee employers added 6,000 new nonfarm jobs, bringing the total number of new jobs created since October 2017 to more than 59,000. The trade/transportation/utilities sector saw the most growth in October with the addition of 2,400 new positions.

Amazon announced in November 2018 that it is opening a new Operations Center of Excellence in Nashville. As part of Amazon's investment, the company will create 5,000 high-paying jobs in Davidson County. The project is the single largest jobs announcement in the state's history and is projected to create more than 13,000 jobs for Tennessee's workforce. In addition, for every one direct job created by the project, an additional 1.6 jobs will be created in the state.

Tax Initiatives and Changes

- The Hall Income Tax rate is reduced to 3 percent for tax years beginning after January. 1, 2018 and will further be reduced to 2 percent beginning January 1, 2019, 1% beginning January 1, 2020, and repealed beginning January 1, 2021.
- Gasoline tax increases from $.24 to $.25 per gallon as of July 1, 2018 and to $.26 per gallon as of July 1, 2019.
- Diesel fuel tax increases from $.21 to $.24 per gallon as of July 1, 2018 and to $.27 per gallon as of July 1, 2019.

- Liquefied Gas tax increases from $.17 to $.19 per gallon as of July 1, 2018 and to $.22 per gallon as of July 1, 2019.
- Compressed Natural Gas tax increases from $.16 to $.18 per gallon as of July 1, 2018 and to $.21 per gallon as of July 1, 2019.
- Beginning July 1, 2018, the applicable interest rate on all taxes collected or administered by the Department of Revenue is 8.75% (increased from 8%). Additionally, the applicable interest rate on all payments made under installment agreements with the Department of Revenue is 11.75% (increased from 11%).

Sales Tax Collection by Out-of-State Dealers, *Wayfair* Decision
On June 21, 2018, the United States Supreme Court issued its decision in South Dakota v. Wayfair, Inc. and overturned the physical presence rule that previously applied under Quill Corp. v. North Dakota. Currently, if a dealer has no physical presence in Tennessee, the dealer is not required to collect Tennessee sales and use tax until the Tennessee Department of Revenue (TDOR) issues a public notice stating the specific date and circumstances under which such dealers must begin to collect and remit the tax. Dealers that had no physical presence in Tennessee and did not collect the tax will not be assessed for any periods that precede the Department's notice. However, TDOR encourages these dealers to voluntarily collect and remit the tax as a convenience to their customers.

Other Postemployment Benefits (OPEB)
During fiscal year 2019, the State of Tennessee will establish a trust fund for the purpose of prefunding it's accrued other postemployment benefits (OPEB) obligation related to current and future primary government and component unit retirees participating in the Employee Group OPEB Plan (EGOP). By prefunding this obligation, through a qualifying trust, the state can reduce future costs to taxpayers by $1.2 billion dollars over 50 years. The exact level of savings will depend on the level of funding appropriated in annual budgets. Tennessee's FY 2017-2018 budget included a $153 million dollar appropriation and the FY 2018-2019 budget includes a $128.5 million dollar appropriation for the purpose of funding current and future OPEB obligations in the EGOP.

The OPEB liabilities related to primary government, component unit, and eligible local education agency retirees participating in the Tennessee Plan (TNP) and the Teacher Group OPEB Plan (TGOP) will, at this time, continue to be funded on a pay-as-you-go basis. More information about the state's current other postemployment benefits can be found in the Notes to the Financial Statements.

Reserve for Revenue Fluctuation (Rainy Day) Fund
Tennessee's rainy day fund will reach an all-time record high of $861 million by June 30, 2019. The statutory guideline for the fund is $1 billion, and the FY 2018-2019 budget includes an additional $61 million dollar investment in the fund.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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STATE OF TENNESSEE
Statement of Net Position
June 30, 2018
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Total Component Units
ASSETS				
Cash and cash equivalents	$ 7,517,543	$ 804,611	$ 8,322,154	$ 2,370,496
Cash on deposit with fiscal agent	-	1,176,152	1,176,152	-
Investments	696,812	-	696,812	401,964
Receivables, net	2,731,412	134,938	2,866,350	313,824
Internal balances	1,005	(1,005)	-	-
Due from primary government	-	-	-	56,778
Due from component units	120,505	-	120,505	-
Inventories, at cost	26,944	-	26,944	10,154
Prepayments	12,060	-	12,060	29,813
Loans receivable, net	11,338	812,878	824,216	4,139,071
Net investment in capital leases	7,708	-	7,708	-
Fair value of derivatives	-	-	-	69
Other	-	-	-	6,088
Restricted assets:				
Cash and cash equivalents	124,761	-	124,761	629,230
Investments	361,382	-	361,382	2,024,802
Receivables, net	-	-	-	398,534
Net pension assets	14,951	-	14,951	14,681
Other	-	-	-	5,393
Capital assets:				
Land, at cost	2,400,724	-	2,400,724	267,444
Infrastructure	24,687,389	-	24,687,389	756,162
Structures and improvements, at cost	2,797,582	-	2,797,582	6,632,634
Machinery and equipment, at cost	1,245,327	-	1,245,327	1,141,855
Less-accumulated depreciation	(2,060,212)	-	(2,060,212)	(3,544,094)
Construction in progress	973,284	-	973,284	499,332
Software in development	188,482	-	188,482	-
Total assets	41,858,997	2,927,574	44,786,571	16,154,230
DEFERRED OUTFLOWS OF RESOURCES	780,735	-	780,735	396,447
LIABILITIES				
Accounts payable and other current liabilities	1,953,893	93,047	2,046,940	575,430
Due to primary government	-	-	-	120,505
Due to component units	45,161	-	45,161	-
Unearned revenue	324,929	16,306	341,235	155,677
Fair value of derivatives	-	-	-	87
Payable from restricted assets	59,373	-	59,373	-
Due to component units from restricted assets	11,617	-	11,617	-
Other	-	-	-	35,602
Noncurrent liabilities:				
Due within one year	390,495	-	390,495	334,427
Due in more than one year	5,327,123	11,379	5,338,502	7,216,282
Total liabilities	8,112,591	120,732	8,233,323	8,438,010
DEFERRED INFLOWS OF RESOURCES	124,786	-	124,786	79,997
NET POSITION				
Net investment in capital assets	29,616,706	-	29,616,706	3,948,683
Restricted for:				
Highway projects	711,071	-	711,071	-
Student financial assistance	178,887	-	178,887	-
Natural and wildlife resources	49,753	-	49,753	-
Capital projects	53,771	-	53,771	94,412
Single family bond programs	-	-	-	423,248
Regulatory activities	60,551	-	60,551	-
Pensions	14,951	-	14,951	14,681
Other	104,650	-	104,650	799,080
Permanent and endowment funds				
Expendable	384,019	-	384,019	231,995
Nonexpendable	523,911	-	523,911	1,238,567
Unrestricted	2,704,085	2,806,842	5,510,927	1,282,004
Total net position	$ 34,402,355	$ 2,806,842	$ 37,209,197	$ 8,032,670

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, 2018
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 870,036	$ 1,019,219	$ 51,106	$ 923
Education	8,234,390	38,385	1,710,219	63
Health and social services	15,192,989	1,071,646	9,811,347	9,817
Law, justice and public safety	1,784,864	161,132	142,464	4,060
Recreation and resources development	716,104	175,065	159,537	2,956
Regulation of business and professions	215,749	214,121	1,386	-
Transportation	1,213,247	63,670	188,582	720,354
Intergovernmental revenue sharing	1,309,519	-	-	-
Interest	62,430	-	-	-
Payments to fiduciary fund	372	-	-	-
Total governmental activities	29,599,700	2,743,238	12,064,641	738,173
Business-type activities:				
Employment security	222,988	260,627	33,450	-
Insurance programs	620,005	652,846	2,562	-
Loan programs	1,705	11,386	52,156	-
Other	1,014	242	30	-
Total business-type activities	845,712	925,101	88,198	-
Total primary government	$ 30,445,412	$ 3,668,339	$ 12,152,839	$ 738,173
Component units:				
Higher education institutions	$ 4,987,210	$ 1,827,965	$ 1,848,039	$ 178,041
Loan programs	661,489	192,176	325,030	-
Lottery programs	1,621,828	1,620,509	32	-
Other	63,774	60,047	2,891	-
Total component units	$ 7,334,301	$ 3,700,697	$ 2,175,992	$ 178,041

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

Change in net position

Net position, July 1, restated

Net position, June 30

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, 2018
(Expressed in Thousands)

Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
$ 201,212	$ -	$ 201,212	$ -
(6,485,723)	-	(6,485,723)	-
(4,300,179)	-	(4,300,179)	-
(1,477,208)	-	(1,477,208)	-
(378,546)	-	(378,546)	-
(242)	-	(242)	-
(240,641)	-	(240,641)	-
(1,309,519)	-	(1,309,519)	-
(62,430)	-	(62,430)	-
(372)	-	(372)	-
(14,053,648)	-	(14,053,648)	-
-	71,089	71,089	-
-	35,403	35,403	-
-	61,837	61,837	-
-	(742)	(742)	-
-	167,587	167,587	-
(14,053,648)	167,587	(13,886,061)	-
-	-		
-	-		
-	-	-	(1,133,165)
-	-	-	(144,283)
-	-	-	(1,287)
-	-	-	(836)
-	-	-	(1,279,571)
8,831,333	-	8,831,333	-
1,099,342	-	1,099,342	-
5,196,013	-	5,196,013	-
624,585	-	624,585	-
-	-	-	1,493,387
-	-	-	39,729
84,104	-	84,104	21,387
284,299	-	284,299	9,519
142	-	142	80,581
(4,715)	4,715	-	-
16,115,103	4,715	16,119,818	1,644,603
2,061,455	172,302	2,233,757	365,032
32,340,900	2,634,540	34,975,440	7,667,638
$ 34,402,355	$ 2,806,842	$ 37,209,197	$ 8,032,670

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

Education Fund—The education fund is maintained to account for revenues and expenditures associated with programs involving the Departments of Education and Higher Education including the activities of the Tennessee Promise Scholarship Endowment Fund. Funding for these programs is accomplished primarily from the dedicated sales and services taxes, federal monies received from the U. S. Department of Education, and net lottery proceeds.

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

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

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

STATE OF TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2018

(Expressed in Thousands)

	General	Education	Highway	Capital Projects
ASSETS				
Cash and cash equivalents	$ 3,351,167	$ 5,684	$ 1,079,658	$ 1,452,810
Investments	150,478	149,455	-	-
Receivables, net	1,807,555	654,202	222,293	2,723
Due from other funds	202,380	5,361	-	11,175
Due from component units	560	113,861	-	4,881
Inventories, at cost	11,225	76	12,492	-
Loans receivable, net	2,890	-	968	-
Prepayments and others	12,761	-	-	-
Restricted assets:				
Cash and cash equivalents	37,586	-	-	87,175
Investments	-	361,382	-	-
Total assets	$ 5,576,602	$ 1,290,021	$ 1,315,411	$ 1,558,764
LIABILITIES				
Accounts payable and accruals	1,242,870	249,836	215,118	44,799
Due to other funds	19,365	200,327	1,233	931
Due to component units	22,467	12,057	1,160	6,225
Payable from restricted assets	37,586	-	-	21,787
Due to component units from restricted assets	-	-	-	11,617
Unearned revenue	270,803	92	5,509	-
Total liabilities	1,593,091	462,312	223,020	85,359
DEFERRED INFLOWS OF RESOURCES	157,705	47,331	30,496	-
FUND BALANCES				
Nonspendable				
Inventories	$ 11,225	$ 76	$ 12,492	$ -
Long term portion of accounts receivable	9,983	-	-	-
Permanent fund and endowment corpus	-	361,381	-	-
Restricted	73,201	360,440	711,071	53,771
Committed	372,189	8,370	226,109	-
Assigned	1,949,089	50,111	112,223	1,419,634
Unassigned	1,410,119	-	-	-
Total fund balances	3,825,806	780,378	1,061,895	1,473,405
Total liabilities, deferred inflows of resources and fund balances	$ 5,576,602	$ 1,290,021	$ 1,315,411	$ 1,558,764

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

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

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

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

Resources and obligations related to pensions and other postemployment benefits are not available nor due and payable, respectively, in the current period and therefore are not reported in the funds.

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

Net position of governmental activities

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

STATE OF TENNESSEE
Balance Sheet
Governmental Funds
June 30, 2018
(Expressed in Thousands)

Nonmajor Governmental Funds	Total Governmental Funds
$ 334,565	$ 6,223,884
396,879	696,812
32,383	2,719,156
91	219,007
1,203	120,505
-	23,793
7,479	11,337
17	12,778
-	124,761
-	361,382
$ 772,617	$ 10,513,415
55,970	1,808,593
679	222,535
3,106	45,015
-	59,373
-	11,617
4	276,408
59,759	2,423,541
8,048	243,580
$ -	$ 23,793
-	9,983
162,530	523,911
382,690	1,581,173
145,006	751,674
14,584	3,545,641
-	1,410,119
704,810	7,846,294
$ 772,617	
	29,679,433
	243,259
	1,320,347
	(2,141,239)
	(2,545,739)
	$ 34,402,355

STATE OF TENNESSEE
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	General	Education	Highway	Capital Projects
REVENUES				
Taxes:				
Sales and use	$ 3,672,928	$ 5,072,768	$ 27,019	$ -
Fuel	12,878	-	980,418	-
Business	4,611,706	278,354	5,570	-
Other	607,066	144	-	-
Licenses, fines, fees, and permits	501,386	2,657	298,635	-
Investment income	78,248	14,411	-	-
Federal	10,137,011	1,166,633	897,906	4,060
Departmental services	2,073,187	145,059	42,290	60,943
Other	277,701	448,774	7,952	-
Total revenues	21,972,111	7,128,800	2,259,790	65,003
EXPENDITURES				
General government	657,865	-	-	-
Education	-	8,125,095	-	-
Health and social services	15,875,860	-	-	-
Law, justice and public safety	1,765,309	-	-	-
Recreation and resources development	580,548	-	-	-
Regulation of business and professions	108,666	-	-	-
Transportation	-	-	1,910,831	-
Intergovernmental revenue sharing	931,384	-	378,135	-
Debt service:				
Principal	-	-	-	122,705
Interest	-	-	-	-
Debt issuance costs	-	-	-	-
Capital outlay	-	-	-	339,789
Total expenditures	19,919,632	8,125,095	2,288,966	462,494
Excess (deficiency) of revenues over (under) expenditures	2,052,479	(996,295)	(29,176)	(397,491)
OTHER FINANCING SOURCES (USES)				
Bonds and commercial paper issued	-	-	-	243,419
Bond premium	-	-	-	24,834
Refunding bond issuance	-	-	-	-
Refunding payment to escrow	-	-	-	-
Insurance claims recoveries	660	-	-	398
Transfers in	59,039	1,114,597	168,800	679,697
Transfers out	(2,006,225)	(39,880)	(2,332)	(1,900)
Total other financing sources (uses)	(1,946,526)	1,074,717	166,468	946,448
Net change in fund balances	105,953	78,422	137,292	548,957
Fund balances, July 1, restated	3,719,853	701,956	924,603	924,448
Fund balances, June 30	$ 3,825,806	$ 780,378	$ 1,061,895	$ 1,473,405

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, 2018
(Expressed in Thousands)

Nonmajor Governmental Funds	Total Governmental Funds
$ 62,471	$ 8,835,186
106,046	1,099,342
216,624	5,112,254
40,398	647,608
255,393	1,058,071
27,017	119,676
39,420	12,245,030
20,992	2,342,471
11	734,438
768,372	32,194,076
25,814	683,679
8,392	8,133,487
-	15,875,860
7,254	1,772,563
217,300	797,848
114,237	222,903
-	1,910,831
-	1,309,519
144,671	267,376
75,162	75,162
2,194	2,194
-	339,789
595,024	31,391,211
173,348	802,865
-	243,419
448	25,282
36,059	36,059
(35,976)	(35,976)
-	1,058
6,400	2,028,533
(148,451)	(2,198,788)
(141,520)	99,587
31,828	902,452
672,982	6,943,842
$ 704,810	$ 7,846,294

STATE OF TENNESSEE
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Net change in fund balances - total governmental funds	$	902,452
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.		841,118
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.		168,845
The issuance of long-term debt (e.g. bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items.		(1,408)
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.		5,079
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.		145,369
Changes in net position of governmental activities	$	2,061,455

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

STATE OF TENNESSEE
Statement of Net Position
Proprietary Funds
June 30, 2018
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ 423,883	$ -	$ 380,728	$ 804,611	$ 1,293,657
Cash on deposit with fiscal agent	-	1,176,152	-	1,176,152	-
Receivables:					
Accounts receivable	-	130,610	4,328	134,938	12,257
Loans receivable	36,060	-	16,949	53,009	-
Due from other funds	-	402	-	402	942
Inventories, at cost	-	-	-	-	3,151
Prepayments	-	-	-	-	264
Total current assets	459,943	1,307,164	402,005	2,169,112	1,310,271
Noncurrent assets:					
Loans receivable	589,306	-	170,563	759,869	-
Due from other funds	-	-	-	-	387
Net investment in capital leases	-	-	-	-	7,708
Restricted net pension assets	-	-	-	-	123
Capital assets:					
Land, at cost	-	-	-	-	58,672
Structures and improvements, at cost	-	-	-	-	526,940
Machinery and equipment, at cost	-	-	-	-	385,338
Less: Accumulated depreciation	-	-	-	-	(548,882)
Construction in progress	-	-	-	-	130,412
Software in development	-	-	-	-	663
Total noncurrent assets	589,306	-	170,563	759,869	561,361
Total assets	1,049,249	1,307,164	572,568	2,928,981	1,871,632
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	33,507
LIABILITIES					
Current liabilities:					
Accounts payable and accruals	95	36,783	56,169	93,047	108,733
Due to other funds	-	1,407	-	1,407	8,811
Due to component units	-	-	-	-	146
Lease obligations payable	-	-	-	-	346
Bond payable	-	-	-	-	14,468
Unearned revenue	-	16,166	140	16,306	48,521
Others	-	-	-	-	35,461
Total current liabilities	95	54,356	56,309	110,760	216,486
Noncurrent liabilities:					
Pension	-	-	-	-	43,532
Lease obligations payable	-	-	-	-	7,423
Commercial paper payable	-	-	-	-	13,767
Bonds payable	-	-	-	-	165,184
Others	7,835	-	3,544	11,379	134,960
Total noncurrent liabilities	7,835	-	3,544	11,379	364,866
Total liabilities	7,930	54,356	59,853	122,139	581,352
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	3,440
NET POSITION					
Net investment in capital assets	-	-	-	-	356,559
Restricted for:					
Capital projects	-	-	-	-	4,485
Pensions	-	-	-	-	123
Unrestricted	1,041,319	1,252,808	512,715	2,806,842	959,180
Total net position	$ 1,041,319	$ 1,252,808	$ 512,715	$ 2,806,842	$ 1,320,347

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

STATE OF TENNESSEE

Statement of Revenues, Expenses, and Changes in Net Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2018

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	**Employment Security**	**Nonmajor Enterprise Funds**	**Total**	**Governmental Activities- Internal Service Funds**
Operating revenues					
Charges for services	$ 9,088	$ -	$ 3,765	$ 12,853	$ 576,074
Investment income	5,451	-	1,595	7,046	-
Premiums	-	260,627	651,621	912,248	805,198
Total operating revenues	14,539	260,627	656,981	932,147	1,381,272
Operating expenses					
Personal services	-	-	-	-	111,578
Contractual services	1,377	-	33,858	35,235	286,855
Materials and supplies	-	-	1	1	66,722
Rentals and insurance	-	-	-	-	62,462
Depreciation and amortization	-	-	-	-	48,927
Benefits	-	222,988	583,344	806,332	728,257
Other	-	-	4,144	4,144	5,765
Total operating expenses	1,377	222,988	621,347	845,712	1,310,566
Operating income (loss)	13,162	37,639	35,634	86,435	70,706
Nonoperating revenues (expenses)					
Grants	43,030	8,418	6,973	58,421	890
Insurance claims recoveries	-	-	-	-	1,250
Gain on sales of capital assets	-	-	-	-	5,731
Interest income	-	25,032	2,592	27,624	12,766
Interest expense	-	-	-	-	(7,391)
Other	(2,198)	-	(2,695)	(4,893)	-
Total nonoperating revenues (expenses)	40,832	33,450	6,870	81,152	13,246
Income (loss) before contributions and transfers	53,994	71,089	42,504	167,587	83,952
Capital contributions	-	-	-	-	27,330
Transfers in	1,802	-	3,870	5,672	165,312
Transfers out	-	-	(957)	(957)	(131,225)
Change in net position	55,796	71,089	45,417	172,302	145,369
Net position, July 1, restated	985,523	1,181,719	467,298	2,634,540	1,174,978
Net position, June 30	$ 1,041,319	$ 1,252,808	$ 512,715	$ 2,806,842	$ 1,320,347

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, 2018
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ -	$ 260,774	$ 661,680	$ 922,454	$ 458,524
Receipts from interfund services provided	-	1,936	-	1,936	965,671
Payments to suppliers	-	-	(624,234)	(624,234)	(997,204)
Payments to employees	-	-	(1)	(1)	(111,215)
Payments for unemployment benefits	-	(218,012)	-	(218,012)	-
Payments for interfund services used	(1,377)	-	(1,139)	(2,516)	(196,804)
Net cash provided by (used for) operating activities	(1,377)	44,698	36,306	79,627	118,972
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	43,030	(1,855)	6,973	48,148	890
Negative cash balance implicitly financed	-	(549)	-	(549)	-
Transfers in	1,802	-	3,870	5,672	165,057
Transfers out	-	-	(957)	(957)	-
Net cash provided by (used for) noncapital financing activities	44,832	(2,404)	9,886	52,314	165,947
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	-	-	-	(172,118)
Bond and commercial paper proceeds	-	-	-	-	17,042
Proceeds from sale of capital assets	-	-	-	-	10,908
Insurance claims recoveries	-	-	-	-	1,250
Bond issuance cost	-	-	-	-	(19)
Principal payments	-	-	-	-	(26,050)
Interest paid	-	-	-	-	(8,586)
Net cash provided by (used for) capital and related financing activities	-	-	-	-	(177,573)
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans issued and other disbursements to borrowers	(101,128)	-	(30,305)	(131,433)	-
Collection of loan principal	33,056	-	20,385	53,441	-
Interest received	14,634	25,032	6,462	46,128	12,766
Net cash provided by (used for) investing activities	(53,438)	25,032	(3,458)	(31,864)	12,766
Net increase (decrease) in cash and cash equivalents	(9,983)	67,326	42,734	100,077	120,112
Cash and cash equivalents, July 1	433,866	1,108,826	337,994	1,880,686	1,173,545
Cash and cash equivalents, June 30	$ 423,883	$ 1,176,152	$ 380,728	$ 1,980,763	$ 1,293,657

(continued on next page)

STATE OF TENNESSEE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

(continued from previous page)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided by (used for) operating activities					
Operating income (loss)	$ 13,162	$ 37,639	$ 35,634	$ 86,435	$ 70,706
Adjustment to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	-	-	-	-	48,927
Loss on disposal of capital assets	-	-	-	-	1,014
Bond issuance costs	-	-	-	-	18
Interest income	(9,088)	-	(2,268)	(11,356)	-
Investment income	(5,451)	-	(1,595)	(7,046)	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
(Increase) decrease in receivables	-	10,706	3,702	14,408	6,209
(Increase) decrease in due from other funds	-	(71)	-	(71)	535
(Increase) decrease in due from component units	-	5	-	5	208
(Increase) decrease in inventories	-	-	-	-	63
(Increase) decrease in prepaids	-	-	-	-	4,963
(Increase) decrease in net pension assets	-	-	-	-	(21)
(Increase) decrease in deferred outflows of resources	-	-	-	-	(3,686)
Increase (decrease) in accounts payable	-	(967)	827	(140)	(4,942)
Increase (decrease) in due to other funds	-	-	-	-	(4,444)
Increase (decrease) in due to component units	-	-	-	-	(1,118)
Increase (decrease) in deferred inflows of resources	-	-	-	-	167
Increase (decrease) in unearned revenue	-	(2,614)	6	(2,608)	373
Total adjustments	(14,539)	7,059	672	(6,808)	48,266
Net cash provided by (used for) operating activities	$ (1,377)	$ 44,698	$ 36,306	$ 79,627	$ 118,972
Schedule of noncash capital and related financing activities					
Contributions of capital assets	$ -	$ -	$ -	$ -	$ 27,134
Assets acquired by transfer	-	-	-	-	451
Capital assets disposed of by transfer	-	-	-	-	(131,218)
Refunding bond premium	-	-	-	-	93
Refunding bond proceeds	-	-	-	-	1,518
Total noncash capital and related financing activities	$ -	$ -	$ -	$ -	$ (102,022)

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

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

STATE OF TENNESSEE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents	$ 25,269	$ 1,141,695	$ 44,655	$ 531,352
Cash collateral on loaned securities	5,506,029	-	-	-
Receivables:				
Account	-	-	-	1,988
Taxes	-	-	44	449,295
Interest and dividends	-	220	1	-
Due from other governments	65,563	-	-	-
Other	33,883	-	-	-
Due from other funds	12,009	-	-	6
Due from component units	10,135	-	8	-
Investments, at fair value:				
Government bonds	-	61,418	367	-
Corporate bonds	-	-	878	-
Mutual funds	-	-	156,146	-
TRGT pooled funds	49,585,627	10,560	-	124,903
Investments, at amortized cost:				
Short-term investments	-	1,017,666	-	-
Capital assets, at cost:				
Machinery and equipment	37,138	-	-	-
Less - accumulated depreciation	(16,532)	-	-	-
Total assets	55,259,121	2,231,559	202,099	1,107,544
LIABILITIES				
Accounts payable and accruals	29,675	-	5,524	862,385
Securities lending collateral	5,506,029	-	-	-
Amount held in custody for others	-	-	-	245,159
Total liabilities	5,535,704	-	5,524	1,107,544
NET POSITION				
Restricted for				
Pensions	49,722,597	-	-	
Employees' flexible benefits	820	-	-	
Individuals, organizations and other governments	-	-	196,575	
Amounts held in trust for				
Pool participants	-	2,231,559	-	
Total net position	$ 49,723,417	$ 2,231,559	$ 196,575	

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

STATE OF TENNESSEE
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Members	$ 347,306	$ -	$ -
Employers	1,092,454	-	-
Federal	-	-	8,290
Private	-	-	36,033
State	-	-	484
Other	2,604	-	12,873
Total contributions	1,442,364	-	57,680
Investment income:			
Net increase/(decrease) in fair value of investments	3,879,466	-	6,514
Interest and dividends	-	29,490	4,465
Securities lending income	101,639	-	-
Total investment income	3,981,105	29,490	10,979
Less: Investment expenses	(62,297)	(892)	-
Securities lending expense	(64,585)	-	-
Net investment income	3,854,223	28,598	10,979
Capital share transactions:			
Shares sold	-	4,567,383	-
Less: Shares redeemed	-	(4,433,493)	-
Net capital share transactions	-	133,890	-
Total additions	5,296,587	162,488	68,659
DEDUCTIONS			
Annuity benefits	2,514,935	-	-
Death benefits	5,368	-	-
Other	5,491	-	36,919
Refunds	41,159	-	4,309
Administrative expenses	20,974	-	2,047
Total deductions	2,587,927	-	43,275
Change in net position	2,708,660	162,488	25,384
Net position, July 1	47,014,757	2,069,071	171,191
Net position, June 30	$ 49,723,417	$ 2,231,559	$ 196,575

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2018

NOTE 1

Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

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

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

5**. State University and Community College System** (Proprietary Fund Type) includes six state universities, thirteen community colleges and twenty-seven centers of applied technology. Each of the universities is governed by an independent board appointed by the governor. The board of the community colleges and technology centers is comprised of state officials and appointees by the governor. The state provides substantial funding to these entities.

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

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

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

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

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

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

Tennessee Housing Development Agency Andrew Jackson Building, 3rd floor 502 Deaderick Street Nashville, TN 37243	**Tennessee Local Development Authority** Cordell Hull Building 425 Fifth Avenue North Nashville, TN 37243
Tennessee Veterans' Homes Board 345 Compton Road Murfreesboro, TN 37130	**Tennessee State School Bond Authority** Cordell Hull Building 425 Fifth Avenue North Nashville, TN 37243
University of Tennessee Office of the Treasurer 301 Andy Holt Tower Knoxville, TN 37996-0100	**State University and Community College System** 1 Bridgestone Park Nashville, TN 37214
Tennessee Education Lottery Corporation One Century Place 23 Century Boulevard, Suite 200 Nashville, TN 37214	All others may be obtained at the following: **Finance & Administration, Division of Accounts** 21st Floor William R. Snodgrass Tennessee Tower 312 Rosa L. Parks Avenue Nashville, TN 37243

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

C. Jointly Governed Organizations

1. **The Southern Regional Education Compact** has 16 member states. Tennessee paid $225,391 for 2018 membership dues.

2. **The Compact for Education** has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2018 membership dues.

3. **The Interstate Mining Compact** has 24 member states. Tennessee paid $20,493 for 2018 membership dues.

4. **The Southern States Nuclear Compact** (also known as the Southern States Energy Compact) has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2018 membership dues.

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

6. **The Interstate Insurance Product Regulation Commission** is comprised of 44 member states and Puerto Rico.

7. **The Interstate Compact for Juveniles** is comprised of 50 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $22,000 for 2018 membership dues.

8. **The Interstate Compact for Supervision of Adult Offenders** is comprised of all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands. Tennessee paid $36,674 for 2018 membership dues.

9. **The Interstate Compact on Educational Opportunities for Military Children** is comprised of all 50 states, plus the District of Columbia. Tennessee paid $12,823 for 2018 membership dues.

10. **The Nurse Licensure Compact** is comprised of 30 states.

11. **The Physical Therapy Licensure Compact** is comprised of 21 states.

12. **The Interstate Commission of Emergency Medical Services Personnel Practice** is comprised of 16 states.

D. Joint Ventures

The state is a participant in a joint venture, the Tennessee-Tombigbee Waterway Development Compact, with the states of Alabama, Kentucky and

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

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

Tennessee-Tombigbee Waterway Development Compact	2017	2016
Current assets	$ 548	$ 533
Capital assets, less depreciation	310	315
Total assets	858	848
Total liabilities	160	189
Net position	698	659
Total liabilities and net position	$ 858	$ 848
Revenues	$ 392	$ 421
Expenses	353	419
Excess of revenues over expenses	39	2
Beginning net position	659	657
Ending net position	$ 698	$ 659

E. Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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.

F. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The state reports the following major governmental funds:

- **General Fund.** This 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.

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

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

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

The state reports the following major proprietary funds:

- **Sewer Treatment Loan Fund.** This fund accounts for loans made to local governments and utility districts for the construction of sewage treatment facilities.

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

- **Fiduciary Funds.** These funds are used to account for resources legally held in trust. Fiduciary activities include the following funds:

  1. **Pension and Other Employee Benefit Trust Funds** – account for activities of the Tennessee Consolidated Retirement System and the employee flexible benefits plan.

  2. **Investment Trust Funds** – account for deposits belonging to entities outside of the state's financial reporting entity.

  3. **Private Purpose Trust Funds** – account for contributions made to 1) *College Savings Plans* – funds created under Section 529 of the Internal Revenue Code; 2) *Children in State Custody* – funds held from various sources to benefit children in state custody; 3) *Oak Ridge Monitoring* – a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage; 4) *TNInvestco* – accounts for proceeds held and used to carry out the provisions of the Tennessee Small Business Investment Company Credit Act; 5) *Insurance Receiverships* – account for the distribution of assets to claimants as ordered by the court, and 6) *Other* small funds.

  4. **The Agency Funds** – account for assets the state holds on behalf of others, including state-shared taxes held for various local governments, assets in postemployment benefit plans that are not equivalent to a qualified trust held for retirees, and refundable and other receipts held for others. Agency funds are custodial in nature and do not involve measurement of operations.

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 of 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.

G. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

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. The State Cash Pool is part of the State Pooled Investment Fund (SPIF), an external investment pool. Investments in the State Cash Pool are measured at amortized cost. Collateral, as required by law, is pledged by the various banks and government securities dealers to guarantee state funds placed with them. It is the state's policy to include cash management pools as cash.

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

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.

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 Strategic Technology Solutions, Postal Services, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2018, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets—Proceeds of the state's general obligation bonds and commercial paper program that remain unspent at year end are classified as restricted cash on the statement of net position. Proceeds of the state's general obligation refunding bond deposited in an escrow account with the state's Treasurer is also classified as restricted cash on the statement of net position. The commercial paper program provides short-term financing for the state's capital projects. Tennessee Promise Scholarship Endowment Fund (reported in the Education fund) has restricted assets in an endowment trust agreement. The state also has a restricted net pension asset because pension plan net position is greater than total pension liability.

Component units that issue revenue bonds – Tennessee Housing Development Agency, Tennessee State School Bond Authority, and Tennessee Local Development Authority – report restricted cash 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. In addition to restricted cash, Tennessee Housing Development Agency and Tennessee State School Bond Authority also report restricted investments for the same purposes previously mentioned. In addition, Tennessee Housing Development Agency also reports restricted receivables for the same purposes mentioned. The State University and Community College System and the University of Tennessee report restricted cash, investments, and receivables for those that come with certain restrictions from donors, lenders, or grantors. Tennessee Education Lottery Corporation has restricted cash to cover losses incurred as a result of the nonfeasance, malfeasance, or misfeasance of the retailers. Tennessee Veterans' Homes Board has restricted assets related to loan agreements and other restricted assets that are the property of the homes' residents.

Tennessee Student Assistance Corporation, Tennessee Community Services Agency, Tennessee Housing Development Agency, State University and Community College System, University of Tennessee, and Tennessee Veterans' Homes Board have net pension assets because pension plan net position is greater than their total pension liability.

Capital Assets—Capital assets, which include land, buildings and building improvements, machinery and equipment (e.g., furniture and fixtures, vehicles, works of art and historical treasures), infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and intangibles (e.g., internally generated computer software, patents, trademarks, copyrights, and easements), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of infrastructure, land and internally generated intangibles, are defined by the state as assets with an initial individual cost of $5,000 or more and an estimated useful life of three years or more. Infrastructure assets and land are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Internally generated intangibles are capitalized if the total estimated project costs are $1 million or more, and have an estimated useful life of three years or more. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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.

Land, construction in progress, software in development, and intangibles with indefinite useful lives are not depreciated. The other property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40 - 50
Building Improvements	20 - 50
Machinery and Equipment	3 - 20

Deferred Outflows/Inflows—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The primary government has three items that qualify for reporting in this category. The first is the result of five pension related factors. The first factor is contributions made subsequent to the measurement date, the second factor is the difference between the actual and expected economic and demographic factors that were less favorable than anticipated, the third is the net effect from changes in actuarial assumptions, the fourth factor is investment returns were better than projected, and the fifth factor is the change in proportionate share of net pension liabilities and assets. The second item is refunding of debt. The third item is Other Postemployment Benefit (OPEB) payments made after the measurement date. In the governmental activities column of the government-wide statement of net position, the state reported $40.5 million for refunding of debt, $323.7 million for employer contributions made after the measurement date, $99.4 million for differences between expected and actual experience, $213.8 million for changes in actuarial assumptions, $4.6 million for differences between projected and actual earnings on pension plan investments, $5.5 million for the changes in proportionate shares, and $93.3 million for OPEB payments made after the measurement date.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. The primary government has four items that qualify for reporting in this category. The first item is the result of three pension related factors. The first factor is the difference between the actual and expected economic and demographic factors that were more favorable than anticipated, the second factor is the change in proportionate share of net pension liabilities and assets, and the third factor is investment returns were more than projected. In the governmental activities column of the government-wide statement of net position, the state reported $46.4 million for these three pension related factors mentioned.

The other three items are related to debt refunding, capital lease activities, and changes in the assumptions used in estimating the net OPEB liabilities in which the state reported $1.7 million, $323 thousand, and $76.4 million, respectively, in its governmental activities column of the government-wide statement of net position. In addition, the state has one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($185.2 million), federal grants ($38.4 million), and other sources ($20 million) as deferred inflows of resources.

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.

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

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

Pensions−For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the state's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the state's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value. For the year ended June 30, 2018, the state reported $1.3 billion of net pension liability, $15 million of net pension asset, $647 million of deferred outflows of resources, $46.4 million of deferred inflows of resources, and $262.9 million of pension expenses.

Net Position—Consists of the following three components:

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

- **Restricted net position** - consists of net position in which constraints are placed on the use of net position either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $2.1 billion restricted by the primary government, $321.1 million was by enabling legislation.

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

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

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

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

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

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

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

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

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

Comparative Data/Reclassifications—Comparative total data for the prior year has not been presented.

NOTE 2

Reconciliation of Government-wide and Fund Financial Statements

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds."

The details of this $2.5 billion difference are as follows (expressed in thousands):

Bonds payable	$ 1,741,155
Plus: premium on bonds issued (to be amortized as interest expense)	239,550
Net deferred outflows/inflows of resources for bond refundings (to be amortized as interest expense)	(34,224)
Commercial paper payable	151,409
Accrued interest payable	28,532
Capital leases payable	10,131
Claims and judgments	47,547
Compensated absences	274,235
Pollution remediation	62,034
Other long-term liabilities and accounts payable	25,370
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$ 2,545,739

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net positions of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense."

The details of this $841.1 million difference are as follows (expressed in thousands):

Capital outlay	$ 955,434
Depreciation expense	(114,316)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 841,118

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positions. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities." The details of this $1.4 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	$ 33,897
Issuance of general obligation bonds	149,472
Issuance of commercial paper	93,947
Bond premium capitalized	27,444
Debt reduced:	
General obligation bonds/payments to escrow	(35,976)
General obligation debt	(144,671)
Commercial paper redeemed	(122,705)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 1,408

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 $5.1 million difference are as follows (expressed in thousands):

Pension	$ (59,976)
Compensated absences	20,315
Claims and judgments	844
Accrued interest	(212)
Capital lease	(1,220)
Other postemployment benefits	15,892
Pollution remediation	4,064
Pledged tax credits	(13,911)
Amortization of other charges	
Loss on disposal of capital assets	41,583
Amortization of bond premiums	(20,006)
Amortization of deferred outflows/inflows of resources	7,548
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ (5,079)

NOTE 3

Deficit Fund Equity

The records management fund, an internal service fund, has a total net position deficit of $192 thousand. This deficit was caused primarily as a result of the reporting of other postemployment benefits at the fund level in accordance with GASBS 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

NOTE 4

Accounting and Reporting Changes

A. Prior Period Adjustments

Primary Government

- Governmental activities—$775.745 million, net decrease in net position, is a result of an accounting change. During fiscal year 2018, the state implemented GASBS 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Of this amount, $13.188 million related to internal service funds.

- Governmental activities—$15.8 million, net decrease in net position, is a correction of an error resulting from the understatement of accrued liabilities in the previous year in the employee group insurance fund (an internal service fund). Another $15 million, net increase in net position, is a reclassification of amounts previously held in agency funds to the general fund.

- Business-type activities—$13.6 million, net decrease in net position, is a correction of an error resulting from the understatement of accrued liabilities in the previous year in the teacher group insurance and the local government group insurance funds (enterprise funds)

Component Units

- During fiscal year 2018, six component units implemented GASBS 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this statement resulted in a cumulative adjustment to beginning net position of the following component units (expressed in thousands):

Tennessee Student Assistance Corporation	$ (311)
Tennessee CSA	72
Tennessee Housing Development Agency	(1,780)
State University and Community College System	(95,030)
University of Tennessee	(95,219)
Veterans' Homes Board	102

- During fiscal year 2018, the University of Tennessee implemented GASBS 81, *Irrevocable Split Interest Agreements*. The implementation of this statement resulted in a cumulative adjustment to beginning net position of $25.7 million.

- During fiscal year 2018, the State University and Community College System's foundations implemented GASBS 81, *Irrevocable Split Interest Agreements*. The implementation of this statement resulted in a cumulative adjustment to beginning net position of $1.3 million.

- The State University and Community College System and its foundations recorded prior period adjustments for a net increase to net position of $.19 million for erroneously expensing capital expenditures, write-off of uncollectible accounts from prior years, and various other misstatements.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2018, (expressed in thousands):

	6/30/17 Net Position as Reported	Adjustments to Net Position	6/30/17 Net Position as Restated
Government-wide statements:			
Primary government			
Governmental activities	33,131,645	(790,745)	32,340,900
Business-type activities	2,648,152	(13,612)	2,634,540
Total primary government	$ 35,779,797	$ (804,357)	$ 34,975,440
Component Units	7,886,599	(218,961)	7,667,638
Total component units	$ 7,886,599	$ (218,961)	$ 7,667,638

B. Reporting Changes

During the fiscal year ended June 30, 2018, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

- GASBS 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes accounting and financial reporting standards for defined benefit OPEB and defined contribution OPEB provided through OPEB plans. The implementation of this standard amended the accounting for state Retiree OPEB and amended existing note disclosures.

- GASBS 81, *Irrevocable Split-Interest Agreements,* establishes recognition and measurement requirements for irrevocable split-interest agreements. The implementation of this standard did not have an impact on the financial statements or note disclosures of the primary government.

- GASBS 85, *Omnibus 2017,* improves consistency in accounting and financial reporting by clarifying the following: blending requirement of component units, goodwill, and the classification of real estate by insurance entities. It also clarified various issues related to pension and OPEB. The implementation of this standard did not impact the financial statements but additional disclosures were needed for OPEB.

- GASBS 86, *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt. The implementation of this standard did not have an impact on the financial statements but additional disclosures were required.

NOTE 5

Deposits and Investments

A. Primary Government

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

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in U.S. Direct Obligations, U.S. Agency Securities, U.S. Instrumentality Securities, repurchase or reverse repurchase agreements, collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances and securities lending agreements. Investments in derivatives type securities and investments of high risk are prohibited. There are no limitations or restrictions on participant withdrawals with the exception of a 24-hour notice for withdrawals exceeding $5 million.

The Intermediate Term Investment Fund (ITIF) is authorized by statute to invest funds in the investment instruments specified under statutes for the SPIF. The ITIF is intended to offer longer term investment horizon and higher return for participants who did not need access to funds immediately.

In addition to the funds in the State Pooled Investment Fund, the Tennessee Retiree Group Trust (TRGT), an investment trust fund, was adopted for the purpose of pooling funds solely for investment purposes including those assets of the Tennessee Consolidated Retirement System (TCRS) and other exempt pension and similar trusts. TRGT may also invest its fund in SPIF. The College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); the Achieving a Better Life Experience (ABLE TN) fund, reported as part of Other private purpose trust funds; the Tennessee Promise Scholarship Endowment Fund, a part of the Education Fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund, are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

The Insurance Receiverships Fund, a private purpose trust fund, and the State Funds Investment Portfolios, which include investments selected and managed by the Tennessee Wildlife Resources Agency (TWRA) and the Department of Economic and Community Development (ECD), do not have specific investment policies that restrict their investments.

As of June 30, 2018, the state's investments for all funds were as follows (expressed in thousands):

POOLED INVESTMENT AND OTHER FUNDS INVESTMENTS

Credit Quality Rating	SPIF	TRGT	ITIF	State Funds Investment Portfolios	Education Fund	COE	College Savings Plans	Insurance Receiverships Fund	Other private purpose trust funds	Total
AAA		$ 592,504			$ 1,770	$ 7,196				$ 601,470
AA	$ 740,745	444,729			264	7,970				1,193,708
A		984,395			270	8,158				992,823
BBB		2,790,442			238	7,189				2,797,869
BB		305,596			8	233				305,837
B		61,874								61,874
CCC		29,343								29,343
CC		589								589
NR	7,210,117	3,777,486	$ 61,418		20,050	28,592	$ 89,775	$1,245	$6,380	11,195,063
A1 (Commercial paper)	399,474									399,474
	8,350,336	8,986,958	61,418		22,600	59,338	89,775	1,245	6,380	17,578,050
Government agencies and obligations[1]	1,229,798	6,129,896		$ 215,485	12,143	53,820				7,641,142
Total debt investments	9,580,134	15,116,854	61,418	215,485	34,743	113,158	89,775	1,245	6,380	25,219,192
Non Fixed Income Assets										
Equity		25,065,903			476,093	217,962				25,759,958
Equity mutual funds							65,948	224	4,655	70,827
Preferred stock		39,407								39,407
Real estate		4,603,526								4,603,526
Private equities		2,486,304								2,486,304
Strategic lending		2,253,658								2,253,658
Derivatives (not rated)		906								906
Certificate of deposit classified as short term	1,355,610									1,355,610
Short-term investment fund at custodian		(3,032)								(3,032)
Accrued income included in assets				752						752
Less: short term	(5,288,699)	(836,572)					(7,737)		(3,098)	(6,136,106)
Total investments	$ 5,647,045	$ 48,726,954	$ 61,418	$ 216,237	$ 510,836	$ 331,120	$ 147,986	$ 1,469	$ 7,937	$ 55,651,002
Net noninvestment assets		994,136								
Pool's net position[2]		$ 49,721,090								

1. Includes obligations of the US government or obligations explicitly guaranteed by the US government
2. This amount is the net position of TRGT whose audited financial reports can be obtained at www.treasury.state.tn.us or calling (615) 741-2956.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the state's investments in debt securities as of June 30, 2018, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the state.

The SPIF's investment policy requires a first tier quality criteria for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be of first tier quality, the security or issuer shall have an investment grade credit rating, and the security shall be eligible for purchase by the Federal Reserve system. Commercial paper should be of first tier quality, but the security shall have an investment grade credit rating by at least two Nationally Recognized Statistical Rating Organizations and the issuer shall be approved in writing by the Chief Investment Officer. For securities lending agreements, the underlying collateral is limited to first tier U.S. Direct Obligation Securities, U.S. Agency Securities, or U.S. Instrumentality Securities.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency. The SPIF is invested in a manner that meets the maturity, quality, diversification and liquidity requirements set forth by GASB for external investment pools that elect to measure investments at amortized cost. The funds are limited to high quality obligations with regulated maximum and average maturities, the effect of which is to minimize both market and credit risk. The State Funding Board has elected for the SPIF to use amortized cost accounting measures to report investments and to transact with participants at a Stable Net Asset Value. Additionally, the State had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year.

The TRGT, pursuant to Tennessee Code Annotated (TCA) Title 8, Chapters 34-37, the TCRS Board and the State Treasurer as the Custodian are authorized to invest the TRGT funds in the same manner as the funds of TCRS. TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated by one of the Nationally Recognized Statistical Rating Organizations (NRSROs). There is no requirement to divest an asset if it is downgraded after purchase. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

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

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

The Education Fund's state statute authorizes the trustees to adopt an investment policy for the trust in accordance with the laws, policies and guidelines that govern investments by the Tennessee Consolidated Retirement System. The trustees may issue other directions further limiting such investments. The policy also allows assets to be invested in shares of publicly traded investment companies, including Unit Investment Trusts (UIT's), Exchange Traded Funds (ETF's) and open-end and closed-end mutual funds. In addition, it permits investment in publicly traded foreign securities that are the same kinds, classes and investment grades otherwise eligible for investment, and in non-investment grade, fixed income securities, including but not limited to, high yield bonds.

The ITIF is authorized by statute to invest funds in the investment instruments specified under statutes for the SPIF in accordance with the policy guidelines for the ITIF as approved by the Funding Board. The current policy of the Funding Board for the ITIF gives the Treasurer approval to invest funds in bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies, obligations guaranteed as to principal and interest by the federal home loan mortgage corporation, federal national mortgage association, student loan marketing association and other United States government-sponsored corporations, prime commercial paper, prime bankers' acceptances, and repurchase agreements for obligations of the United States or its agencies. State Fund Investment Portfolios is authorized to invest in obligations guaranteed by the US government including bonds, notes, and US treasury bills. Insurance Receiverships Fund has no investment policy limiting investment choice based on ratings issued by nationally recognized statistical rating agencies. ABLE TN, reported as part of Other private purpose trust funds, provides participants a wide range of investment products with investment risk profiles ranging from conservative to aggressive. The investment products made available to program participants were selected based on a number of factors including fees, investment performance, investment strategy, and credit ratings. Program participants select investment options that suit their individual investment needs.

Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than five percent (5%) of the pool, at the date of acquisition, is invested in a single issuer of securities. Additionally, no issuer of a demand feature or guarantee will exceed ten percent (10%) at the date of acquisition. These limits shall not apply to U.S. Government Securities. In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to $25 million issued by any one issuer. Prime commercial paper investments are limited to $250 million issued by any one issuer.

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. The TCRS' investment policy limits the maximum amount of securities in cash equivalents issued by any one issuer to $100 million, excluding those securities with the express or implied backing of the United States government.

There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, the College Savings Plans, the Education Fund or other State funds in any one issuer.

As of June 30, 2018, SPIF, COE, and Intermediate Term Investment Fund separately held investments in certain organizations representing five percent (5%) or more of its total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

State Pooled Investment Fund (SPIF)		
Issuer Organization	Carry Value	Percentage
Federal National Mortgage Association	$ 719,645	7.51
Federal Home Loan Bank	2,512,829	26.23
International Bank for Recon & Dev	3,123,450	32.60
Federal Farm Credit Banks	1,385,000	14.46

Chairs of Excellence (COE)		
Issuer Organization	Carry Value	Percentage
Federal National Mortgage Association	$ 17,291	5.16

Intermediate Term Investment Fund (ITIF)		
Issuer Organization	Fair Value	Percentage
Federal Farm Credit Banks	$ 8,000	13.03
Federal Home Loan Bank	21,358	34.77
Federal Home Loan Mortgage Corp	32,060	52.20

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the weighted average maturity of the pool shall not exceed sixty days (60) calculated using Maturity Shortening Features for securities with a variable or floating interest rate. The weighted average life of the SPIF cannot exceed one hundred twenty days (120) calculated using Stated Maturity and without using Maturity Shortening Features. No security or investment may be purchased with a remaining maturity of greater than three hundred ninety seven (397) calendar days. At June 30, 2018, the weighted average maturity of the pool was forty-three (43) days and the weighted average life of the pool was seventy-two (72) days. It is the intent of the Funding Board that the fair value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose fair value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity.

As of June 30, 2018, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

State Pooled Investment Fund Weighted Average Maturity

Deposit/Investment Type	Carry Value	Weighted Average Maturity (Months)
U.S. Government Agencies	$7,950,862	1.16
U.S. Government Treasuries	1,229,798	3.77
Commercial paper	399,474	0.83

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

As of June 30, 2018, the Intermediate Term Investment Fund had the following weighted average maturities (expressed in thousands):

Intermediate Term Investment Fund Weighted Average Maturity

Deposit/Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Government Agencies	$61,418	2.94

The TRGT is authorized to invest in securities in a manner consistent with the investment policy of the TCRS. TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Board Investment Grade Index and tends to have a duration within a range around that index.

Tennessee Retiree Group Trust Debt Investments
June 30, 2018 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Debt Investments:		
Government Fixed Income		
Government Agencies	$ 399,776	1.19
Government Bonds	3,660,296	13.89
Government Inflation Indexed	1,554,001	7.53
Government Mortgage-Backed	3,544,436	4.96
Government Asset-Backed	42,161	5.17
Municipal Bonds	88,513	9.24
Corporate Fixed Income		
Commercial Mortgage Backed	409,534	4.63
Asset Backed Securities	662,244	1.13
Corporate Bonds	4,259,749	9.73
Short Term		
Short Term Bills and Notes	496,144	0.00
Total Debt Investments	$ 15,116,854	

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

Chairs of Excellence Debt Investments
June 30, 2018 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 17,809	9.21
U.S. TIPS	31,974	7.60
U.S. Agencies	4,708	3.14
Government Mortgage-Backed	27,249	5.87
Government Asset-Backed	2,956	5.73
Municipal Bonds	4,367	2.65
Corporate Fixed Income		
Corporate Mortgage-Backed	972	5.49
Corporate Bonds	21,369	5.84
Corporate Asset-Backed	1,754	1.66
Total Debt Investments	$113,158	

The investment policy of the Education Fund authorizes the trustees to adopt an investment policy for the trust in accordance with the laws, policies, and guidelines that govern investments by the TCRS. The TCRS investment policy does not specifically address limits on investment maturity.

Education Fund
Debt Investments
June 30, 2018 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$5,743	5.62
U.S. TIPS	1,057	7.60
U.S. Agencies	156	3.14
Government Mortgage-Backed	21,259	5.86
Government Asset-Backed	4,055	5.20
Municipal Bonds	144	2.65
Corporate Fixed Income		
Corporate Mortgage-Backed	537	2.36
Corporate Bonds	1,734	5.31
Corporate Asset-Backed	58	1.66
Total Debt Investments	$34,743	

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

College Savings Plans Debt Investments
June 30, 2018 (expressed in thousands)

Fund Name Blended	Fair Value	Effective Duration (Years)
Vanguard Wellington Investor Shares	$ 24,626	6.44
Vanguard LifeStrategy Conservative Growth Fund	12,911	6.64
Vanguard LifeStrategy Income Fund	9,984	6.64
Fixed Income		
Vanguard Total Bond Market Institutional Shares	7,213	6.07
Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares	1,677	5.52
DFA Inflation-Protected Securities Portfolio Institutional Class	704	7.77
Vanguard Intermediate-Term Treasury Admiral Shares	629	5.10
Vanguard Total Bond Market Index Fund	24,294	6.10
Total Debt Investments	$ 82,038	

Insurance Receiverships Fund has no investment policy limiting its investment choice based on maturity of the assets.

Insurance Receiverships Fund
June 30, 2018 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Corporate bonds	$879	0.99
Government bonds	366	6.72

The State Funds Investment Portfolio has no investment policy limiting their investment choice based on maturity of the assets.

State Funds Investment Portfolio
June 30, 2018 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government	$107,017	6.64
Government Mortgage-Backed	108,468	27.22

ABLE TN, reported as part of Other private purpose trust funds, provides investment products for participants to select. Participants select investment products that best suit their investment needs. The program has no specific investment policy limiting its investment choices based on interest rate risk.

Other private purpose trusts June 30, 2018 (expressed in thousands)		
Fund Name Blended	Fair Value	Effective Duration (Years)
Vanguard Wellington Investor Shares	$ 1,202	6.44
Vanguard LifeStrategy Conservative Growth Fund	891	6.64
Vanguard LifeStrategy Income Fund	193	6.64
Fixed Income		
Vanguard Total Bond Market Institutional Shares	422	6.07
Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares	221	5.52
DFA Inflation-Protected Securities Portfolio Institutional Class	154	7.77
Vanguard Intermediate-Term Treasury Admiral Shares	198	5.10
Total Debt Investments	$ 3,281	

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TRGT's exposure to foreign currency risk at June 30, 2018, was as follows (expressed in thousands):

Currency	Total Fair Value	Equity	Cash
Australian Dollar	$ 314,203	$ 314,116	$ 87
British Pound Sterling	1,376,948	1,375,156	1,792
Canadian Dollar	1,093,403	1,091,853	1,550
Danish Krone	182,337	182,334	3
Euro Currency	2,008,834	2,006,537	2,297
Hong Kong Dollar	187,539	187,113	426
Japanese Yen	1,565,561	1,555,348	10,213
New Israeli Shekel	16,106	16,077	29
New Zealand Dollar	7,963	7,950	13
Norwegian Krone	73,936	73,651	285
Singapore Dollar	91,355	91,355	
Swedish Krona	150,289	150,273	16
Swiss Franc	478,732	475,991	2,741
Total	$ 7,547,206	$ 7,527,754	$ 19,452

Derivatives

The international securities in the TRGT's portfolio expose the TRGT to potential losses due to a possible rise in the value of the US dollar. The TRGT 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. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TRGT may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TRGT's target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2018, the TRGT was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TRGT is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TRGT enters into an agreement to purchase pools of mortgage backed securities prior to the actual security being identified. The TRGT will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable.

The TRGT invests in the derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

		Changes in Fair Value		Fair Value at June 30, 2018		
	Currency	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount
Foreign Currency Forward Contracts						
	HKD		$ (3)		$ (3)	$ 49,230
	SEK		3		3	26,020
	JPY		(140)		(140)	15,545
		Investment Income	$ (140)	Derivative Instruments Payable	$ (140)	
Future Contracts						
		Investment Income	$ 20,861	Derivative Instruments Receivable	$ 154	$ 1,325,269
TBA Mortgage-Backed Securities						
		Investment Income	$ 906	Derivative Instruments	$ 906	$ 297,135

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TRGT's deposits may not be returned to TRGT. The TRGT does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2018, the TRGT had uninsured and uncollateralized cash deposits of $19.5 million in foreign currency held by our master custodian, State Street, in State Street's name. These deposits were used for investments pending settlement.

The Insurance Receiverships fund does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2018, the Insurance Receiverships fund had uninsured and uncollateralized cash deposits of $682 thousand at various institutions.

Securities Lending

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. TCRS is authorized to invest in securities lending investments by Tennessee Code Annotated (TCA) 8-37-104(a)(6) with the terms established in the investment policy whereby TRGT loans securities to brokers and dealers (borrower) and in turn, TRGT receives cash or securities as collateral. TRGT pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TRGT portfolio and provided further that such loans are secured by collateral.

Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the market value of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TRGT in any instrument the TRGT may be directly invested.

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

At June 30, 2018 the TRGT had the following securities on loan and received the cash collateral (expressed in thousands) as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non Cash Collateral Received
Fixed	$ 2,901,165	$ 2,958,444
Equity	2,513,027	2,562,643
Total	$ 5,414,192	$ 5,521,087

The TRGT has the ability to sell the collateral securities only in the case of a borrower default.

B. Component Units

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

1. University of Tennessee

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

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2018, the University's investments were rated as follows (expressed in thousands):

		Credit Quality Rating			
Rated Debt Instruments	Fair Value	US Treasury/ Agency	Aaa	Aa2	A2
U.S. Treasuries	$ 209	$ 209			
U.S. Treasuries (in pool)	100,918	100,918			
U.S. Agencies	19		$ 19		
U.S. Agencies (in pool)	1,075,322		557,271	$ 42,637	
Commercial Paper (in pool)	64,921		64,921		
Corporate Bonds	441				$ 203
Mutual Funds – Bonds	68,802				
Money Market Mutual Funds	23,593				
Total	$ 1,334,225	$ 101,127	$ 622,211	$ 42,637	$ 203

(Continued)	Credit Quality Rating			
Rated Debt Instruments	Baa2	Baa3	B1	Unrated
U.S. Treasuries				
U.S. Treasuries (in pool)				
U.S. Agencies				
U.S. Agencies (in pool)				$ 475,414
Commercial Paper (in pool)				
Corporate Bonds	$ 103	$ 85	$ 50	
Mutual Funds – Bonds				68,802
Money Market Mutual Funds				23,593
Total	$ 103	$ 85	$ 50	$ 567,809

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2018, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
U.S. Treasuries	$ 209		$ 3		$ 206	
U.S. Treasuries (in pool)	100,918	$ 26,940	49,063	$ 24,915		
U.S. Agencies	19			19		
U.S. Agencies (in pool)	1,075,322	68,369	713,410	240,284	53,259	
Commercial Paper (in pool)	64,921	64,921				
Corporate Bonds	441		183	101	157	
Bond Mutual Funds	68,802		18,948	47,991	1,043	$ 820
	$ 1,310,632	$ 160,230	$ 781,607	$ 313,310	$ 54,665	$ 820

University foundations' investments in the amount of $149.487 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

In its Consolidated Investment Pool, as part of its endowment assets, the University has investments in one hundred eight limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2018, the estimated fair value of these assets is $570.794 million and total capital contributions, less returns of capital, equal $505.278 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. State University and Community College System

Credit Risk

The System is authorized by statute to invest funds in accordance with the State University and Community College System's investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2018, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

			Credit Quality Rating						
Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	AAA	AA	A	BBB	BB	B	Not Rated
U.S. Treasuries	$ 90,379	$ 90,379							
U.S. Agencies	117,962	320		$ 117,409					$ 233
Commercial Paper	2,486			2,486					
Corporate Bonds	11,125		$ 479	1,399	$ 5,982	$ 3,265			
Mutual Funds—Bonds	55,114		4,569	909	4,250	12,542	$ 600	$ 1	32,243
Total Debt Instruments	$ 277,066	$ 90,699	$ 5,048	$ 122,203	$ 10,232	$ 15,807	$ 600	$ 1	$32,476

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

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2018, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
U.S. Treasuries	$ 90,379	$ 10,484	$ 79,067	$ 828		
U.S. Agencies	117,962	37,089	76,299	3,688	$ 886	
Commercial Paper	2,486	2,486				
Corporate Bonds	11,125	1,589	6,369	3,091	76	
Mutual Funds—Bonds	55,114	1,780	6,245	11,496	3,701	$ 31,892
Total Debt Investments	$277,066	$ 53,428	$167,980	$19,103	$ 4,663	$ 31,892

The investments of certain foundations of the System are not included in these disclosures because these foundations utilize private-sector accounting standards. These foundations reported investments at fair value in the amount of $319.038 million.

3. Tennessee Housing Development Agency (THDA)

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

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

Credit Risk

The Agency's investments as of June 30, 2018, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	Credit Quality Rating AAA	AA	Not Rated[2]
U.S. Agency Coupon	$ 167,711		$ 14,412	$ 151,035	$ 2,264
U.S. Treasury Coupon	12,970	$ 12,970			
U.S. Agency Discount	187,487		30,000		157,487
Total Debt Instruments	$ 368,168	$ 12,970	$ 44,412	$ 151,035	$ 159,751

1. Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.
2. Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by S&P or Moody's.

Concentration of Credit Risk

At June 30, 2018, more than 5 percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 217,505	59.08
Federal Home Loan Mortgage Corporation	81,487	22.13
Federal National Mortgage Association	53,951	14.65

Interest Rate Risk

As of June 30, 2018, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 167,711	2.878
U.S. Treasury Coupon	12,970	2.704
U.S. Agency Discount	187,487	0.133
Total	$ 368,168	

NOTE 6

Fair Value Measurements

A. Primary Government

The fair value of assets held at June 30, 2018, represents the price that would be received were the asset to be sold or the liability transferred in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Investments Measured at Fair Value
(expressed in thousands)

Fund	Investment Aggregation	GAAP Hierarchy Level 1	GAAP Hierarchy Level 2	GAAP Hierarchy Level 3	NAV	Total Investments
Tennessee Retiree Group Trust	Common Stock	$22,697,100		$1,282		$ 22,698,382
	Government Asset Backed		$40,686	1,475		42,161
	Government Bonds	3,580,095	80,201			3,660,296
	Government Mortgage Backed		3,510,738	33,699		3,544,437
	Index Linked Government Bonds	1,554,001				1,554,001
	Limited Partnership Units			392,247	$4,347,715	4,739,962
	Real Estate	751,915		3,057,048	$794,563	4,603,526
	Government Agencies		56,316			56,316
	Corporate Bonds		$4,238,099	21,649		4,259,748
	Mutual Funds	2,040,287			$272,237	2,312,524
	Corporate Asset Backed		464,742	197,502		662,244
	Collateralized Mortgage Obligations		342,826	66,708		409,534
	Municipals		88,513			88,513
	Depository Receipts	47,776				47,776
	Preferred Stock	33,251	6,156			39,407
	Common Stock Units	5,970				5,970
	Rights			1,251		1,251
	Derivatives instruments			906		906
Education Fund	Mutual Funds	476,093				476,093
	Government Bonds	5,743				5,743
	Government Agencies		24,471			24,471
	Corporate Bonds		1,734			1,734
	Government Asset Backed		98			98
	Government Mortgage Backed		901			901
	Index Linked Government Bonds	1,057				1,057
	Municipals		144			144
	Collateralized Mortgage Obligations		32			32
	Corporate Asset Backed		57	1		58
	Corporate Mortgage Backed Security		505			505
Chairs of Excellence	Exchange Traded Funds	217,962				217,962
	Government Bonds	17,809				17,809
	Government Agencies		4,708			4,708
	Corporate Bonds		21,369			21,369
	Government Asset Backed		2,956			2,956
	Government Mortgage Backed		27,249			27,249
	Index Linked Government Bonds	31,974				31,974
	Municipals		4,367			4,367
	Collateralized Mortgage Obligations		972			972
	Corporate Asset Backed		1,718	36		1,754
College Savings Plans	Mutual Funds	147,986				147,986
Other private purpose trust funds	Mutual Funds	7,937				7,937
Intermediate Term Investment Fund	Agency Securities		61,418			61,418
Insurance Receiverships	Mutual Funds	224				224
	Government Issues	367				367
	Corporate Bonds		878			878
State Fund Investment Portfolios	Agency Securities		108,468			108,468
	Government Issues	107,017				107,017
Total Investments		$ 31,724,564	$ 9,090,322	$ 3,773,804	$ 5,414,515	$ 50,003,205

***Level 1*–**Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.

***Level 2*–**Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.

***Level 3*–**Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the Net Asset Value (NAV) per share have no readily determinable fair value and have been determined to be calculated consistent with FASB principals for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety are categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management developed a fair value committee that worked in conjunction with our custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes so to be represented in the table above.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

US Treasury Bill, Bonds, Notes and Futures classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Debt and debt derivative securities classified in Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 debt securities are valued using proprietary information, a single pricing source, or other unobservable inputs related to similar assets or liabilities.

Real estate investments classified in Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute ("MAI"), or its equivalent, every three (3) years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments in private mutual funds, traditional private equity funds, strategic lending funds and real estate funds that report using GAAP, the fair value, as well as the unfunded commitments, was determined using the prior quarter's NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.

The following table sets forth the additional disclosures of the TRGT's investments, which are stated at fair value based on the NAV (expressed in thousands), as a practical expedient, reported by the investment managers or general partners:

Investments measured at NAV	Strategy	Number of Funds	NAV	Remaining Life	Redemption Terms	Redemption Restrictions
Limited Partnership	Traditional private equity and strategic lending	106	$4,347,715	Various	N/A	Various transfer and sale restrictions
Mutual funds	International public equities	22	272,237	N/A	May redeem all or part of the shares with at least ten (10) days written notice	Redemptions may be distributed in cash, in-kind or a combination and are subject to further restrictions by the fund's trustees
Real Estate	Real estate commingled investments	29	794,563	N/A	N/A	Various transfer and sale restrictions

Traditional Private Equity and Strategic Lending: The private equity asset class is categorized into two component portfolios: traditional and strategic lending. Generally speaking, the types of private equity strategies include: venture capital, buyout, natural resource, secondaries, special situations, tactical, structured credit, and high yield debt. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the partnerships, distributions are received as underlying partnership investments are realized. Transfer or sales of the partnership interest are restricted over the life of the partnership. The TRGT has no plans to liquidate any of these investments.

International Public Equities using Mutual Funds: TRGT will invest in mutual funds as an efficient and cost-effective means to gain passive exposure to a specific sector, industry or country. As of June 30, 2018, TRGT has retained Baring International Investment Limited to facilitate an international equity investment strategy utilizing, in part, sector and country index mutual funds.

Real Estate Commingled Investments: The real estate asset class is comprised of two different investment types: direct investments and commingled investments. A commingled investment is a pooled investment vehicle comprised of real estate investments that is overseen by an external investment manager or general partner. Generally speaking, the commingled real estate investment strategies include: office, retail, industrial, multi-family, and diversified. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the pooled investment vehicle, distributions are received as underlying investments are realized. Transfer or sales of the interest are restricted over the life of the investment. The TRGT has no plans to liquidate any of these investments.

B. Component Units

University of Tennessee

The university categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2018 (expressed in thousands):

		Fair Value Measurements Using		
Investments and other assets by fair value level	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasuries	$ 112,907	$ 11,780	$ 101,127	
U.S. Agencies	1,075,341		1,075,341	
Corporate bonds	441		441	
Corporate commercial paper	64,921		64,921	
Total debt securities	1,253,610	11,780	1,241,830	
Equity securities				
Common stock	25,298	25,285		$ 13
Preferred stock, public	117	40	77	
Total equity securities	25,415	25,325	77	13
Pooled investment vehicles				
Exchange traded, open-end, closed-end funds	129,568	129,568		
Other open-end funds with published values	266,119	266,119		
Total pooled investment vehicles	395,687	395,687		
Other assets	21,185	44	10,889	10,252
Private capital investments				
Private equities	90,162			90,162
Private credit/debit	67,261			67,261
Private real assets	120,494			120,494
Private, other	4,483			4,483
Total private capital investments	282,400			282,400
Investments measured at the Net Asset Value (NAV)				
Pooled investment vehicles (other open-end funds)	127,892			
Limited partnerships	68,449			
Hedge funds, long/short equity	51,445			
Hedge funds, credit	50,242			
Hedge funds, diversified	129,867			
Total investments measured at NAV	427,895			
Total investments and cash equivalents	$ 2,406,192			

Debt securities –The fair value of the majority of the debt securities category at June 30, 2018, was determined based on Level 2 inputs. The university utilizes third-party pricing services and guidance provided by custodians and trading counterparties for fair value estimates of these investments. In addition, it takes into account the nature of the securities, trading activity, and availability of comparable securities in the marketplace.

Equity securities and pooled investment vehicles (exchange–traded or with published values)–These investment categories are comprised of common stock, preferred stock, limited partnerships, and funds, all of which are exchange-traded or with published values. The fair value of these assets at June 30, 2018, was primarily determined based on Level 1 inputs due to the transparent pricing provided by a securities exchange or published value.

Other assets–Level 3 inputs were utilized for the fair value calculations of this investment category, which contains real estate holdings of $2.976 million, separately invested portfolios of $7.268 million, and an annuity valued at $.008 million. Real estate was valued using various appraisal estimates, while the separately invested portfolios are managed externally for the benefit of the university. Pricing for the latter was provided by third parties. The annuity is priced by the sponsoring entity.

Private capital investments–The fair value of the private capital category at June 30, 2018, was determined based on Level 3 inputs. Valuation methods such as the income method and/or multiple analysis are examples of those commonly utilized by managers to determine the fair value of these assets and are typically unobservable to the university. The university's private capital investments have $188.674 million of unfunded commitments at June 30, 2018.

Annuities and life income payable–The university's liability under split interest agreements (annuities and life income payable) is also reported at fair value. The valuation of the liability is based on unobservable inputs (Level 3 of the fair value hierarchy). The university has split interest agreements that allow donors to make contributions that provide for certain payments to specified beneficiaries during their lifetime. The amount payable to the donors is recorded at the present value of the estimated future payments to be made under these agreements. The university's annuities and life income payable at June 30, 2018, was $24 million.

Investments measured at net asset value (NAV)–The university holds shares or interest in investment companies or vehicles for which the fair value is measured on a recurring basis using net asset value per share (or its equivalent). This category is a combination of open-end mutual funds and hedge funds. The open-end fund holdings implement strategies that are primarily net long or long-only investments in a variety of markets including the global equity markets, foreign sovereign and corporate bonds, real estate, and energy. The hedge fund holdings are divided into three sub-categories. The first is long/short equity, a strategy that typically invests in common stock by both buying shares and selling shares short. These strategies work across the global equity markets. The second category, entitled credit, focuses almost exclusively on fixed income instruments, which can include various types of bonds, derivatives, and loans. These strategies also invest in multiple jurisdictions around the world. The final category, diversified, is comprised of strategies that often overlap in approach and frequently employ more than one strategy within a single vehicle.

The table below provides a summary of the liquidity terms and conditions of those investments with value measured using net asset value (expressed in thousands):

Investments measured at NAV	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Open-end funds	$127,892		daily, semi-annually, monthly, quarterly	1 day- 90 days
Hedge funds, long/short equity	51,445		quarterly, annually	30 days- 90 days
Hedge funds, credit	50,242		quarterly - annually	45 days- 120 days
Hedge funds, diversified*	129,867		monthly, quarterly, annually	3 days- 90 days
Limited partnerships	68,449	15,856	none, monthly, quarterly	30 days- 90 days

*At fiscal year-end, $19.7 million of the investments at NAV were still within the initial lock-up period.

State University and Community College System

The system categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The system has the following recurring fair value measurements as of June 30, 2018 (expressed in thousands):

Investments and other assets at fair value level	6/30/2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasuries	$ 90,379	$ 88,391	$ 1,988	
U.S. Agencies	117,962	63,176	54,786	
Corporate bonds	11,125	6,605	4,520	
Mutual bond funds	16,679	16,679		
Other	6,678	4,192	2,486	
Total debt securities	242,823	179,043	63,780	
Equity securities				
Coorporate stock	1,529	1,483		$ 46
Mutual equity funds	28,825	28,825		
Real estate	5,100			5,100
Equity REITs	4,893		4,893	
Other	11,769	11,509		260
Total equity securities	52,116	41,817	4,893	5,406
Other assets				
Beneficial interest in split-interest agreement	3,426	3,426		
Total other assets	3,426	3,426		
Investments measured at the Net Asset Value (NAV)				
Mutual bond funds	38,435			
Mutual equity funds	104,902			
Private equities	5,548			
Hedge funds	9,579			
Natural resources	865			
Other	2,649			
Total investments measured at NAV	161,978			
FASB foundations' investments at fair value	245,363	131,694	62,928	50,741
FASB foundations' investments at NAV	73,675			
Total FASB foundations' investments	319,038			
Total investments and cash equivalents	$ 779,381			

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Assets classified in Level 2 of the fair value hierarchy are valued at amounts provided by commercial pricing services which based their valuations on the bid-ask spread price in an active market (U.S. agencies) and Wall Street Journal quotes and statements from investment companies (CMO). Assets classified in Level 3 are valued using the net present value method.

The valuation method for assets and liabilities measured at the net asset value per share (or its equivalent) is presented on the following table (expressed in thousands):

Investments measured at NAV	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual bond funds	$ 38,435		Daily, monthly	5 business days
Mutual equity funds	104,902		Daily, monthly	5- 30 business days
Private equities	5,548	$ 2,290	not applicable	not applicable
Hedge funds	9,579		Daily to quarterly	1- 90 calendar days
Natural resources	865	180	not applicable	not applicable
Other	2,649		Semi-monthly	65 calendar days

The assets of the multi-strategy bond fund are allocated among strategies in proportion that Commonfund Asset Management Company considers beneficial for a fully diversified fixed income portion of an educational endowment. The assets of the multi-strategy equity fund are allocated among strategies in proportions that Commonfund Asset Management Company considers beneficial for a fully diversified public equity portion of an educational endowment. There are currently no redemption restrictions on the multi-strategy equity and bond funds, although they could be put in place in extraordinary circumstances, such as any period during which the New York Stock Exchange is closed other than customary weekend or holiday closings, or during which trading thereon is restricted or there exists any emergency affecting the practicability of disposal of portfolio securities of the fund or the practicability of determining net asset value. It is not probable that the system will sell an investment for an amount different from the NAV per share.

Tennessee Housing Development Agency

The agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The agency has the following recurring fair value measurements as of June 30, 2018 (expressed in thousands):

		Fair Value Measurements Using		
Investments by fair value level	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Government agencies	$ 167,711		$ 167,711	
Government bonds	$ 12,970	$ 12,970		
Short term bills and notes	$ 187,487		187,487	
Total debt securities	$ 368,168	$ 12,970	$ 355,198	

Assets classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical assets of those securities. Assets classified in Level 2 of the fair value hierarchy are valued using prices quoted in active markets for similar assets of those securities.

NOTE 7

Receivables

Receivables at June 30, 2018, for the state's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts including Due From Other Governments	Taxes and Certain Other Licenses, Fees, and Permits	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:						
General	$ 830,674	$ 1,101,643		$ 1,932,317	$ (124,762)	$ 1,807,555
Education	109,178	590,946	130	700,254	(46,052)	654,202
Highway	133,610	87,276	1,646	222,532	(239)	222,293
Capital projects	2,723			2,723		2,723
Nonmajor governmental funds	8,383	23,153	1,392	32,928	(545)	32,383
Internal service funds	11,763		813	12,576	(319)	12,257
Total-governmental activities	$ 1,096,331	$ 1,803,018	$ 3,981	$ 2,903,330	$ (171,917)	$ 2,731,413
Amounts not expected to be collected within one year	$ 2,831	$ 144,347				$ 147,178
Business-type activities:						
Employment security	$ 150,457	$ 60,297	$ 5,205	$ 215,959	$ (85,349)	$ 130,610
Nonmajor enterprise funds	4,539			4,539	(211)	4,328
Total-business-type activities	$ 154,996	$ 60,297	$ 5,205	$ 220,498	$ (85,560)	$ 134,938

NOTE 8

Capital Assets

A. Primary Government

Capital asset activity for the year ended June 30, 2018, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,333,917	$ 69,980	$ (3,173)	$ 2,400,724
Infrastructure	24,132,251	588,555	(33,417)	24,687,389
Construction in progress	1,051,208	821,272	(899,196)	973,284
Software in development	114,506	117,981	(44,005)	188,482
Capital assets, being depreciated:				
Structures and improvements	2,496,895	467,655	(166,968)	2,797,582
Machinery and equipment	1,150,630	194,186	(99,489)	1,245,327
Total capital assets	31,279,407	2,259,629	(1,246,248)	32,292,788
Less accumulated depreciation for:				
Structures and improvements	(1,187,328)	(88,565)	42,621	(1,233,272)
Machinery and equipment	(778,427)	(109,353)	60,840	(826,940)
Total accumulated depreciation	(1,965,755)	(197,918)	103,461	(2,060,212)
Governmental activities capital assets, net	$ 29,313,652	$ 2,061,711	$ (1,142,787)	$ 30,232,576

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

Governmental activities:	
General government	$ 35,974
Education	3,623
Health and social services	25,762
Law, justice and public safety	40,342
Recreation and resource development	11,731
Regulation of business and professions	1,176
Transportation	23,623
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	55,687
Total depreciation expense – governmental activities	$ 197,918

Highway Construction Commitments — At June 30, 2018, the Department of Transportation had contractual commitments of approximately $670 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($647.4 million) and general obligation bond proceeds ($22.6 million).

B. Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2018, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Component Units:				
Capital assets, not being depreciated:				
Art and collections	$ 12,498	$ 121		$ 12,619
Land	246,189	8,675	$ (1,486)	253,378
Construction in progress	707,854	297,017	(505,539)	499,332
Capital assets, being depreciated:				
Infrastructure	641,298	114,615	(760)	755,153
Structures and improvements	6,057,074	459,823	(18,822)	6,498,075
Machinery and equipment	1,089,288	74,298	(45,117)	1,118,469
Total capital assets	8,754,201	954,549	(571,724)	9,137,026
Less accumulated depreciation for:				
Infrastructure	(309,862)	(31,405)	489	(340,778)
Structures and improvements	(2,228,098)	(133,142)	10,356	(2,350,884)
Machinery and equipment	(727,531)	(77,872)	42,842	(762,561)
Total accumulated depreciation	(3,265,491)	(242,419)	53,687	(3,454,223)
Component Units capital assets, net	$ 5,488,710	$ 712,130	$ (518,037)	$ 5,682,803

The University of Tennessee foundations and certain State University and Community College System foundations utilize FASB standards; therefore, only the June 30, 2018, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Art and collections	$ 624
Land	14,066
Total capital assets, not being depreciated	14,690
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	134,559
Machinery and equipment	10,143
Total capital assets being depreciated	145,711
Less: total accumulated depreciation	(89,871)
Total capital assets, being depreciated, net	55,840
Total capital assets, net	$ 70,530

NOTE 9

Interfund Balances, Payables and Receivables

A. Interfund Balances

Interfund balances at June 30, 2018, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

Due From

		General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Employment Security	Internal Service Funds	Total
	General		$ 199,863		$ 931	$ 116	$ 1,407	$ 63	$202,380
	Education	$ 5,361							5,361
	Capital projects	2,810		$ 73		70		8,222	11,175
D U E	Nonmajor governmental funds					91			91
T	Employment security	402							402
O	Internal service funds	1,295				29		5	1,329
	Fiduciary funds	9,497	464	1,160		373		521	12,015
	Total	$ 19,365	$ 200,327	$ 1,233	$ 931	$ 679	$ 1,407	$ 8,811	$232,753

The $199.8 million due to the general fund from the education fund resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund.

B. Component Units Payables

Component units' accounts payable to the primary government at June 30, 2018, consisted of the following (expressed in thousands):

Payable From Component Units

		Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Nonmajor Component Units	Total
	PRIMARY GOVERNMENT:						
P	General			$ 429	$ 126	$ 5	$ 560
A	Education		$ 113,598	263			113,861
Y	Capital Projects			4,767	114		4,881
A B	Nonmajor governmental funds				1,203		1,203
L	Internal service funds						
E	Fiduciary funds	$ 91		4,788	5,109	155	10,143
T O							
	Total	$ 91	$ 113,598	$ 10,247	$ 6,552	$ 160	$ 130,648

C. Component Units Receivables

Component units' accounts receivable from the primary government at June 30, 2018 consisted of the following (expressed in thousands):

Receivable From PRIMARY GOVERNMENT							
Receivable to COMPONENT UNITS:	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Total
Tennessee Housing Development Agency	$ 27						$ 27
State University and Community College System	8,478	$ 8,418	$ 515	$ 2,467	$ 1,322	$ 21	21,221
University of Tennessee	12,239	3,639	645	15,375	1,784	125	33,807
Nonmajor component units	1,723						1,723
Total	$ 22,467	$ 12,057	$ 1,160	$ 17,842	$ 3,106	$ 146	$ 56,778

NOTE 10

Interfund Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2018, are as follows (expressed in thousands):

	Transfers Out							
Transfers In	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Total
General			$ 2,332		$ 55,750	$ 957		$ 59,039
Education	$ 1,114,597							1,114,597
Highway	85,000				83,800			168,800
Capital Projects	630,916	$ 39,880			8,901			679,697
Nonmajor Governmental Funds	4,500			$1,900				6,400
Sewer Treatment	1,802							1,802
Nonmajor Enterprise Funds	3,870							3,870
Internal Service Funds	165,056						$ 256	165,312
Private Purpose Trust Funds	484							484
Total	$ 2,006,225	$ 39,880	$ 2,332	$1,900	$ 148,451	$ 957	$ 256	$ 2,200,001

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due and (3) use unrestricted resources from the general fund to finance various programs accounted for in other funds in accordance with statute or budgetary authorizations.

In the fiscal year ended June 30, 2018, the general fund transferred $2 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $1.1 billion to subsidize the activities of the education fund, $630.9 million for capital outlay expenditures, $85 million for highway expenditures, $151.2 million to provide appropriations to internal service funds, $13.9 million for interfund services used, $7.2 million to provide appropriations to finance various programs in other funds, and $3.5 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $83.8 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The Facilities Revolving fund, an internal service fund, transferred $115.7 million to the full accrual ledger for the carrying amount of buildings and equipment items. In addition, Strategic Technology Solutions, an internal service fund, transferred to the full accrual ledger $15.2 million for the book value of equipment and $67 thousand for a building improvement. These transfers caused the transfers-in and transfers-out to not match the fund level statements.

NOTE 11

Leases

A. Lease Obligations

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

For the Year(s) Ended June 30	Noncancelable Operating Leases
2019	$ 18,897
2020	16,701
2021	13,742
2022	13,142
2023	11,714
2024-2028	30,202
Total minimum payments required	$ 104,398

Expenditures for rent under leases for the year ended June 30, 2018, amounted to $84.6 million.

Capital lease obligations — The state leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 11 years.

The effective interest rates for these leases range from 0.63 percent to 32.12 percent. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 158
Buildings	$ 37,821	
Less: accumulated depreciation	(8,751)	29,070
		$ 29,228

At June 30, 2018, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Executory Costs	Governmental Activities Lease Obligation Payable
2019	$ 1,541	$ 1,156	$ 791	$ 3,488
2020	1,576	1,145	811	3,532
2021	1,641	1,128	831	3,600
2022	1,693	1,104	852	3,649
2023	1,776	1,065	873	3,714
2024-2028	8,424	3,983	4,706	17,113
2029	1,248	162	807	2,217
Total	$ 17,899	$ 9,743	$ 9,671	$ 37,313
Less - interest				(9,742)
Less - executory costs				(9,671)
Present value of net minimum lease payments				$ 17,900

B. Lease Receivables

Capital lease receivable — 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.

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

Minimum future lease payments to be received as of June 30, 2018 (expressed in thousands):

Year Ended June 30	Total
2019	$ 657
2020	641
2021	626
2022	411
2023	404
2024-2028	1,916
2029-2033	1,703
Total minimum future lease payments	$ 6,358
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 6,358
Less: executory costs	(942)
Plus: unamortized loss on leases	3,105
Net investment in direct financing lease	$ 8,521

NOTE 12

Long-Term Liabilities

A. General Obligation Bonds

Bonds Payable at June 30, 2018, are shown below (expressed in thousands):

Governmental activities:	Amount
General obligation bonds, 2% to 5%, due in generally decreasing amounts of principal and interest from $110.2 million in 2019 to $8.1 million in 2038	$ 992,502
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $16.1 million in 2019 to $7.5 million in 2022	37,210
General obligation refunding bonds, 2009 Series D, 4.12% to 4.67%, principal and interest due in amounts from $2.7 million in 2019 to $2.7 million in 2022	9,618
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $8.4 million in 2019 to $187.8 thousand in 2026	35,360
General obligation refunding bonds, 2011 Series C, 2.68% to 3.53%, principal and interest due in amounts from $2.2 million in 2019 to $1.2 million in 2024	10,065
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $61.4 million in 2019 to $7.3 million in 2028	398,930
General obligation refunding bonds, 2012 Series C, 1.35% to 1.60%, principal and interest due in amounts from $11 million in 2019 to $7 million in 2020	17,665
General obligation refunding bonds, 2014 Series B, 5%, principal and interest due in amounts from $4 million in 2019 to $11.5 million in 2030	79,160
General obligation refunding bonds, 2015 Series B, 3% to 5%, principal and interest due in amounts from $12.3 million in 2019 to $14.3 million in 2029	96,490
General obligation refunding bonds, 2016 Series B, 5%, principal and interest due in amounts from $6.1 million in 2019 to $9.6 million in 2032	122,105
General obligation refunding bonds, 2016 Series C, .97% to 2.67%, principal and interest due in amounts from $2.7 million in 2019 to $2.5 million in 2032	63,275
General obligation refunding bonds, 2018 Series B, 4%, principal and interest due in amounts from $1.1 million in 2019 to $7.1 million in 2024	35,415
Total bonds outstanding	1,897,795
Plus unamortized bond premium	262,562
Total bonds payable	$ 2,160,357

General obligation bonds issued during the year ended June 30, 2018:

April 2018	Bond Series 2018A in the amount of $154.4 million Refunding Bond Series 2018B in the amount of $35.4 million

The April 2018, bond series 2018A, general obligation bond issuance in the amount of $154.4 million represents tax-exempt bonds maturing serially through 2038 at a 5 percent interest rate. The bonds were sold at a premium of $26.1 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In April 2018, the state issued general obligation refunding bonds, series 2018B, in the amount of $35.4 million to provide for the current refunding of $37.1 million of general obligation bonds issued in series 2010B. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds has been removed from the government wide statement of net position.

The net carrying amount of the refunded bonds was $37.8 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $253 thousand. This difference, reported in the accompanying financial statements as deferred inflows of resources, is being charged to operations through 2024 using the straight line method. The state completed the refunding to reduce its total debt service payments over 6 years by $1.6 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $1.5 million.

Prior-Year Defeasance of Debt
In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the assets held in non-state administered trust accounts and the liability for the defeased bonds are not included in the state's financial statements. The entirety of these trust account assets are covered under trust agreements where the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not strictly prohibited. On June 30, 2018, $185.2 million of bonds outstanding are considered defeased.

B. General Obligation Commercial Paper

Governmental activities commercial paper payable at June 30, 2018, is shown below (expressed in thousands).

	Commercial Paper
General obligation commercial paper, interest rates ranging from .94% to 1.55% for tax exempt and 1.15% to 2.35% for taxable, varying maturities	$165,176

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

The state has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on July 1, 2021. At June 30, 2018, $165.2 million of commercial paper was outstanding ($118.5 million tax exempt and $46.7 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.

C. Pledged Revenues/Collateralized Borrowing

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

The total amount of tax credits to be taken to reduce the liability for the use of the aforementioned tax credits is $24.4 million as of June 30, 2018. For the current year, gross premium tax revenue totaled $950.2 million and credits of $13.9 million were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $844.9 million per year over the last five years.

General obligation bonds and commercial paper constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state; and a charge and lien upon all fees, taxes and other revenues and funds allocated to the state's general fund, debt service fund and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. The charge and lien on fees, taxes and other revenues in favor of the bonds is subject to a specific pledge of "Special Taxes" in favor of state general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of the annual proceeds of a tax of five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon upon petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be pledged the full faith and credit of the state; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the state. The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter, or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013, this pledge of "Special Taxes" will expire. For fiscal year 2018, $1.34 billion or 64.2 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds issued prior to July 1, 2013.

D. Debt Service Requirements to Maturity

Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2018, are as follows (expressed in thousands):

For the Year(s)	General Obligation Bonds		Total
Ended June 30	Principal	Interest	Requirements
2019	$ 159,180	$ 78,919	$ 238,099
2020	155,765	74,212	229,977
2021	149,000	67,197	216,197
2022	149,305	60,261	209,566
2023	141,345	53,493	194,838
2024-2028	639,300	183,676	822,976
2029-2033	376,135	69,323	445,458
2034-2038	127,765	13,076	140,841
	$ 1,897,795	$ 600,157	$ 2,497,952

E. General Obligation Bonds Authorized and Unissued

A summary of general obligation bonds authorized and unissued at June 30, 2018, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued 07/01/17	Authorized	Canceled	Reclassified	Unissued 06/30/18
Highway	$ 808,900	$127,000	$ 111,100		$ 824,800
Higher Education	370,329		155,687	$ (15,459)	199,183
Environment & Conservation	9,755		3,558	(6,197)	-
Economic and Community Development	22,000			(22,000)	-
General government	202,652	88,295	34,036	43,656	300,567
Totals	$1,413,636	$215,295	$ 304,381	$ -	$1,324,550

F. Changes in Long-Term Liabilities

A summary of changes in long-term obligations for the year ended June 30, 2018 follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,355,837	$ 323,136	$ (353,440)	$ 2,325,533	$ 159,180
Capital leases	19,394		(1,494)	17,900	1,541
Compensated absences	263,079	170,922	(149,395)	284,606	98,222
Claims and judgments	184,174	46,475	(41,872)	188,777	34,050
Pollution remediation	62,013	33,398	(33,377)	62,034	4,205
Other postemployment benefits	1,621,099	120,803	(176,699)	1,565,203	93,297
Pension	1,263,959	1,272,927	(1,287,709)	1,249,177	
Other long-term liabilities	38,300		(13,912)	24,388	
Governmental activities Long-term obligations	$ 5,807,855	$ 1,967,661	$ (2,057,898)	$ 5,717,618	$ 390,495
Business-type activities					
Deposits payable	$ 10,506	$ 1,000	$ (127)	$ 11,379	
Business-type activities Long-term obligations	$ 10,506	$ 1,000	$ (127)	$ 11,379	

Governmental activities include all governmental funds and internal service funds. Typically, agencies accounted for in the general fund, internal service funds, and special revenue funds liquidate compensated absences, OPEB and pension obligations. Claims and judgments are obligations of the highway fund (special revenue fund), risk management fund (internal service fund) and the general fund. Typically, pollution remediation is liquidated from the general fund and highway fund.

NOTE 13

Payables

Payables as of June 30, 2018, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 858,680	$ 84,802	$ 32	$ 110,857	$ 235,618	$ 1,289,989
Education	17,138	5,421	2	227,486	252	250,299
Highway	124,357	10,028		81,893		216,278
Capital projects	47,558			19,028		66,586
Nonmajor governmental funds	21,488	2,660	28,640	32,049	4	84,841
Internal service funds	98,449	4,067	2,551	137	69	105,273
Total—governmental activities	$ 1,167,670	$ 106,978	$ 31,225	$ 471,450	$ 235,943	$ 2,013,266
Business-type activities:						
Employment security	$ 209			$ 30,880	$ 5,694	$ 36,783
Sewer treatment loan			$ 95			95
Nonmajor enterprise funds	56,077		47	44	1	56,169
Total—business-type activities	$ 56,286		$ 142	$ 30,924	$ 5,695	$ 93,047

NOTE 14

Governmental Fund Balances

Balances as of June 30, 2018, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund			
General operations:			
Legislature	$ 3		$ 34,003
Constitutional offices		$ 19,496	133,931
Administrative services		41,872	758,266
Children's services	20	243	3,436
Public health	30,600	84,150	403,530
Human services	10,037	3,896	55,249
Business and industry development	3,269	1,374	427,330
Judicial	16,511	11,263	4,250
Natural resources	164	29,161	16,360
Public safety		23,781	66,651
Agriculture		648	35,522
Employment and business regulation	12,449	151,464	1,380
Other	148	4,841	9,181
Total general fund	$ 73,201	$ 372,189	$ 1,949,089
Education Fund			
After school program	$ 27,804		
Lottery for education	178,887		
Energy efficient school initiative	1,927		
TN Promise Scholarship Endowment Fund	151,005		
Other	817	$ 8,370	$ 50,111
Total education fund	$ 360,440	$ 8,370	$ 50,111
Highway Fund			
State matching	$ 711,071		
Railway, aeronautics, and waterway program		$ 139,363	
State aid		83,891	
Future highway projects			$ 37,644
Railroad inspection		2,855	
Aeronautics Economic Development			30,000
Other			44,579
Total highway fund	$ 711,071	$ 226,109	$ 112,223
Capital Projects Fund			
Total capital projects fund	$ 53,771		$ 1,419,634
Nonmajor Governmental Funds			
Debt service			$ 14,584
Chairs of excellence	$ 232,853		
Criminal injuries		$ 7,492	
Wildlife resources	39,799	10,966	
Underground storage tanks	51,416	97	
Enhanced emergency 911	48,176	4,308	
Environmental protection		33,902	
Solid and hazardous waste	49	14,404	
Parks acquisition		44,593	
Other	10,397	29,244	
Total nonmajor governmental funds	$ 382,690	$ 145,006	$ 14,584

Budget Stabilization Accounts

The state maintains two stabilization accounts: (1) the General Fund's Reserve for Revenue Fluctuations ("Rainy Day") and (2) the Education Fund's General Shortfall Reserve (Lottery for Education Account).

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

The lesser of:
(a) At least 10 percent (10%) of the estimated growth in state tax revenues to be allocated to the General Fund and Education Fund.
(b) An amount to maintain the account at eight percent (8%) of the estimated tax revenues allocated to the General Fund and Education Fund.

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The General Fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $800 million as of June 30, 2018.

(2) Education Fund's General Shortfall Reserve Account. In accordance with Tennessee Code Annotated (TCA) 4-51-111, the state transferred one hundred million dollars ($100,000,000) from the Lottery for Education Account to the General Shortfall Reserve Account. The resources of this account may be used when the net lottery proceeds are not sufficient to meet the amount appropriated for educational programs and other purposes consistent with Article XI, Section 5 of the Constitution of Tennessee. In the event this account is drawn upon in any fiscal year, the account shall be brought back to its prior level in subsequent fiscal years.

In addition to the $100 million mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below $100 million. As of June 30, 2018, this account has a balance of $100 million and is reported as restricted fund balance in the Education Fund.

NOTE 15

Component Units

A. Component Units – Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2018 (expressed in thousands):

Condensed Statement of Net Position
Component Units

	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,542,690	$ 224,616	$ 1,095,087	$ 1,228,812	$ 356,959	$ 5,448,164
Due from primary government	27		21,221	33,807	1,723	56,778
Due from other component units					1,823,315	1,823,315
Restricted assets	194,595	45	994,356	1,658,239	225,405	3,072,640
Capital assets, net	2,876	3,176	2,914,853	2,785,576	46,852	5,753,333
Total assets	2,740,188	227,837	5,025,517	5,706,434	2,454,254	16,154,230
Deferred outflows	4,609		194,902	154,520	42,416	396,447
Liabilities						
Accounts payable and other current liabilities	79,456	110,801	245,145	285,448	24,393	745,243
Due to primary government	91	113,598	10,247	6,552	160	130,648
Due to other component units			720,374	1,102,941		1,823,315
Long-term liabilities	2,154,995	3,393	607,614	657,393	2,315,409	5,738,804
Total liabilities	2,234,542	227,792	1,583,380	2,052,334	2,339,962	8,438,010
Deferred inflows	365		29,207	47,691	2,734	79,997
Net position						
Net investment in capital assets	2,876	3,176	2,225,906	1,674,130	42,595	3,948,683
Restricted	438,516	45	728,782	1,612,907	21,733	2,801,983
Unrestricted	68,498	(3,176)	653,144	473,892	89,646	1,282,004
Total net position	$ 509,890	$ 45	$ 3,607,832	$ 3,760,929	$ 153,974	$ 8,032,670

Condensed Statement of Activities
Component Units

	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Nonmajor Component Units	Total
Expenses	$ 428,947	$1,621,828	$ 2,655,325	$ 2,331,885	$ 296,316	$ 7,334,301
Program Revenues						
Charges for services	110,587	1,620,509	990,611	837,354	141,636	3,700,697
Operating grants and contributions	319,876	32	884,898	963,141	8,045	2,175,992
Capital grants and contributions			83,526	94,515		178,041
Total program revenues	430,463	1,620,541	1,959,035	1,895,010	149,681	6,054,730
Net program revenues (expense)	1,516	(1,287)	(696,290)	(436,875)	(146,635)	(1,279,571)
General Revenues						
Payments from primary government			798,593	593,141	101,653	1,493,387
Unrestricted grants and contributions			29,893	105	9,731	39,729
Unrestricted investment earnings	188	1,294	16,713	2,477	715	21,387
Miscellaneous			(4,667)	14,186		9,519
Total general revenues	188	1,294	840,532	609,909	112,099	1,564,022
Contributions to permanent funds			12,555	68,026		80,581
Change in net position	1,704	7	156,797	241,060	(34,536)	365,032
Net Position- July 1	508,186	38	3,451,035	3,519,869	188,510	7,667,638
Net Position - June 30	$ 509,890	$ 45	$ 3,607,832	$ 3,760,929	$ 153,974	$ 8,032,670

Significant transactions between the major component units–State University and Community College System, 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 $808 million were made to the State University and Community College System and $593 million to UT.
- Capital project expenditures in the amount of $93.9 million were made for the State University and Community College System and $87.6 million to UT in the form of expenditures in the capital projects fund for projects at these school systems.
- The State University and Community College System paid the primary government $33.8 million to reimburse the state for projects that were not a part of the capital appropriations.
- The TELC generated net lottery proceeds of $406.5 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 State University and Community College System to finance certain capital projects. At June 30, 2018, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
State University and Community College System	$ 29,469	$ 686,696
University of Tennessee	39,472	1,056,650
Total	$ 68,941	$ 1,743,346

B. Major Component Units – Long-Term Debt

Tennessee Housing Development Agency (THDA)
Bonds Payable at June 30, 2018, is shown below (expressed in thousands):

Homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 5.7%, due in amounts of principal and interest ranging from $113 million in 2019 to $10.1 million in 2049	$ 2,089,025
Plus unamortized bond premium	39,721
Less unamortized bond discount	(34)
Total bonds payable	$ 2,128,712

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

Bond sales during the year ended June 30, 2018, included the following issues:

- September 2017—Residential Finance program bonds of $99.9 million
- December 2017— Residential Finance program bonds of $99.9 million
- March 2018—Residential Finance program bonds of $99.9 million
- June 2018—Residential Finance program bonds of $160 million

Redemption of Bonds and Notes
During the year ended June 30, 2018, bonds were retired at par before maturity in the Homeownership Program in the amount of $62,025,000, in the Housing Finance Program in the amount of $55,915,000, and in the Residential Finance Program in the amount of $144,045,000. The respective carrying values of the bonds were $62,672,676, $56,543,851, and $148,217,359. This resulted in revenue to the Homeownership Program of $647,676, to the Housing Finance Program of $628,851, and to the Residential Finance Program of $4,172,359.

On June 27, 2017, the agency issued $175,000,000 in Residential Finance Program Bonds, Issue 2017-2. On July 1, 2017, the agency used $23,110,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $23,110,000 early redemption). The carrying amount of these bonds was $23,217,325. The refunding increased the agency's debt service by $7,948,844 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $848,929.

On December 19, 2017, the agency issued $99,900,000 in Residential Finance Program Bonds, Issue 2017-4. On January 1, 2018, the agency used $11,460,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $11,460,000 early redemption). The carrying amount of these bonds was $11,460,000. The refunding reduced the agency's debt service by $4,972,339 over the next 16 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,364,905.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2018, are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2019	$ 45,460	$ 67,559	$ 113,019
2020	78,775	69,483	148,258
2021	85,160	67,472	152,632
2022	81,740	65,162	146,902
2023	78,190	62,888	141,078
2024-2028	390,215	277,914	668,129
2029-2033	393,280	212,378	605,658
2034-2038	410,000	140,523	550,523
2039-2043	359,090	66,736	425,826
2044-2048	157,285	15,398	172,683
2049	9,830	273	10,103
	$ 2,089,025	$1,045,786	$ 3,134,811

C. Nonmajor Component Units – Long-Term Debt

Tennessee Local Development Authority (TLDA)
Bonds Payable at June 30, 2018, is shown below (expressed in thousands):

Revenue bonds, 4% to 4.38%, due in generally decreasing amounts of principal and interest from $595 thousand in 2019 to $21 thousand in 2029	$ 2,465
Plus unamortized bond premium	65
Less unamortized bond discount	(9)
Total bonds payable	$ 2,521

The revenue bonds listed above are not obligations of the state. They are secured by pledges of resources from

the facilities to which they relate and by certain other revenues, fees, and assets of TLDA.
Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2019	$ 495	$ 100	$ 595
2020	435	81	516
2021	285	63	348
2022	220	52	272
2023	230	43	273
2024-2028	780	75	855
2029	20	1	21
	$ 2,465	$ 415	$ 2,880

Tennessee State School Bond Authority (TSSBA)
Bonds and Revolving Credit Facility Payable at June 30, 2018, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.9%, due in decreasing amounts of principal and interest from $143.6 million in 2019 to $9.5 million in 2048	$ 1,990,910
Plus unamortized bond premium	217,139
Less unamortized bond discount	(46)
Total bonds payable	$ 2,208,003
Revolving credit facility, interest rates ranging from 1.24% to 2.51%, varying maturities	$ 95,299

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

Bond sales during the year ended June 30, 2018, included the following issues:

- September 2017—Bond Series 2017A in the amount of $247.5 million
  Refunding Bond Series 2017B in the amount of $139.7 million
  Refunding Bond Series 2017C in the amount of $15.2 million

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2019	$ 73,080	$ 70,544	$ 143,624
2020	73,980	67,475	141,455
2021	101,280	64,432	165,712
2022	71,730	61,423	133,153
2023	72,955	58,254	131,209
2024-2028	737,160	243,882	981,042
2029-2033	295,015	168,297	463,312
2034-2038	258,360	104,174	362,534
2039-2043	214,365	47,268	261,633
2044-2048	92,985	8,741	101,726
	$ 1,990,910	$ 894,490	$ 2,885,400

The September 2017, bond series 2017 Series A tax-exempt bond proceeds in the amount of $247,570,000 were issued to redeem $128,306,796 of the Authority's tax-exempt revolving credit facility. The balance of the proceeds of the 2017 Series A were used to pay for new construction projects and various costs of issuance.

In September 2017, the Authority issued tax-exempt refunding bonds series B in the amount of $139,740,000 to current refund $2,185,000 of the 2007 Series A bonds and $37,705,000 of the 2007 Series C bond and to advance refund 69,240,000 of the 2010 Series A bonds, $47,930,000 of the 2012 Series A bonds, and $14,250,000 of the 2013 Series A bonds. The 2017 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $731,838.23. This amount is reported as a deferred inflow of resources and is being charged to operations through the year 2040. The 2017 Series B refunding resulted in a reduction of total debt service payments of $43,571,471.36 over the next 23 years and an economic gain (difference between the present values of the old and new debt service payments) of $38,803,368.89. The balance of the proceeds of the 2017 Series B were used to pay for new construction projects and various costs of issuance.

In September 2017, the Authority issued taxable refunding bonds series C in the amount of $15,150,000 to advance refund $14,845,000 of the 2010 Series B bonds. The 2017 Series C refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,421,652.14. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2040. The 2017 Series C refunding resulted in a reduction of total debt service payments of $3,250,351.46 over the next 23 years and an economic gain (difference between the present values of the old and new debt service payments) of $2,585,925.42. The funds provided for the advance refunding were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption price then due on the refunded bonds. The balance of the proceeds of the 2017 Series C were used to pay for new construction projects and various costs of issuance.

Revolving Credit Facility Program
The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the revolving credit facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed $300,000,000. The Revolving Credit Agreement was amended on March 20, 2017, with an expiration date of March 20, 2020. The Revolving Credit Agreement was further amended on April 25, 2018, with an expiration date of March 18, 2021. The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2018, $60,569,132 of tax-exempt revolving credit facility and $34,730,169 of taxable revolving credit facility loans were outstanding.

D. Component Units – Changes in Long-Term Liabilities

A summary of changes in long-term obligations for the year ended June 30, 2018, follows (expressed in thousands).

Changes in Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds and loans payable:					
University of Tennessee (UT) loans payable	$ 1,001,122	$ 375,919	$ (280,919)	$ 1,096,122	$ 39,472
State University and Community College System loans payable	722,557	156,513	(158,801)	720,269	29,569
Tennessee Housing Development Agency (THDA) bonds payable	1,980,456	469,982	(321,726)	2,128,712	87,945
Nonmajor component units bonds and loans payable	2,198,319	531,118	(419,358)	2,310,079	74,066
Total revenue bonds and loans payable	$ 5,902,454	$ 1,533,532	$ (1,180,804)	$ 6,255,182	$ 231,052
UT compensated absences	82,559	47,424	(48,325)	81,658	48,325
UT other postemployment benefits	110,384	127,163	(23,776)	213,771	14,172
UT pension	239,531	232,894	(242,134)	230,291	
UT due to grantors, unearned revenue and annuities payable	65,031	72,962	(85,544)	52,449	
State University and Community College System compensated absences	68,615	43,543	(40,630)	71,528	17,636
State University and Community College System other postemployment benefits	105,349	126,162	(23,172)	208,339	13,805
State University and Community College System pension	310,812	303,502	(314,536)	299,778	
State University and Community College System due to grantors, unearned revenue and other	21,961	7,210	(5,688)	23,483	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	6,501	78,563	(71,384)	13,680	2,719
THDA compensated absences	1,314	69	(17)	1,366	736
THDA other postemployment benefits	1,661	2,315	(398)	3,578	237
THDA pension	7,652	7,903	(7,896)	7,659	
TELC compensated absences	597	609	(602)	604	604
TELC unearned rent	3,059		(270)	2,789	134
Nonmajor component units compensated absences	1,445	585	(504)	1,526	850
Nonmajor component units other postemployment benefits	1,216	521	(295)	1,442	52
Nonmajor component units pension	2,239	2,558	(2,435)	2,362	
Component units long-term liabilities	$ 6,932,380	$ 2,587,515	$ (2,048,410)	$ 7,471,485	$ 330,322

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 State University and Community College System's 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 $79.224 million ($4.105 million due within one year).

E. Endowments – Component Units

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a six-year moving average of the fair value of endowment investments has been authorized for expenditure. In fiscal year 2016, the University began transitioning to a seven-year moving average, by adding one year's value to the moving average calculation. This transition will be complete with fiscal year 2019. The remaining amount after distributions, 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, 2018, net appreciation of $149.227 million is available to be spent, of which $146.120 million is restricted to specific purposes.

While some State University and Community College System 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, 2018, net appreciation of $17.777 million is available to be spent, of which $17.405 million is restricted to specific purposes.

NOTE 16

Risk Management

A. 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, 2018, included 120 local education agencies and one education cooperative, with 50,610 active teachers and support personnel enrolled in one of four health care options: premier preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), limited preferred provider organization plan (PPO), or the consumer driven health plan with health savings account (CDHP/HSA). The state does not retain any risk for losses by this fund.

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

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

The Teacher Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 21st Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

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):

	2018	2017
Unpaid claims at beginning of year	$ 32,195	$ 26,797
Incurred claims:		
Provision for insured events of the current year	494,805	481,195
Increase (decrease) in provision for insured events of prior years	(4,428)	5,110
Total incurred claims expenses	490,377	486,305
Payments:		
Claims attributable to insured events of the current year	462,033	449,051
Claims attributable to insured events of prior years	27,591	31,856
Total payments	489,624	480,907
Total unpaid claims at end of year	$ 32,948	$ 32,195

B. 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 8-27-401, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2018, included 62 counties, 172 municipalities and 131 quasi-governmental organizations, with 15,449 active employees maintaining coverage through one of four options: premier preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), limited preferred provider organization plan (PPO), or the consumer driven health plan with health savings account (CDHP/HSA). The state does not retain any risk for losses by this fund.

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

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

The Local Government Group Insurance Fund issues separate financial statements that may be obtained by writing the Department of Finance and Administration, Division of Accounts, 312 Rosa L. Parks Avenue, 21st Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

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

	2018	2017
Unpaid claims at beginning of year	$ 7,941	$ 5,953
Incurred claims:		
Provision for insured events of the current year	125,963	125,370
Increase (decrease) in provision for insured events of prior years	(528)	1,648
Total incurred claims expenses	125,435	127,018
Payments:		
Claims attributable to insured events of the current year	118,554	117,521
Claims attributable to insured events of prior years	7,332	7,509
Total payments	125,886	125,030
Total unpaid claims at end of year	$ 7,490	$ 7,941

C. Risk Management Fund

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, medical malpractice liability and workers' compensation. By statute, the maximum liability for general liability, automobile liability, and medical malpractice liability is $300 thousand per person and $1 million per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property, crime and fidelity coverage on the state's officials and employees, and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first $25 thousand of losses. The RMF is responsible for property losses for the annual aggregate deductible of $7.5 million for perils other than earthquake and flood. Purchased insurance coverage is responsible for losses exceeding the $7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of $10 million per occurrence. The maximum insurance coverage is $750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is $50 million per occurrence, except there is only $25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is $50 million per occurrence. Settled claims resulting from these risks have not exceeded maximum commercial insurance coverage in any of the past three fiscal years. All agencies and authorities of the state participate in the RMF, except for the Dairy Promotion Board and the Certified Cotton Growers' Organization. The Tennessee Education Lottery Corporation participates in the RMF for general liability purposes but is responsible for its own worker's compensation coverage.

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $134.18 million (discounted at 2.1 percent) at June 30, 2018 and $140.72 million (discounted at one percent) at June 30, 2017. The accrued liability for incurred property losses was $6.13 million at June 30, 2018 and $6.99 million at June 30, 2017. The changes in the balances of the claims liabilities during fiscal years 2017 and 2018 were as follows (expressed in thousands):

	2017-2018	2016-2017
Beginning of Fiscal Year Liability	$ 148,541	$ 150,018
Current Year Claims and Changes in Estimates	23,333	37,103
Claim Payments	(30,644)	(38,580)
Balance at Fiscal Year-End	$ 141,230	$ 148,541

The RMF held $189 million in cash at June 30, 2018 and $167 million in cash at June 30, 2017 that is designated for payment of these claims.

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

D. 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 8-27-204, all state employees and certain former employees with work related injuries are eligible to participate. Fund members at June 30, 2018, included 61,895 active employees enrolled in one of three options: premier preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the consumer driven health plan with health savings account (CDHP/HSA).

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

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

	2018	2017
Unpaid claims at beginning of year	$ 45,314	$ 41,000
Incurred claims:		
Provision for insured events of the current year	741,819	720,482
Increase (decrease) in provision for insured events of prior years	(4,481)	1,872
Total incurred claims expenses	737,338	722,354
Payments:		
Claims attributable to insured events of the current year	695,599	675,862
Claims attributable to insured events of prior years	40,644	42,178
Total payments	736,243	718,040
Total unpaid claims at end of year	$ 46,409	$ 45,314

E. CoverKids

The CoverKids program was launched in 2007 as part of the federally funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with Tennessee Code Annotated 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is placed on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 52,615 at June 30, 2018.

As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 99/1 ratio match. There are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. CoverKids members use the CoverKids Provider Network administered by BlueCare.

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

	2018	2017
Unpaid claims at beginning of year	$ 8,226	$ 7,640
Incurred claims:		
Provision for insured events of the current year	145,736	131,840
Increase (decrease) in provision for insured events of prior years	(156)	(1,179)
Total incurred claims expenses	145,580	130,661
Payments:		
Claims attributable to insured events of the current year	137,569	123,658
Claims attributable to insured events of prior years	8,266	6,417
Total payments	145,835	130,075
Total unpaid claims at end of year	$ 7,971	$ 8,226

NOTE 17

Other Postemployment Benefits (OPEB)

For the year ended June 30, 2018, primary government employers reported $1.6 billion of total OPEB liability, $76.4 million of deferred inflows of resources related to OPEB, $109.4 million of OPEB expense, and $93.3 million of deferred outflows of benefits paid subsequent to the measurement date. Component unit employers reported $426.6 million of total OPEB liability, $16.4 million of deferred inflows of resources related to OPEB, $32.7 million of OPEB expense, and $28.3 million of deferred outflows of benefits paid subsequent to the measurement date. These totals are aggregated for all OPEB plans the above employers participate in.

A. Closed Employee Group OPEB Plan

1. General information about the OPEB plan

Plan description−Employees of the state and of certain discretely presented component units, who were hired prior to July 1, 2015, are provided with pre-65 retiree health insurance benefits through the closed Employee Group OPEB Plan (EGOP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The component units participating in the plan are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System.

Benefits provided–The EGOP is offered to provide health insurance coverage to eligible retired and disabled participants and is the only postemployment benefit provided to eligible pre-65 participants. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201. All retirees and disabled employees of the primary government and certain component units, who are eligible and choose coverage, and who have not yet reached the age of 65 are enrolled in this plan. All members have the option of choosing between the partnership promise, no partnership promise, standard preferred provider organization (PPO) plan or the wellness healthsavings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members receive the same plan benefits, as active employees, at a blended premium rate that considers the cost of active and retired employees. This creates an implicit subsidy for the retirees. The retirees cost is then directly subsidized, by the employers, based on years of service. Therefore, retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. No subsidy is provided to retirees in the healthsavings CDHP plan. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees covered by benefit terms–At July 1, 2017, the following employees were covered by the benefit of the EGOP:

	Primary Government	Component Units
Inactive employees currently receiving benefit payments	5,923	2,051
Inactive employees entitled to but not yet receiving benefit payments	-	-
Active employees eligible for benefit payments	30,661	21,841
	36,584	23,892

Annually, an insurance committee, created in accordance with Tennessee Code Annotated (TCA) 8-27-201, establishes the required payments to the plan by member employers and employees. Active members of the Employee Group Insurance Plan and pre-age 65 retired members of the Employee Group OPEB Plan pay the same rate. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates.

<u>*2. Total OPEB Liability*</u>

The primary government and component unit employers total EGOP related OPEB liabilities of $915.9 million and $426.6 million, respectively, was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017.

Actuarial assumptions–The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	7.5 percent for 2018, decreasing annually to an ultimate rate of 3.83 percent for 2050 and later years.
Retiree's share of benefit-related costs	Members are required to make monthly contributions in order to maintain their coverage. For the purpose of this valuation a weighted average has been used with weights derived from the current distribution of members among plans offered.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012-June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a negative 3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate–The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in the Total OPEB Liability (expressed in thousands):

EGOP- Primary government	Total OPEB Liability (a)
Balances at June 30, 2016	$ 942,627
Changes for the year:	
Service cost	47,219
Interest	28,003
Changes of benefit terms	-
Differences between expected and actual experience	-
Change in assumptions	(40,226)
Benefit payments	(61,649)
Net changes	(26,653)
Balances at June 30, 2017	$ 915,974

EGOP- Component units	Total OPEB Liability (a)
Balances at June 30, 2016	$ 438,979
Changes for the year:	
Service cost	21,990
Interest	13,041
Changes of benefit terms	-
Differences between expected and actual experience	-
Change in assumptions	(18,733)
Benefit payments	(28,710)
Net changes	(12,412)
Balances at June 30, 2017	$ 426,567

Changes in assumptions–The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the total OPEB liability to changes in the discount rate–The following presents the primary government and component unit employers total OPEB liability related to the EGOP, as well as what the total OPEB liability would be if calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate (expressed in thousands):

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government	$ 979,539	$ 915,974	$ 856,399
Component units	456,168	426,567	398,823

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate–The following presents the primary government and component unit employers total OPEB liability related to the EGOP, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50 percent decreasing to 2.83 percent) or 1-percentage-point higher (8.50 percent decreasing to 4.83 percent) than the current healthcare cost trend rate (expressed in thousands):

	1% Decrease (6.50% decreasing to 2.83%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.83%)	1% Increase (8.50% decreasing to 4.83%)
Primary government	$ 824,588	$ 915,974	$ 1,023,148
Component units	384,008	426,567	476,477

3. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense–For the fiscal year ended June 30, 2018, the primary government recognized OPEB expense of $70.1 million. Component unit employers recognized OPEB expense of $32.7 million.

Deferred outflows of resources and deferred inflows of resources–For the fiscal year ended June 30, 2018, the primary government and component unit employers reported deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP from the following sources (expressed in thousands):

EGOP- Primary government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	35,197
Payments subsequent to the measurement date	60,696	-
Total	$ 60,696	$ 35,197

EGOP- Component units	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	16,392
Payments subsequent to the measurement date	28,266	-
Total	$ 28,266	$ 16,392

The amounts shown above for "payments subsequent to the measurement date" for the primary government and component units will be recognized as a reduction to total OPEB liability in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB paid by the EGOP will be recognized in OPEB expense as follows (expressed in thousands):

EGOP- Primary government	
For the year ended June 30:	
2019	$ (5,028)
2020	(5,028)
2021	(5,028)
2022	(5,028)
2023	(5,028)
Thereafter	(10,057)
EGOP- Component units	
For the year ended June 30:	
2019	$ (2,342)
2020	(2,342)
2021	(2,342)
2022	(2,342)
2023	(2,342)
Thereafter	(4,683)

In the tables above, for the primary government and component units, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

B. Closed Tennessee OPEB Plan

1. General information about the OPEB plan

Plan description–Employees of the state and of certain discretely presented component units, who were hired prior to July 1, 2015, are provided with post-65 retiree health insurance benefits through the closed Tennessee OPEB Plan (TNP) administered by the Tennessee Department of Finance and Administration. This plan is considered to be a multiple-employer defined benefit plan that is used to provide postemployment benefits other than pensions. However, for accounting purposes, this plan will be treated as a single-employer plan. This plan is closed to the employees of all participating employers that were hired on or after July 1, 2015. The component units participating in the plan are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the University of Tennessee, and the institutions that make up the State University and Community College System. The state is responsible for the liability related to both primary government and component unit retirees. This plan also serves eligible post-65 retirees of local education agencies and local governments. The state is a governmental nonemployer contributing entity for eligible post-65 retirees of local education agencies.

Benefits provided–The state offers the TNP to help fill most of the coverage gaps created by Medicare and is the only postemployment benefit provided to eligible post-65 retired and disabled employees of participating employers. This plan does not include pharmacy. In accordance with Tennessee Code Annotated (TCA) 8-27-209, benefits are established and amended by cooperation of insurance committees created by TCAs 8-27-201, 8-27-301, and 8-27-701. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The state contributes to the premiums of state and component unit retirees, as well as, to the premiums of eligible retirees of local education agencies based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

Employees covered by benefit terms–At July 1, 2017, the following employees of the state and certain component units were covered by the benefit terms of the TNP:

	Primary Government	Component Units
Inactive employees currently receiving benefit payments	10,622	6,551
Inactive employees entitled to but not yet receiving benefit payments	5,321	1,914
Active employees	32,628	24,049
	48,571	32,514

In accordance with TCA 8-27-209, the state insurance committees established by TCAs 8-27-201, 8-27-301, and 8-27-701 determine the required payments to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs are allocated to plan participants. Employers contribute towards employee costs based on their own developed policies. During the current reporting period, the State of Tennessee paid $4.4 million and $2.5 million to the TNP for OPEB benefits as they came due for primary government and component unit employees, respectively.

2. Total OPEB Liability

The state's total OPEB liabilities of $110.4 million and $66.9 million, related to benefits offered to primary government and component unit employees, respectively, was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2017.

Actuarial assumptions–The total OPEB liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	The premium subsidies provided to retirees in the Tennessee Plan are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012-June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are Blue Collar and adjusted with a 2 percent load for males and a negative 3 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate–The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Changes in the Total OPEB Liability (expressed in thousands):

TNP Primary government	Total OPEB Liability (a)
Balances at June 30, 2016	$ 118,044
Changes for the year:	
Service cost	2,560
Interest	3,455
Changes of benefit terms	-
Differences between expected and actual experience	-
Change in assumptions	(9,094)
Benefit payments	(4,588)
Net changes	(7,667)
Balances at June 30, 2017	$ 110,377

TNP Component units	Total OPEB Liability (a)
Balances at June 30, 2016	$ 71,531
Changes for the year:	
Service cost	1,551
Interest	2,093
Changes of benefit terms	-
Differences between expected and actual experience	-
Change in assumptions	(5,511)
Benefit payments	(2,780)
Net changes	(4,647)
Balances at June 30, 2017	$ 66,884

Changes in assumptions–The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

Sensitivity of the total OPEB liability to changes in the discount rate–The following presents the state's total OPEB liability for primary government and component unit retirees participating in the TNP, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate (expressed in thousands):

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Primary government	$ 124,968	$ 110,377	$ 97,976
Component units	75,726	66,884	59,370

<u>*3. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*</u>

OPEB expense–For the fiscal year ended June 30, 2018, the state recognized OPEB expense of $4.7 million and $2.9 million, for the primary government and component unit retirees, respectively.

Deferred outflows of resources and deferred inflows of resources–For the fiscal year ended June 30, 2018, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits in the TNP from the following sources (expressed in thousands):

TNP Primary government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	7,814
Payments subsequent to the measurement date	4,420	-
Total	$ 4,420	$ 7,814
TNP Component units	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	4,734
Payments subsequent to the measurement date	2,477	-
Total	$ 2,477	$ 4,734

The amounts shown above for "payments subsequent to the measurement date" for the primary government and component units will be recognized as a reduction to total OPEB liability in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows (expressed in thousands):

TNP Primary government	
For the year ended June 30:	
2019	$ (1,281)
2020	(1,281)
2021	(1,281)
2022	(1,281)
2023	(1,281)
Thereafter	(1,409)
TNP Component units	
For the year ended June 30:	
2019	$ (776)
2020	(776)
2021	(776)
2022	(776)
2023	(776)
Thereafter	(854)

In the tables above, for the primary government and component units, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

C. Special Funding Situation

The state is in a special funding situation and reports a liability, deferred outflows of resources, deferred inflows of resources, and expense related to its statutory requirement to contribute to the closed Teacher Group OPEB Plan (TGOP) and closed Tennessee OPEB Plan (TNP) for eligible retired and disabled teachers employed by local education agencies.

1. General information about the OPEB plan

Plan description–The Tennessee Department of Finance and Administration administers the TGOP as well as the TNP. Both plans are considered to be multiple-employer defined benefit plans that are used to provide postemployment benefits other than pensions. However, for accounting purposes, these plans will be treated as single-employer plans. All eligible pre-65 retired teachers and disability participants of local education agencies, who chose coverage, participate in the TGOP. All eligible post-65 retired teachers and disability participants of local education agencies, who choose coverage, participate in the TNP. The TNP also includes eligible retirees of the primary government, certain component units of the state, and certain local governmental entities. These plans are closed to the employees of all participating employers that were hired on or after July 1, 2015.

Benefits provided–The state offers the TGOP to provide health insurance coverage to eligible pre-65 retired teachers and disabled participants of local education agencies. The TNP is offered to help fill most of the coverage gaps created by Medicare for eligible post-65 retired teachers and disabled participants of local education agencies. This insurance coverage is the only postemployment benefit provided to retirees. The TNP does not include pharmacy. An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-301 establishes and amends the benefit terms of the TGOP. All members have the option of choosing between the partnership promise preferred provider organization (PPO), no partnership promise PPO, standard PPO, limited PPO, or the wellness healthsavings consumer-driven health plan (CDHP) for healthcare benefits. Retired plan members of the TGOP receive the same plan benefits as active employees at a blended premium rate that considers the cost of all participants. This creates an implicit subsidy for retirees. Individual employers may also provide a direct subsidy, according to their own policies and TCA. The state, as a governmental nonemployer contributing entity, provides a direct subsidy for eligible retirees' premiums, based on years of service. Therefore, retirees with 30 or more years of service will receive 45 percent; 20 but less than 30 years, 35 percent; and less than 20 years, 20 percent of the scheduled premium. No subsidy is provided for enrollees of the healthsavings CDHP. In accordance with TCA 8-27-209, benefits of the TNP are established and amended by cooperation of insurance committees created by TCAs 8-27-201, 8-27-301, and 8-27-701. Retirees and disabled employees of the state, component units, local education agencies, and certain local governments who have reached the age of 65, are Medicare eligible, and also receive a benefit from the Tennessee Consolidated Retirement System may participate in this plan. All plan members receive the same plan benefits at the same premium rates. Many retirees receive direct subsidies toward their premium cost; however, participating employers determine their own policy in this regard. The state, as a governmental nonemployer contributing entity contributes to the premiums of eligible retirees of local education agencies based on years of service. Therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. The TGOP and TNP are funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

An insurance committee, created in accordance with TCA 8-27-301, establishes the required payments to the TGOP by member employers and employees through the blended premiums established for active and retired employees. For the TNP, insurance committees, created in accordance with TCAs 8-27-201, 8-27-301, and 8-27-701, cooperate to establish the required payments to the plan by member employers and employees through the premiums established for retired members. Claims liabilities of the plans are periodically computed using actuarial and statistical techniques to establish premium rates. For the fiscal year ended June 30, 2018, the state paid $15 million and $10.7 million to the TGOP and TNP, respectively, for OPEB benefits as they came due.

Actuarial assumptions—The total OPEB liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	Graded salary ranges from 3.44 to 8.72 percent based on age, including inflation, averaging 4 percent
Healthcare cost trend rates	Health trend for the TGOP is 7.5 percent for 2018, decreasing annually to an ultimate rate of 3.75 percent for 2050 and later years. As it relates to the TNP, the premium subsidies provided to retirees are assumed to remain unchanged for the entire projection; therefore, trend rates are not applicable.

Unless noted otherwise, the actuarial demographic assumptions used in the June 30, 2017, valuations were the same as those employed in the July 1, 2017, Pension Actuarial Valuation of the Tennessee Consolidated Retirement System (TCRS). These assumptions were developed by TCRS based on the results of an actuarial experience study for the period July 1, 2012-June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the RP-2014 Healthy Participant Mortality Table for pre-retirement mortality and the RP-2014 Mortality Table for Annuitants for non-disabled post-retirement mortality, with mortality improvement projected to all future years using Scale MP-2016. Post-retirement tables are White Collar and adjusted with an 11 percent load for males and a negative 2 percent load for females. Mortality rates for impaired lives are the same as those used by TCRS and are taken from a gender distinct table published in the IRS Ruling 96-7 for disabled lives with a 10 percent load.

Discount rate—The discount rate used to measure the total OPEB liability was 3.56 percent. This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Fidelity 20-Year Municipal GO AA index.

Sensitivity of proportionate share of collective total OPEB liability to changes in the discount rate—The following presents the state's proportionate share of the collective total OPEB liability for the special funding situations related to the TGOP and TNP, as well as what the share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate (expressed in thousands):

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Share of collective total OPEB liability - TGOP	$ 275,563	$ 256,924	$ 239,186
Share of collective total OPEB liability - TNP	248,783	215,044	187,451

Sensitivity of proportionate share of collective total OPEB liability to changes in the healthcare cost trend rate—The following presents the state's proportionate share of the collective total OPEB liability for the special funding situation related to the TGOP, as well as, what the share of the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (6.50 percent decreasing to 2.75 percent) or 1-percentage-point higher (8.50

percent decreasing to 4.75 percent) than the current healthcare cost trend. Premium subsidies in the TNP are projected to remain unchanged, and consequently, trend rates are not applicable (expressed in thousands):

	1% Decrease (6.50% decreasing to 2.75%)	Healthcare Cost Trend Rates (7.50% decreasing to 3.75%)	1% Increase (8.50% decreasing to 4.75%)
Share of collective total OPEB liability - TGOP	$ 228,156	$ 256,924	$ 291,065

2. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the state reported a liability of $256.9 million and $215 million for its proportionate shares of the collective total OPEB liability from special funding situations related to the TGOP and TNP, respectively. The total OPEB liabilities were measured as of June 30, 2017, by an actuarial valuation date June 30 2017. The state's portion of the collective total OPEB liability was based on a projection of the state's long-term share of contributions to the OPEB plan relative to the projected share of benefit payments of all participating employers, actuarially determined. At June 30, 2017, the state's proportion of the collective total Local Education Agency employer liabilities for the TGOP and TNP was 28.68 percent and 54.11 percent, respectively. There was no change in proportion from the prior measurement date.

Changes in assumptions–The discount rate was changed from 2.92 percent as of the beginning of the measurement period to 3.56 percent as of June 30, 2017. This change in assumption decreased the total OPEB liability.

3. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB expense– For the year ended June 30, 2018, the state recognized OPEB expense of $21.7 million and $9.9 million in the TGOP and TNP, respectively, related to special funding situations. At June 30, 2018, the state reported deferred outflows of resources and deferred inflows of resources related to OPEB, as a result of special funding situations, from the following sources (expressed in thousands):

TGOP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	10,647
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	-	-
Payments subsequent to the measurement date	15,010	-
Total	$ 15,010	$ 10,647

TNP	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Changes of assumptions	-	17,963
Changes in proportion and differences between benefits paid and proportionate share of benefits paid	-	-
Payments subsequent to the measurement date	10,693	-
Total	$ 10,693	$ 17,963

The amounts shown above for "payments subsequent to the measurement date" will be recognized as a reduction to total OPEB liability in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

TGOP	
For the year ended June 30:	
2019	$ (1,183)
2020	(1,183)
2021	(1,183)
2022	(1,183)
2023	(1,183)
Thereafter	(4,732)

TNP	
For the year ended June 30:	
2019	$ (2,073)
2020	(2,073)
2021	(2,073)
2022	(2,073)
2023	(2,073)
Thereafter	(7,598)

In the tables above, positive amounts will increase OPEB expense while negative amounts will decrease OPEB expense.

NOTE 18

Pension plans

A. Tennessee Consolidated Retirement System (TCRS)

TCRS is a public employee retirement system comprised of defined benefit pension plans covering Tennessee state employees, employees of the state's higher education systems, teachers, and employees of political subdivisions in Tennessee. The TCRS was established in 1972 by a statutory enactment of the Tennessee General Assembly. The provisions of the TCRS are codified in Tennessee Code Annotated Title 8, chapters 34-37. In accordance with Tennessee Code Annotated Title 8, Chapter 34, Section 202, all funds invested, securities, cash, and other property of the TCRS are held in trust and can be expended only for the purposes of the trust. Although the assets for all pension plans within the TCRS are commingled for investment purposes, the assets of each separate plan may legally be used only for the payment of benefits to the members of that plan and for its administration, in accordance with the terms of the plan.

The Tennessee Department of Treasury, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.state.tn.us/tcrs.

B. Defined Benefit Plan

Closed State and Higher Education Employee Pension Plan

<u>*1. General information about the pension plan*</u>

Plan description–Employees of the state and four of its discretely presented component units becoming members of TCRS before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is one of several comprising the TCRS administered Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the State University and Community College System, and the University of Tennessee.

Benefits provided–Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

Average of Member's Highest Compensation for 5 Consecutive Years (up to the Social Security Integration Level)	**X**	1.50%	**X**	Years of Service Credit	**X**	105%
PLUS						
Average of Member's Highest Compensation for 5 Consecutive Years (over the Social Security Integration Level)	**X**	1.75%	**X**	Years of Service Credit	**X**	105%

A reduced early retirement benefit is available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms–At the measurement date of June 30, 2017, the following employees of the state and the four component units mentioned above were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	56,160
Inactive employees entitled to but not yet receiving benefits	39,544
Active employees	43,867
	139,571

Contributions–Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly.

Employees are non-contributory, except for a small group of public safety officers and judges. The state makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, employer contributions by the state were $303.4 million based on an average rate of 19.2 percent of covered payroll. For the year ended June 30, 2018, employer contributions by the four previously mentioned component units were $132.1 million based on an average rate of 18.87 percent of covered payroll.

By law, employer contributions are required to be paid. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

2. Net Pension Liability (Asset)
The net pension liability (asset) of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions–The total pension liability as of June 30, 2017, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 3.46 to 8.72 percent based on age, including inflation, averaging 4 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25 percent

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvement in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected 6 years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

In 2017, the following assumptions were changed: decreased inflation rate from 3 percent to 2.5 percent, decreased the investment rate of return from 7.5 percent to 7.25 percent, decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent, decreased salary growth graded ranges from an average of 4.25 percent to an average of 4 percent, and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projection. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a comparison of historical market returns and future capital market projections.

Discount rate–The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the state will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset) (expressed in thousands):

Primary Government	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/16	$ 10,501,388	$ 9,237,427	$ 1,263,961
Effects of change in proportion	79,978	70,352	9,626
Adjusted balance at 6/30/2016	10,581,366	9,307,779	1,273,587
Changes for the year:			
Service cost	128,388		128,388
Interest	780,337		780,337
Differences between expected and actual experience	68,339		68,339
Changes of assumptions	283,626		283,626
Contributions-employer		251,523	(251,523)
Contributions-employees		436	(436)
Net investment income		1,034,307	(1,034,307)
Benefit payments, including refunds of employee contributions	(610,507)	(610,507)	
Administrative expense		(2,611)	2,611
Other		1,445	(1,445)
Net changes	$ 650,183	$ 674,593	$ (24,410)
Balance at 6/30/17	$ 11,231,549	$ 9,982,372	$ 1,249,177

Component Units	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/16	$ 4,657,707	$ 4,097,097	$ 560,610
Effects of change in proportion	(79,978)	(70,352)	(9,626)
Adjusted balance at 6/30/2016	4,577,729	4,026,745	550,984
Changes for the year:			
Service cost	55,543		55,543
Interest	337,591		337,591
Differences between expected and actual experience	29,565		29,565
Changes of assumptions	122,703		122,703
Contributions-employer		108,814	(108,814)
Contributions-employees		189	(189)
Net investment income		447,463	(447,463)
Benefit payments, including refunds of employee contributions	(264,119)	(264,119)	
Administrative expense		(1,130)	1,130
Other		622	(622)
Net changes	$ 281,283	$ 291,839	$ (10,556)
Balance at 6/30/17	$ 4,859,012	$ 4,318,584	$ 540,428

Sensitivity of the net pension liability to changes in the discount rate–The following presents the net pension liability of the State of Tennessee and the four mentioned component units calculated using the discount rate of 7.25 percent, as well as, what the net pension liability would be if it were calculated using a discount rate that is 1 percentage–point lower (6.25 percent) or 1 percentage-point higher (8.25 percent) than the current rate (expressed in thousands):

Primary Government

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	$ 2,573,585	$ 1,249,177	$ 135,668

Component Units

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	$ 1,113,389	$ 540,428	$ 58,693

3. Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense–For the year ended June 30, 2018, the state and the four mentioned component units recognized pension expense of $256.8 million and $114.5 million, respectively.

Deferred outflows of resources and deferred inflows of resources–For the year ended June 30, 2018, the state and its four component units mentioned reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 98,869	$ 36,458
Assumption changes	$ 212,720	
Net difference between projected and actual earnings on pension plan investments	$ 4,566	
Effects of change in proportion	$ 5,452	$ 8,476
Contributions subsequent to the measurement date of June 30, 2017	$ 303,359	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction to net pension liability in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2019	$ 31,897
2020	205,375
2021	109,343
2022	(69,942)
	$ 276,673

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Component Units	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 42,773	$ 15,772
Assumption changes	$ 92,027	
Net difference between projected and actual earnings on pension plan investments	$ 1,975	
Effects of change in proportion	$ 8,476	$ 5,452
Contributions subsequent to the measurement date of June 30, 2017	$ 132,096	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as a reduction to net pension liability in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2019	$ 17,268
2020	92,318
2021	44,700
2022	(30,259)
	$ 124,027

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

4. Payable to the Pension Plan

At June 30, 2018, the state reported a payable of $10.5 million and the four mentioned component units reported a payable of $8.2 million for the outstanding amount of contributions to the pension plan required at year ended June 30, 2018.

State and Higher Education Employee Retirement Plan

1. General information about the pension plan

Plan description–Employees of the state and four of its discretely presented component units becoming members of TCRS after June 30, 2014, are provided with pensions through the State and Higher Education Employee Retirement Plan. This plan is one of several comprising the TCRS administered Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the State University and Community College System, and the University of Tennessee.

Benefits provided–Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90, in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by multiplying the member's highest five consecutive year average compensation by 1.0 percent multiplied by the member's years of service credit. A reduced early retirement benefit is available at age 60 with 5 years of service credit or pursuant to the rule of 80 in which member's age and service credit total 80. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit, but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Members and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms–At the measurement date of June 30, 2017, the following employees of the state and the four component units mentioned above were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	6,206
Active employees	15,706
	21,914

Contributions–Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. Employers make contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the state for the year ended June 30, 2018, to the State and Higher Education Employee Retirement Plan were $20.3 million, which is 4.02 percent of covered payroll. Employer contributions by the four previously mentioned component units were $8.3 million, which is 3.93 percent of covered payroll.

The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as, an amortized portion of any unfunded liability.

2. Net Pension Liability (Asset)

The net pension asset of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2017, and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions–The total pension liability as of June 30, 2017, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 3.46 to 8.72 percent based on age, including inflation, averaging 4 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25 percent

Mortality rates were developed by the actuary using the results of the actuarial experience study performed for the period July 1, 2012, through June 30, 2016, and were adjusted for expected future improvement in life expectancy. Mortality assumptions utilize the RP-2014 industry standard base table adjusted for TCRS experience, with mortality improvement projected 6 years beyond each actuarial valuation date.

The actuarial assumptions used in the June 30, 2017, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

In 2017, the following assumptions were changed: decreased inflation rate from 3 percent to 2.5 percent, decreased the investment rate of return from 7.5 percent to 7.25 percent, decreased the cost-of-living adjustment from 2.5 percent to 2.25 percent, decreased salary growth graded ranges from an average of 4.25 percent to an average of 4 percent, and modified mortality assumptions to reflect current experience and anticipated mortality improvements.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projection. The future capital market projections were produced using a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25 percent based on a comparison of historical market returns and future capital market projections.

Discount rate–The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the state will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset) (expressed in thousands):

Primary Government	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/16	$ 19,397	$ 25,324	$ (5,927)
Effects of change in proportion	476	622	(146)
Adjusted balance at 6/30/2016	19,873	25,946	(6,073)
Changes for the year:			
Service cost	23,884		23,884
Interest	3,247		3,247
Differences between expected and actual experience	196		196
Changes of assumptions	1,181		1,181
Contributions-employer		14,741	(14,741)
Contributions-employees		18,690	(18,690)
Net investment income		4,754	(4,754)
Benefit payments, including refunds of employee contributions	(930)	(930)	
Administrative expense		(897)	897
Other		97	(97)
Net changes	$ 27,578	$ 36,455	$ (8,877)
Balance at 6/30/17	$ 47,451	$ 62,401	$ (14,950)

Component Units	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/16	$ 8,171	$ 10,670	$ (2,499)
Effects of change in proportion	(476)	(622)	146
Adjusted balance at 6/30/2016	7,695	10,048	(2,353)
Changes for the year:			
Service cost	9,248		9,248
Interest	1,257		1,257
Differences between expected and actual experience	76		76
Changes of assumptions	457		457
Contributions-employer		5,708	(5,708)
Contributions-employees		7,237	(7,237)
Net investment income		1,841	(1,841)
Benefit payments, including refunds of employee contributions	(360)	(360)	
Administrative expense		(347)	347
Other		37	(37)
Net changes	$ 10,678	$ 14,116	$ (3,438)
Balance at 6/30/17	$ 18,373	$ 24,164	$ (5,791)

Sensitivity of the net pension asset to changes in the discount rate–The following presents the net pension asset of the State of Tennessee and the four previously mentioned component units calculated using the discount rate of 7.25 percent, as well as, what the net pension asset would be if it were calculated using a discount rate that is 1 percentage–point lower (6.25 percent) or 1 percentage-point higher (8.25 percent) than the current rate (expressed in thousands):

Primary Government

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension asset	$ (1,870)	$ (14,950)	$ (24,705)

Component Units

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension asset	$ (724)	$ (5,791)	$ (9,567)

3. Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense–For the year ended June 30, 2018, the state and the four previously mentioned component units recognized pension expense of $6.1 million and $2.4 million, respectively.

Deferred outflows of resources and deferred inflows of resources–For the year ended June 30, 2018, the state and its four component units mentioned reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Primary Government	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 563	$ 559
Assumption changes	$ 1,063	
Net difference between projected and actual earnings on pension plan investments		$ 772
Effects of change in proportion	$ 10	$ 142
Contributions subsequent to the measurement date of June 30, 2017	$ 20,305	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as an increase to net pension asset in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2019	$ (54)
2020	(54)
2021	(83)
2022	(238)
2023	85
Thereafter	507
	$ 163

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Component Units	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 218	$ 217
Assumption changes	$ 411	
Net difference between projected and actual earnings on pension plan investments		$ 299
Effects of change in proportion	$ 142	$ 10
Contributions subsequent to the measurement date of June 30, 2017	$ 8,306	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017," will be recognized as an increase to net pension asset in the following measurement period.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2019	$ (1)
2020	(1)
2021	(12)
2022	(73)
2023	53
Thereafter	279
	$ 245

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

4. Payable to the Pension Plan

At June 30, 2018, the state reported a payable of $265 thousand and the four previously mentioned component units reported a payable of $767 thousand for the outstanding amount of contributions to the pension plan required at year ended June 30, 2018.

C. Defined Contribution Plan

Optional Retirement Plan (ORP) – The ORP, administered by the Tennessee Department of Treasury, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2 of the TCA. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the State University and Community College System institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP, and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $96.8 million for the year ended June 30, 2018.

Members are immediately 100 percent vested in the employer contributions made pursuant to the ORP. The Tennessee Department of Treasury 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 has no discretion over these funds other than to make the initial contributions. Accordingly, the state is not acting in a trustee capacity nor does it have a fiduciary responsibility for the funds held by the investment vendors.

Internal Revenue Code (IRC) Section 401(k) and 457 Plans – The state offers its employees two deferred compensation plans, one established pursuant to IRC Section 457 and the other pursuant to IRC Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The Deferred Compensation program is part of the Tennessee Department of Treasury. The Treasurer's Office administers this supplemental retirement savings program along with a chosen record-keeper, who is currently Empower.

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Employees will vest immediately to both the employee and the employer match. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. There is no employer matching for employees who participate in the 457 plan. For the fiscal year ended June 30, 2018, employees of the state and four of its discretely presented component units that participated in the 401(k) plan were eligible for a state matching contribution of up to $50 per month. The funding of this match is subject to state appropriations each year. In addition, pursuant to Public Chapter No. 259 of Public Acts of 2013, state employees hired after June 30, 2014, are automatically enrolled to contribute 2 percent of salary to the state's 401(k) plan with the employer contributing an additional 5 percent to the plan. Employees may opt out of the 2 percent auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5 percent employer contribution to the 401(k) plan. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the State University and Community College System, and the University of Tennessee.

For fiscal year ended June 30, 2018, a total of $187 million was contributed to Section 401(k) plan by the state, its four discretely presented component units, and employees. The state and the four mentioned component units recognized pension expenses of $67.3 million for its contributions to the Section 401(k) plans. At June 30, 2018, the state reported a related liability of $1.8 million.

NOTE 19

External Investment Pools

A. State Pooled Investment Fund

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.

B. Intermediate Term Investment Fund

The Intermediate Term Investment Fund (ITIF) is an external investment pool sponsored by the State of Tennessee. All funds in the ITIF at June 30, 2018, consist of funds belonging to entities outside of the state's financial reporting entity, and have been included as a separate investment trust fund.

C. Tennessee Retiree Group Trust

The Tennessee Retiree Group Trust (TRGT) is an external investment pool sponsored by the State of Tennessee. The external portion of the TRGT is the External Retirement Investment Fund (ERIF) which is reported as a separate investment trust fund. The internal portion, consisting of funds belonging to the state, has been included in the various funds.

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

NOTE 20

Contingencies

A. Litigation

The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims, which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes, which could result in future programmatic costs, will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $6.3 million. This would have a .017% impact on the budget.

The state is also involved in multiple cases that challenge the tax presently imposed by the Tennessee Transportation Fuel Equity Act, which places railroads under the same tax obligations as trucking companies. These cases contend that the new law singles out railroads and violates the federal Railway Revitalization and Regulatory Reform Act (the "4-R Act"). The federal district court denied the railroads' motions for preliminary injunctions but stayed collection pending appeal. The Sixth Circuit has now affirmed the decision that the new Tennessee law does not single out railroads but has remanded to the district court for further consideration of the railroads' claims of discrimination as compared to their ostensible competitors, water carriers, which are exempt from the new act but still pay sales tax on their fuel purchases. The railroads have filed Petitions for Panel Rehearing which are pending. Collection of the tax under the current law remains stayed. In light of the principles announced in the U.S. Supreme Court and Sixth Circuit decisions, the state believes it will eventually prevail in all of these cases, that the Chancery Court refund actions will be dismissed, and that it will be able to collect the amounts presently being withheld by the railroads and paid into escrow under a private arrangement of the railroad companies. However, there is no guarantee of such a result.

B. Tobacco settlement

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

One of the adjustments built into the agreement, the non-participating manufacturers (NPM) adjustment, can potentially reduce state MSA revenues for years in which participating manufacturers (PM) lose market share to the NPMs because of the MSA, and has been the subject of several years of hearings and review. The PMs and states previously settled NPM adjustments through 2002; and, in March 2013, Tennessee and 23 other states resolved the NPM adjustments disputes for 2003-2014 in a settlement with the PMs. This multi-year settlement, initially administered under an agreed upon Term Sheet, was finalized in October 2017 and included sales year 2015. In 2018, Tennessee and thirty-five other states reached an agreement to extend the NPM adjustment settlement through sales years 2016 and 2017.

C. Pollution Remediation Obligations

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

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

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

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

During the fiscal year, the state spent $3.8 million for remediation activities and had an expected recovery of $147 thousand from responsible parties. At June 30, 2018, the state had a pollution remediation obligation of $62 million and an estimated potential recovery of $6.4 million from other responsible parties.

D. 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.

Note 21

Tax Abatements

The State of Tennessee provides tax abatements through six programs subject to the requirements of GASB Statement No. 77: the Industrial Machinery Program, the Job Creation Program, the Community Investment Program, the Headquarters and Other Qualified Facilities Program, and the Warehouse or Distribution Facility and Qualified Data Center Program.

A. Industrial Machinery Program

This program provides reductions in franchise and excise taxes to improve productivity and encourage investment in machinery among Tennessee businesses. The program is established under TCA 67-4-2009. Abatements may be granted to taxpayers who make qualified capital investments. Abatements are obtained through a business plan filed before the investment is made. The abatement is administered as a credit on a business' franchise and excise tax return. The amount of the abatement is calculated using between 3% and 10% of the purchase price of the qualified machinery. Recapture provisions provide that, if the required purchase amount of equipment is not met during the investment period, the taxpayer shall be subject to an assessment equal to the amount of the credit taken for which the taxpayer failed to qualify plus interest.

B. Job Creation Program

This program provides reductions in franchise and excise taxes to encourage companies to create and retain jobs. The program is established under TCA 67-4-2109. Abatements may be granted to businesses agreeing to create and retain a certain number of jobs. Abatements are obtained through a business plan filed before the investment is made. The abatement is administered as a credit on a business' franchise and excise tax return. The amount of the abatement is calculated using the size of investment, number of jobs created, and project location.

C. Community Investment Program

This program provides reductions in franchise and excise taxes to encourage the issuance of qualified loans or investments to low-income housing entities. The program is established under TCA 67-4-2109. Abatements may be granted to financial institutions providing low-interest loans to non-profit organizations and government agencies that agree to build and renovate low-income housing. Abatements are obtained through a certification from THDA before making the loans. The abatement is administered as a credit on a business' franchise and excise tax return. The amount of the abatement is calculated using either (1) the percentage of the loan or long-term investment made or (2) percentage annually of the unpaid principal balance of the loan made.

D. Headquarters and Other Qualified Facilities Program

This program provides for credits on sales or use taxes paid on purchases of qualified tangible personal property that is directly related to the creation of new full-time headquarters staff employee jobs and on purchases of qualified tangible personal property to encourage the establishment of facilities utilized to support an emerging industry or a major cultural attraction. This program is intended to encourage the construction, expansion, or remodel of such qualified facilities. The program is established under TCA 67-6-224 and TCA 67-6-232. Abatements are obtained through a business plan filed before the investment is made. These abatements are administered as credits on business' sales and use tax returns. The amount of the abatement is calculated based upon documented sales or use taxes paid to the state on qualified tangible personal property. TCA 67-6-224 and TCA 67-6-232 provide clawback provisions if the qualified facility does not maintain the required full-time staff positions, or is not utilized as a headquarters facility or facility to support an emerging industry or a major cultural attraction for a period of at least ten (10) years.

The following table shows the amount of taxes abated by the State of Tennessee during the fiscal year ended June 30, 2018:

Tax Abatement Program	Amount of Taxes Abated (in thousands)
Industrial Machinery Program	$41,342
Job Creation Program	71,051
Community Investment Program	20,848
Headquarters and Other Qualified Facilities Program	2,850

E. Warehouse or Distribution Facility and Qualified Data Center Program

These programs provide for sales or use tax exemptions on purchases of material handling and racking systems equipment to encourage investments in qualified warehouses or distribution centers and purchases of computers, computer networks, software or systems and peripheral hardware devices to encourage investments in qualified data centers.

The warehouse or distribution program is established under TCA 67-6-102(44)(H). Abatements may be granted to taxpayers who make capital investments in the building, construction or renovation of qualified warehouses or distribution centers. Abatements are obtained through an application and business plan that includes an estimate of the qualified investments. Approved applicants will receive a certificate of exemption that may be presented to vendors at the time of purchase of eligible equipment. Recapture provisions provide that, if the required investment is not made within the stipulated period; the taxpayer shall be subject to assessment for any tax, penalty or interest that would otherwise have been due.

The qualified data center program is established under TCA 67-6-102(44) (k). Abatements may be granted to taxpayers who make capital investments in a qualified data center. Abatements are obtained through an application and business plan that includes an estimate of the qualified investments. Approved applicants will receive a certificate of exemption that may be presented to vendors at the time of purchase of eligible equipment and/or software.

Since the tax returns filed with the state do not require the exempt sales or purchases to be reported by category, the amount of exempt purchases made by qualified warehouse or distribution centers or qualified data centers is only available in the books and records of the vendors and their customers. Thus, the estimate of the gross dollar amount, on an accrual basis, by which the state's tax revenues were reduced by these exemptions, is not available. However, based on the applications received and approved during the fiscal year, the estimated equipment purchase amounts total $670 million.

Note 22

Subsequent events

A. Primary government

Subsequent to June 30, the State issued $25 million in general obligation commercial paper ($15 million in tax-exempt and $10 million in taxable).

B. Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2018-3 in September 2018 in the amount of $149.9 million and 2018-4 in November 2018 in the amount of $225 million.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $45 million in revolving credit facility.

REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Reported Using the Modified Approach

A. Roadways

Measurement Scale
Beginning in October 2016, the state adopted a new condition assessment method. The new method is called the Maintenance Quality Assurance (MQA) program and is replacing the Maintenance Rating Index (MRI). The MQA program consists of 62 roadway characteristics and each characteristic is grouped into one of six elements. The elements are: mainline pavement, roadway shoulder, roadside, drainage, traffic, and ramps. The MQA provides a condition assessment, in the form of a Level-of-Service (LOS) grade, for roadway assets by evaluating roadway segments. Each segment measures a 0.10 of a mile (528 feet) and is randomly selected each fiscal year. The LOS grade for each individual characteristic is given an "A" or 4.0 through "F" or 0.0 with 4.0 being a perfect grade. The grade is calculated by dividing the total deficiency by the total inventory for each characteristic. This results in a score for each element. Each element score is then multiplied by a weighted element score and the six weighted scores are summed to the overall score.

For the periods ending June 30, 2016 and June 30, 2017, the state used a Maintenance Rating Index (MRI) that addressed all elements of the roadway system. A statistical sample of randomly selected highway segments, representative of the entire subsystem, was inspected annually and rated in accordance with the MRI criteria. The following elements were 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 for MRI and 2.846 for MQA.

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

For the Period Ended	Maintenance Rating Index	Maintenance Quality Assurance
06/30/18		3.187
06/30/17	84.61	
06/30/16	85.40	

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

For the Period Ended	Estimated	Actual
06/30/18	$ 447,013	$ 543,913
06/30/17	440,913	419,788
06/30/16	418,114	419,630
06/30/15	418,114	477,516
06/30/14	419,214	511,204

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

B. Bridges

Measurement Scale
The state maintains information on its 8,415 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

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

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

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
06/30/18	85%
06/30/16	85%
06/30/14	84%

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

For the Period Ended	Estimated	Actual
06/30/18	$ 41,610	$ 57,541
06/30/17	41,610	52,468
06/30/16	37,945	52,098
06/30/15	37,945	51,346
06/30/14	37,945	54,260

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

Other Post-Employment Benefits Information

A. Schedule of Changes in the Total OPEB Liability and Related Ratios

State of Tennessee
Other Post-Employment Benefits
Schedule of Changes in the Total OPEB Liability and Related Ratios
(expressed in thousands)

EMPLOYEE GROUP OPEB PLAN
Primary Government

	2018
Total OPEB liability	
Service cost	$ 47,219
Interest	28,003
Changes of benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	(40,226)
Benefit payments	(61,649)
Net change in total OPEB liability	(26,653)
Total OPEB liability-beginning	942,627
Total OPEB liability-ending	$ 915,974
Covered employee payroll	$ 1,369,106
Total OPEB liability as a percentage of covered payroll	66.90%

Component Units

	2018
Total OPEB liability	
Service cost	$ 21,990
Interest	13,041
Changes of benefit terms	-
Differences between actual and expected experience	-
Changes of assumptions	(18,733)
Benefit payments	(28,710)
Net change in total OPEB liability	(12,412)
Total OPEB liability-beginning	438,979
Total OPEB liability-ending	$ 426,567
Covered employee payroll	$ 1,353,254
Total OPEB liability as a percentage of covered payroll	31.52%

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 related to this OPEB plan.
The amounts reported for each fiscal year were determined as of the prior fiscal year-end.
This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

State of Tennessee
Other Post-Employment Benefits
Schedule of Changes in the Total OPEB Liability and Related Ratios
(expressed in thousands)

TENNESSEE OPEB PLAN
Primary Government

		2018
Total OPEB liability		
Service cost	$	2,560
Interest		3,455
Changes of benefit terms		-
Differences between actual and expected experience		-
Changes of assumptions		(9,094)
Benefit payments		(4,588)
Net change in total OPEB liability		(7,667)
Total OPEB liability-beginning		118,044
Total OPEB liability-ending	$	110,377
Covered employee payroll	$	1,420,835
Total OPEB liability as a percentage of covered payroll		7.77%

Component Units

		2018
Total OPEB liability		
Service cost	$	1,551
Interest		2,093
Changes of benefit terms		-
Differences between actual and expected experience		-
Changes of assumptions		(5,511)
Benefit payments		(2,780)
Net change in total OPEB liability		(4,647)
Total OPEB liability-beginning		71,531
Total OPEB liability-ending	$	66,884
Covered employee payroll	$	1,574,315
Total OPEB liability as a percentage of covered payroll		4.25%

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 related to this OPEB plan.

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

B. Schedule of the State's Proportionate Share of the Collective Total OPEB Liability

State of Tennessee
Other Post-Employment Benefits
Schedule of the State's Proportionate Share of the Collective Total OPEB Liability
Special Funding Situation
(expressed in thousands)

TEACHER GROUP OPEB PLAN

	2018
State's proportion of the collective total OPEB liability	29%
State's proportionate share of the collective total OPEB liability	$ 256,924

TENNESSEE OPEB PLAN

	2018
State's proportion of the collective total OPEB liability	54%
State's proportionate share of the collective total OPEB liability	$ 215,044

There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 related to these two OPEB plans.
The amounts reported for each fiscal year were determined as of the prior fiscal year-end.
This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

Pension Plan Information

A. Schedules of Changes in Net Pension Liability

State of Tennessee
Tennessee Consolidated Retirement Fund
Schedule of Changes in the State of Tennessee's Net Pension Liability (Asset) and Related Ratios
Based on Participation in the Closed State and Higher Education Employee Pension Plan of TCRS
(expressed in thousands)

	2015	2016	2017	2018
Total pension liability				
Service cost	$201,090	$200,001	$193,571	$183,931
Interest	1,024,003	1,044,475	1,089,027	1,117,928
Differences between actual and expected experience	(186,051)	170,534	(30,039)	97,904
Changes of assumptions				406,329
Benefit payments, including refunds of employee contributions	(741,380)	(788,612)	(840,494)	(874,626)
Net change in total pension liability	297,662	626,398	$412,065	$931,466
Total pension liability-beginning	13,822,970	14,120,632	14,747,030	15,159,095
Total pension liability-ending (a)	$14,120,632	$14,747,030	$15,159,095	$16,090,561
Plan fiduciary net position				
Contributions-employer	$410,608	$392,466	$366,962	$360,337
Contributions-employee	1,676	915	1,176	625
Net investment income	1,931,471	407,762	350,633	1,481,770
Benefit payments, including refunds of employee contributions	(741,380)	(788,612)	(840,494)	(874,626)
Administrative expense	(2,791)	(2,803)	(3,654)	(3,741)
Other	-	17,333	2,158	2,067
Net change in plan fiduciary net position	1,599,584	27,061	(123,219)	966,432
Plan fiduciary net position-beginning	11,831,098	13,430,682	13,457,743	13,334,524
Plan fiduciary net position-ending (b)	$13,430,682	$13,457,743	$13,334,524	$14,300,956
Net pension liability (asset)-ending (a)-(b)	$689,950	$1,289,287	$1,824,571	$1,789,605
Plan fiduciary net position as a percentage of total pension liability	95.11%	91.26%	87.96%	88.88%
Covered payroll	$2,658,354	$2,540,327	$2,375,501	$2,333,672
Net pension liability (asset) as a percentage of covered payroll	25.95%	50.75%	76.81%	76.69%

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.
This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

State of Tennessee
Tennessee Consolidated Retirement Fund
Schedule of Changes in the State of Tennessee's Net Pension Liability (Asset) and Related Ratios
Based on Participation in the State and Higher Education Employee Retirement Plan of TCRS
(expressed in thousands)

	2016	2017	2018
Total pension liability			
Service cost	$7,431	$18,693	$33,132
Interest	279	1,883	4,504
Differences between actual and expected experience	(1,164)	689	272
Changes of assumptions			1,638
Benefit payments, including refunds of employee contributions	(10)	(233)	(1,290)
Net change in total pension liability	6,536	$21,032	$38,256
Total pension liability-beginning		6,536	27,568
Total pension liability-ending (a)	$6,536	$27,568	$65,824
Plan fiduciary net position			
Contributions-employer	$4,214	$11,923	$20,449
Contributions-employee	5,154	15,113	25,927
Net investment income	142	600	6,595
Benefit payments, including refunds of employee contributions	(10)	(233)	(1,290)
Administrative expense	(183)	(726)	(1,244)
Other			134
Net change in plan fiduciary net position	9,317	26,677	50,571
Plan fiduciary net position-beginning		9,317	35,994
Plan fiduciary net position-ending (b)	$9,317	35,994	86,565
Net pension liability (asset)-ending (a)-(b)	($2,781)	($8,426)	($20,741)
Plan fiduciary net position as a percentage of total pension liability	142.55%	130.56%	131.51%
Covered payroll	$107,086	$305,424	$518,664
Net pension liability (asset) as a percentage of covered payroll	(2.60%)	(2.76%)	(4%)

The amounts reported for each fiscal year were determined as of the prior fiscal year-end.
This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

B. Schedules of Contributions

Schedule of the State of Tennessee's Contributions
Closed State and Higher Education Employee Pension Plan
(expressed in thousands)

	2014	2015	2016	2017	2018
Actuarially determined contribution	$410,608	$392,466	$366,114	$360,434	$435,455
Contributions in relation of the actuarially determined contribution	410,608	392,466	366,114	360,434	435,455
Contribution deficiency (excess)	$0	$0	$0	$0	$0
Covered payroll	2,658,354	2,540,327	2,375,501	2,333,672	2,280,469
Contributions as a percentage of covered payroll	15.45%	15.45%	15.41%	15.44%	19.09%

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2017, actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Various
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases	Graded salary ranges from 3.46 to 8.72 percent based on age, including inflation, averaging 4 percent
Investment rate of return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.25 percent

Schedule of the State of Tennessee's Contributions State and Higher Education Employee Retirement Plan (expressed in thousands)				
	2015	2016	2017	2018
Actuarially determined contribution	$2,142	$6,446	$6,232	$9,820
Contributions in relation of the actuarially determined contribution	4,255	12,016	20,339	28,611
Contribution deficiency (excess)	($2,113)	($5,570)	($14,107)	($18,791)
Covered payroll	107,086	305,424	518,664	727,339
Contributions as a percentage of covered payroll	3.97%	3.93%	3.92%	3.93%

This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2017, actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Various
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	2.5 percent
Salary increases	Graded salary ranges from 3.46 to 8.72 percent based on age, including inflation, averaging 4 percent
Investment rate of return	7.25 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.25 percent

The Closed State and Higher Education Pension Plan and the State and Higher Education Retirement Plan are parts of TCRS, a public employee retirement system. The information of the annual money-weighted rate of return of the system is presented in TCRS's financial report which can be obtained at www.treasury.state.tn.us/tcrs/.

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, 2018
(Expressed in Thousands)

	General			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget
REVENUES				
Taxes	$ 8,440,090	$ 8,440,090	$ 8,904,578	$ 464,488
Licenses, fines, fees, and permits	463,970	463,970	501,386	37,416
Investment income	3,710	3,710	78,248	74,538
Federal	11,174,615	11,274,123	10,137,011	(1,137,112)
Departmental services	1,983,431	2,039,813	2,073,187	33,374
Other	210,776	210,776	277,701	66,925
Total revenues	22,276,592	22,432,482	21,972,111	(460,371)
EXPENDITURES				
General government				
Legislative	78,649	80,213	44,561	35,652
Secretary of State	63,513	58,513	40,474	18,039
Comptroller	152,126	152,140	100,707	51,433
Treasurer	89,046	89,922	82,618	7,304
Governor	5,628	5,708	5,156	552
Commissions	90,337	90,731	74,780	15,951
Finance and Administration	502,022	314,448	163,660	150,788
General Services	77,021	52,767	26,998	25,769
Revenue	137,065	141,931	118,777	23,154
Miscellaneous Appropriations	2,164	2,164	134	2,030
Health and social services				
Veterans Services	8,148	15,477	14,355	1,122
Labor and Workforce Development	269,084	270,463	175,505	94,958
TennCare	12,173,922	12,194,563	11,457,653	736,910
Mental Health	386,954	391,812	356,865	34,947
Intellectual Disabilities	153,260	155,775	145,421	10,354
Health	674,048	719,395	636,809	82,586
Human Services	2,909,583	2,915,748	2,214,804	700,944
Children's Services	806,167	886,275	874,448	11,827
Law, justice, and public safety				
Judicial	382,953	387,436	363,274	24,162
Correction	1,024,929	1,011,983	973,800	38,183
Probation and Paroles	8,175	8,317	7,719	598
Military	116,600	122,485	90,896	31,589
Bureau of Criminal Investigation	81,168	95,360	88,849	6,511
Safety	271,213	274,077	240,771	33,306
Recreation and resources development				
Agriculture	123,573	124,826	85,635	39,191
Tourist Development	34,400	32,445	30,507	1,938
Environment and Conservation	320,451	326,709	272,517	54,192
Economic and Community Development	686,451	722,828	191,889	530,939
Regulation of business and professions				
Commerce and Insurance	103,390	104,405	89,143	15,262
Financial Institutions	26,406	26,651	19,523	7,128
Intergovernmental revenue sharing	931,384	931,384	931,384	-
Total expenditures	22,689,830	22,706,951	19,919,632	2,787,319
Excess (deficiency) of revenues over (under) expenditures	(413,238)	(274,469)	2,052,479	2,326,948
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	659	660	660	-
Transfers in	59,039	59,039	59,039	-
Transfers out	(2,172,715)	(2,006,225)	(2,006,225)	-
Total other financing sources (uses)	(2,113,017)	(1,946,526)	(1,946,526)	-
Net change in fund balances	(2,526,255)	(2,220,995)	105,953	2,326,948
Fund balances (budgetary basis), July 1	3,719,853	3,719,853	3,719,853	-
Fund balances (budgetary basis), June 30	$ 1,193,598	$ 1,498,858	$ 3,825,806	$ 2,326,948

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, 2018
(Expressed in Thousands)

Education

	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget
REVENUES				
Taxes	$ 5,388,900	$ 5,388,900	$ 5,351,266	$ (37,634)
Licenses, fines, fees, and permits	3,036	3,036	2,657	(379)
Investment income	175	175	1,743	1,568
Federal	1,130,722	1,172,187	1,166,633	(5,554)
Departmental services	79,304	101,532	145,059	43,527
Other	399,700	408,411	430,774	22,363
Total revenues	7,001,837	7,074,241	7,098,132	23,891
EXPENDITURES				
Education	6,227,842	6,291,036	6,236,713	54,323
Higher education	1,893,707	1,871,932	1,859,889	12,043
Total expenditures	8,121,549	8,162,968	8,096,602	66,366
Excess (deficiency) of revenues over (under) expenditures	(1,119,712)	(1,088,727)	(998,470)	90,257
OTHER FINANCING SOURCES (USES)				
Transfers in	1,128,458	1,128,458	1,114,597	(13,861)
Transfers out	(47,891)	(87,771)	(87,771)	-
Total other financing sources (uses)	1,080,567	1,040,687	1,026,826	(13,861)
Net change in fund balance	(39,145)	(48,040)	28,356	76,396
Fund balances (budgetary basis), July 1	239,637	239,637	239,637	-
Fund balances (budgetary basis), June 30	$ 200,492	$ 191,597	$ 267,993	$ 76,396

Highway

	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget
REVENUES				
Taxes	$ 1,006,200	$ 1,006,200	$ 1,013,007	$ 6,807
Licenses, fines, fees, and permits	283,999	283,999	298,635	14,636
Federal	995,783	3,849,070	897,906	(2,951,164)
Departmental services	42,549	201,036	42,290	(158,746)
Other	7,439	7,439	7,952	513
Total revenues	2,335,970	5,347,744	2,259,790	(3,087,954)
EXPENDITURES				
Transportation	2,987,926	5,999,701	1,910,831	4,088,870
Intergovernmental revenue sharing	377,600	377,600	378,135	(535)
Total expenditures	3,365,526	6,377,301	2,288,966	4,088,335
Excess (deficiency) of revenues over (under) expenditures	(1,029,556)	(1,029,557)	(29,176)	1,000,381
OTHER FINANCING SOURCES (USES)				
Bond authorizations	80,000	-	-	-
Transfers in	-	168,800	168,800	-
Transfers out	(2,332)	(2,332)	(2,332)	-
Total other financing sources (uses)	77,668	166,468	166,468	-
Net change in fund balance	(951,888)	(863,089)	137,292	1,000,381
Fund balances (budgetary basis), July 1	924,603	924,603	924,603	-
Fund balances (budgetary basis), June 30	$ (27,285)	$ 61,514	$ 1,061,895	$ 1,000,381

STATE OF TENNESSEE
Required Supplementary Information
Note to RSI
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

1. Explanation for differences between the budgetary revenues, expenditures, and other financing sources (uses) and the GAAP revenues, expenditures, and other financing sources (uses).

	Education
Revenues	
Actual amount (budgetary basis)	$ 7,098,132
The revenues for the Tennessee Promise Scholarship Endowment Fund are not included in the annually adopted budget.	30,668
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 7,128,800
Expenditures	
Actual amount (budgetary basis)	$ 8,096,602
The expenditures for the Tennessee Promise Scholarship Endowment Fund are not included in the annually adopted budget.	28,493
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 8,125,095
Other financing sources (uses)	
Actual amount (budgetary basis)	$ 1,026,826
The transfers out to the Tennessee Promise Scholarship Endowment Fund were eliminated in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	47,891
Total other financing sources (uses) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 1,074,717

2. Budgetary process

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

Budgetary control is maintained at the department level. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be affected with certain executive and legislative branch approval.

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $1.06 billion fund balance remaining in the highway fund, $1.02 billion will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2018. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $46 million were required.

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SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2018
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 310,082	$ 8,928	$ 15,555	$ 334,565
Investments	16,003	-	380,876	396,879
Receivables, net	24,593	6,385	1,405	32,383
Due from other funds	91	-	-	91
Due from component units	-	-	1,203	1,203
Loans receivable	-	7,479	-	7,479
Prepayments and others	17	-	-	17
Total assets	$ 350,786	$ 22,792	$ 399,039	$ 772,617
LIABILITIES				
Accounts payable and accruals	54,800	160	1,010	55,970
Due to other funds	679	-	-	679
Due to component units	619	-	2,487	3,106
Unearned revenue	4	-	-	4
Total liabilities	56,102	160	3,497	59,759
DEFERRED INFLOWS OF RESOURCES	-	8,048	-	8,048
FUND BALANCES				
Nonspendable				
Permanent fund and endowment corpus	$ -	$ -	$ 162,530	$ 162,530
Restricted	149,678	-	233,012	382,690
Committed	145,006	-	-	145,006
Assigned	-	14,584	-	14,584
Total fund balances	294,684	14,584	395,542	704,810
Total liabilities, deferred inflows of resources and fund balances	$ 350,786	$ 22,792	$ 399,039	$ 772,617

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, 2018
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes:				
Sales and use	$ -	$ 62,471	$ -	$ 62,471
Fuel	22,246	83,800	-	106,046
Business	395	216,229	-	216,624
Other	40,398	-	-	40,398
Licenses, fines, fees, and permits	248,835	2,700	3,858	255,393
Investment income	3,116	-	23,901	27,017
Federal	39,420	-	-	39,420
Departmental services	19,783	1,209	-	20,992
Other	11	-	-	11
Total revenues	374,204	366,409	27,759	768,372
EXPENDITURES				
General government	25,814	-	-	25,814
Education	-	-	8,392	8,392
Law, justice and public safety	7,254	-	-	7,254
Recreation and resources development	217,274	-	26	217,300
Regulation of business and professions	114,237	-	-	114,237
Debt service:				
Principal	-	144,671	-	144,671
Interest	-	75,162	-	75,162
Debt issuance costs	-	2,194	-	2,194
Total expenditures	364,579	222,027	8,418	595,024
Excess (deficiency) of revenues over (under) expenditures	9,625	144,382	19,341	173,348
OTHER FINANCING SOURCES (USES)				
Bond premium	-	448	-	448
Refunding bond issuance	-	36,059	-	36,059
Refunding payment to escrow	-	(35,976)	-	(35,976)
Transfers in	2,900	3,500	-	6,400
Transfers out	(250)	(148,201)	-	(148,451)
Total other financing sources (uses)	2,650	(144,170)	-	(141,520)
Net change in fund balances	12,275	212	19,341	31,828
Fund balances, July 1	282,409	14,372	376,201	672,982
Fund balances, June 30	$ 294,684	$ 14,584	$ 395,542	$ 704,810

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STATE OF TENNESSEE
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 362,500	$ 362,500	$ -
Licenses, fines, fees, and permits	2,700	2,700	-
Departmental services	1,209	1,209	-
Total revenues	366,409	366,409	-
EXPENDITURES			
Debt service	222,265	222,027	238
Total expenditures	222,265	222,027	238
Excess (deficiency) of revenues over (under) expenditures	144,144	144,382	238
OTHER FINANCING SOURCES (USES)			
Bond premium	448	448	-
Refunding bond proceeds	83	83	-
Transfers in	3,500	3,500	-
Transfers out	(148,201)	(148,201)	-
Total other financing sources (uses)	(144,170)	(144,170)	-
Net change in fund balances	(26)	212	238
Fund balances (budgetary basis), July 1	14,372	14,372	-
Fund balances (budgetary basis), June 30	$ 14,346	$ 14,584	$ 238

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Agricultural Promotion Boards—These boards were formed to promote the consumption of agricultural products.

Revenue is derived from an assessment levied on the commercial producers of certain agricultural products.

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

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

Tennessee Public Utility Commission—This commission is responsible for executing and enforcing all statutes governing utilities. Revenues are derived principally from inspection and supervision fees.

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

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2018
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
ASSETS				
Cash and cash equivalents	$ 38,327	$ 8,011	$ 12,809	$ 29,199
Investments	16,003	-	-	-
Receivables, net	3,998	5,760	694	5
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 58,328	$ 13,771	$ 13,503	$ 29,204
LIABILITIES				
Accounts payable and accruals	6,576	6,201	3,793	27,785
Due to other funds	376	78	6	-
Due to component units	611	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	7,563	6,279	3,799	27,785
FUND BALANCES				
Restricted	$ 39,799	$ -	$ -	$ 1,419
Committed	10,966	7,492	9,704	-
Total fund balances	50,765	7,492	9,704	1,419
Total liabilities and fund balances	$ 58,328	$ 13,771	$ 13,503	$ 29,204

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2018
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ 33,917	$ 4,708	$ 45,255	$ 4,193	$ 53,486	$ 46,635
-	-	-	-	-	-
-	200	1,579	6	1,894	9,119
-	-	-	-	-	-
-	-	-	-	-	-
$ 33,917	$ 4,908	$ 46,834	$ 4,199	$ 55,380	$ 55,754
15	134	2,241	60	3,807	3,175
-	25	-	1	60	95
-	-	-	-	-	-
-	-	-	3	-	-
15	159	2,241	64	3,867	3,270
$ -	$ 49	$ -	$ 4,135	$ 51,416	$ 48,176
33,902	4,700	44,593	-	97	4,308
33,902	4,749	44,593	4,135	51,513	52,484
$ 33,917	$ 4,908	$ 46,834	$ 4,199	$ 55,380	$ 55,754

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2018
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
ASSETS				
Cash and cash equivalents	$ 1,102	$ 5,046	$ 5,862	$ 2,041
Investments	-	-	-	-
Receivables, net	62	-	729	-
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 1,164	$ 5,046	$ 6,591	$ 2,041
LIABILITIES				
Accounts payable and accruals	15	30	526	60
Due to other funds	2	-	-	7
Due to component units	-	-	8	-
Unearned revenue	-	-	-	-
Total liabilities	17	30	534	67
FUND BALANCES				
Restricted	$ -	$ 4,684	$ -	$ -
Committed	1,147	332	6,057	1,974
Total fund balances	1,147	5,016	6,057	1,974
Total liabilities and fund balances	$ 1,164	$ 5,046	$ 6,591	$ 2,041

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2018
(Expressed in Thousands)

Agricultural Promotion Boards	Drycleaner Environmental Response	Agricultural Regulatory Fund	Tennessee Public Utility Commission	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 613	$ 815	$ 8,329	$ 6,621	$ 3,113	$ 310,082
-	-	-	-	-	16,003
114	-	-	433	-	24,593
-	-	-	91	-	91
17	-	-	-	-	17
$ 744	$ 815	$ 8,329	$ 7,145	$ 3,113	$ 350,786
47	52	9	274	-	54,800
-	1	-	28	-	679
-	-	-	-	-	619
-	-	-	1	-	4
47	53	9	303	-	56,102
$ -	$ -	$ -	$ -	$ -	$ 149,678
697	762	8,320	6,842	3,113	145,006
697	762	8,320	6,842	3,113	294,684
$ 744	$ 815	$ 8,329	$ 7,145	$ 3,113	$ 350,786

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
REVENUES				
Taxes:				
Fuel	$ 2,880	$ -	$ -	$ -
Business	395	-	-	-
Other	15,009	-	2,366	-
Licenses, fines, fees, and permits	42,352	8,433	6,475	-
Investment income	340	97	181	19
Federal	28,051	5,203	-	1,512
Departmental services	12,775	-	6	-
Other	-	3	-	-
Total revenues	101,802	13,736	9,028	1,531
EXPENDITURES				
General government	-	14,507	-	1,567
Law, justice and public safety	-	-	-	-
Recreation and resources development	102,860	-	12,133	-
Regulation of business and professions	-	-	-	-
Total expenditures	102,860	14,507	12,133	1,567
Excess (deficiency) of revenues over (under) expenditures	(1,058)	(771)	(3,105)	(36)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(1,058)	(771)	(3,105)	(36)
Fund balances, July 1	51,823	8,263	12,809	1,455
Fund balances, June 30	$ 50,765	$ 7,492	$ 9,704	$ 1,419

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ -	$ -	$ -	$ -	$ 19,366	$ -
-	-	-	-	-	-
-	-	15,009	-	-	-
45,736	-	-	5,370	2,278	118,136
425	51	520	54	662	530
-	1,213	-	-	2,021	-
-	4,054	30	267	494	2
-	-	-	8	-	-
46,161	5,318	15,559	5,699	24,821	118,668
-	-	-	-	-	-
-	-	-	5,555	-	-
46,706	6,072	7,849	-	23,994	-
-	-	-	-	-	114,237
46,706	6,072	7,849	5,555	23,994	114,237
(545)	(754)	7,710	144	827	4,431
1,900	1,000	-	-	-	-
-	-	(250)	-	-	-
1,900	1,000	(250)	-	-	-
1,355	246	7,460	144	827	4,431
32,547	4,503	37,133	3,991	50,686	48,053
$ 33,902	$ 4,749	$ 44,593	$ 4,135	$ 51,513	$ 52,484

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
REVENUES				
Taxes:				
Fuel	$ -	$ -	$ -	$ -
Business	-	-	-	-
Other	-	-	6,928	-
Licenses, fines, fees, and permits	698	20	-	2,274
Investment income	-	57	60	-
Federal	-	905	-	-
Departmental services	-	30	-	-
Other	-	-	-	-
Total revenues	698	1,012	6,988	2,274
EXPENDITURES				
General government	-	-	-	1,986
Law, justice and public safety	741	-	-	-
Recreation and resources development	-	32	5,451	-
Regulation of business and professions	-	-	-	-
Total expenditures	741	32	5,451	1,986
Excess (deficiency) of revenues over (under) expenditures	(43)	980	1,537	288
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(43)	980	1,537	288
Fund balances, July 1	1,190	4,036	4,520	1,686
Fund balances, June 30	$ 1,147	$ 5,016	$ 6,057	$ 1,974

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Agricultural Promotion Boards	Drycleaner Environmental Response	Agricultural Regulatory Fund	Tennessee Public Utility Commission	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ -	$ -	$ -	$ -	$ -	$ 22,246
-	-	-	-	-	395
1,086	-	-	-	-	40,398
-	668	10,857	5,149	389	248,835
1	12	104	-	3	3,116
-	-	-	515	-	39,420
5	-	-	2,115	5	19,783
-	-	-	-	-	11
1,092	680	10,961	7,779	397	374,204
-	-	-	7,754	-	25,814
-	-	-	-	958	7,254
983	722	10,472	-	-	217,274
-	-	-	-	-	114,237
983	722	10,472	7,754	958	364,579
109	(42)	489	25	(561)	9,625
-	-	-	-	-	2,900
-	-	-	-	-	(250)
-	-	-	-	-	2,650
109	(42)	489	25	(561)	12,275
588	804	7,831	6,817	3,674	282,409
$ 697	$ 762	$ 8,320	$ 6,842	$ 3,113	$ 294,684

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, 2018
(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 10,194	$ 18,284	$ 8,090
Licenses, fines, fees, and permits	52,550	42,352	(10,198)
Investment income	-	340	340
Federal	33,966	28,051	(5,915)
Departmental services	15,347	12,775	(2,572)
Other	-	-	-
Total revenues	112,057	101,802	(10,255)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	128,197	102,860	25,337
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	128,197	102,860	25,337
Excess (deficiency) of revenues over (under) expenditures	(16,140)	(1,058)	15,082
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(16,140)	(1,058)	15,082
Fund balances (budgetary basis), July 1	51,823	51,823	-
Fund balances (budgetary basis), June 30	$ 35,683	$ 50,765	$ 15,082

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, 2018
(Expressed in Thousands)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ 2,511	$ 2,366	$ (145)
12,569	8,433	(4,136)	5,684	6,475	791
-	97	97	-	181	181
4,940	5,203	263	-	-	-
-	-	-	1	6	5
7	3	(4)	-	-	-
17,516	13,736	(3,780)	8,196	9,028	832
-	-	-	-	-	-
-	-	-	-	-	-
16,350	14,507	1,843	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	15,223	12,133	3,090
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,350	14,507	1,843	15,223	12,133	3,090
1,166	(771)	(1,937)	(7,027)	(3,105)	3,922
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,166	(771)	(1,937)	(7,027)	(3,105)	3,922
8,263	8,263	-	12,809	12,809	-
$ 9,429	$ 7,492	$ (1,937)	$ 5,782	$ 9,704	$ 3,922

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, 2018
(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	-	-	-
Investment income	-	19	19
Federal	26,500	1,512	(24,988)
Departmental services	-	-	-
Other	-	-	-
Total revenues	26,500	1,531	(24,969)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	27,500	1,567	25,933
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	27,500	1,567	25,933
Excess (deficiency) of revenues over (under) expenditures	(1,000)	(36)	964
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(1,000)	(36)	964
Fund balances (budgetary basis), July 1	1,455	1,455	-
Fund balances (budgetary basis), June 30	$ 455	$ 1,419	$ 964

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, 2018
(Expressed in Thousands)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ -	$ -	$ -
51,863	45,736	(6,127)	-	-	-
-	425	425	-	51	51
-	-	-	1,891	1,213	(678)
-	-	-	4,082	4,054	(28)
-	-	-	-	-	-
51,863	46,161	(5,702)	5,973	5,318	(655)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
54,323	46,706	7,617	10,004	6,072	3,932
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
54,323	46,706	7,617	10,004	6,072	3,932
(2,460)	(545)	1,915	(4,031)	(754)	3,277
1,900	1,900	-	1,000	1,000	-
-	-	-	-	-	-
1,900	1,900	-	1,000	1,000	-
(560)	1,355	1,915	(3,031)	246	3,277
32,547	32,547	-	4,503	4,503	-
$ 31,987	$ 33,902	$ 1,915	$ 1,472	$ 4,749	$ 3,277

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, 2018
(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 6,931	$ 15,009	$ 8,078
Licenses, fines, fees, and permits	-	-	-
Investment income	-	520	520
Federal	-	-	-
Departmental services	-	30	30
Other	-	-	-
Total revenues	6,931	15,559	8,628
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	8,157	7,849	308
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	8,157	7,849	308
Excess (deficiency) of revenues over (under) expenditures	(1,226)	7,710	8,936
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(250)	(250)	-
Total other financing sources (uses)	(250)	(250)	-
Net change in fund balances	(1,476)	7,460	8,936
Fund balances (budgetary basis), July 1	37,133	37,133	-
Fund balances (budgetary basis), June 30	$ 35,657	$ 44,593	$ 8,936

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, 2018
(Expressed in Thousands)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ 19,300	$ 19,366	$ 66
4,937	5,370	433	3,740	2,278	(1,462)
-	54	54	-	662	662
-	-	-	1,973	2,021	48
-	267	267	-	494	494
-	8	8	-	-	-
4,937	5,699	762	25,013	24,821	(192)
5,614	5,555	59	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	25,139	23,994	1,145
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,614	5,555	59	25,139	23,994	1,145
(677)	144	821	(126)	827	953
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(677)	144	821	(126)	827	953
3,991	3,991	-	50,686	50,686	-
$ 3,314	$ 4,135	$ 821	$ 50,560	$ 51,513	$ 953

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, 2018
(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	112,009	118,136	6,127
Investment income	-	530	530
Federal	-	-	-
Departmental services	-	2	2
Other	-	-	-
Total revenues	112,009	118,668	6,659
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	117,856	114,237	3,619
Revenue	-	-	-
Total expenditures	117,856	114,237	3,619
Excess (deficiency) of revenues over (under) expenditures	(5,847)	4,431	10,278
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(5,847)	4,431	10,278
Fund balances (budgetary basis), July 1	48,053	48,053	-
Fund balances (budgetary basis), June 30	$ 42,206	$ 52,484	$ 10,278

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, 2018
(Expressed in Thousands)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ -	$ -	$ -
809	698	(111)	500	20	(480)
-	-	-	-	57	57
-	-	-	-	905	905
-	-	-	-	30	30
-	-	-	-	-	-
809	698	(111)	500	1,012	512
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
815	741	74	-	-	-
-	-	-	-	-	-
-	-	-	500	32	468
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
815	741	74	500	32	468
(6)	(43)	(37)	-	980	980
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(6)	(43)	(37)	-	980	980
1,190	1,190	-	4,036	4,036	-
$ 1,184	$ 1,147	$ (37)	$ 4,036	$ 5,016	$ 980

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, 2018
(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 3,188	$ 6,928	$ 3,740
Licenses, fines, fees, and permits	-	-	-
Investment income	-	60	60
Federal	-	-	-
Departmental services	-	-	-
Other	-	-	-
Total revenues	3,188	6,988	3,800
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	7,188	5,451	1,737
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	7,188	5,451	1,737
Excess (deficiency) of revenues over (under) expenditures	(4,000)	1,537	5,537
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(4,000)	1,537	5,537
Fund balances (budgetary basis), July 1	4,520	4,520	-
Fund balances (budgetary basis), June 30	$ 520	$ 6,057	$ 5,537

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, 2018
(Expressed in Thousands)

Salvage Title Enforcement			Drycleaner Environmental Response		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ -	$ -	$ -
1,818	2,274	456	1,914	668	(1,246)
-	-	-	-	12	12
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,818	2,274	456	1,914	680	(1,234)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,920	722	1,198
-	-	-	-	-	-
-	-	-	-	-	-
2,105	1,986	119	-	-	-
2,105	1,986	119	1,920	722	1,198
(287)	288	575	(6)	(42)	(36)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(287)	288	575	(6)	(42)	(36)
1,686	1,686	-	804	804	-
$ 1,399	$ 1,974	$ 575	$ 798	$ 762	$ (36)

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, 2018
(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	**Actual (Budgetary Basis)**	**Variance**
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	10,353	10,857	504
Investment income	-	104	104
Federal	-	-	-
Departmental services	2	-	(2)
Other	-	-	-
Total revenues	10,355	10,961	606
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	10,473	10,472	1
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	10,473	10,472	1
Excess (deficiency) of revenues over (under) expenditures	(118)	489	607
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(118)	489	607
Fund balances (budgetary basis), July 1	7,831	7,831	-
Fund balances (budgetary basis), June 30	$ 7,713	$ 8,320	$ 607

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, 2018
(Expressed in Thousands)

Tennessee Public Utility Commission			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ 42,124	$ 61,953	$ 19,829
6,856	5,149	(1,707)	265,602	248,446	(17,156)
-	-	-	-	3,112	3,112
1,151	515	(636)	70,421	39,420	(31,001)
1,431	2,115	684	20,863	19,773	(1,090)
-	-	-	7	11	4
9,438	7,779	(1,659)	399,017	372,715	(26,302)
-	-	-	5,614	5,555	59
-	-	-	27,500	1,567	25,933
-	-	-	16,350	14,507	1,843
9,548	7,754	1,794	9,548	7,754	1,794
-	-	-	815	741	74
-	-	-	17,661	15,923	1,738
-	-	-	115,266	97,508	17,758
-	-	-	128,197	102,860	25,337
-	-	-	117,856	114,237	3,619
-	-	-	2,105	1,986	119
9,548	7,754	1,794	440,912	362,638	78,274
(110)	25	135	(41,895)	10,077	51,972
-	-	-	2,900	2,900	-
-	-	-	(250)	(250)	-
-	-	-	2,650	2,650	-
(110)	25	135	(39,245)	12,727	51,972
6,817	6,817	-	278,147	278,147	-
$ 6,707	$ 6,842	$ 135	$ 238,902	$ 290,874	$ 51,972

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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 State University and Community College System and University of Tennessee campuses in order to attract more highly qualified professors. For a chair to be established, private contributions which a school collects are matched by monies the state has appropriated to fund this program. The chair also receives the interest earned from investment of these matched monies.

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

STATE OF TENNESSEE
Combining Balance Sheet
Permanent Funds
June 30, 2018
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
ASSETS			
Cash and cash equivalents	$ 6,993	$ 8,562	$ 15,555
Investments	331,120	49,756	380,876
Receivables, net	1,392	13	1,405
Due from component units	1,203	-	1,203
Total assets	$ 340,708	$ 58,331	$ 399,039
LIABILITIES			
Accounts payable and accruals	1,010	-	1,010
Due to component units	2,487	-	2,487
Total liabilities	3,497	-	3,497
FUND BALANCES			
Nonspendable			
Permanent fund and endowment corpus	$ 104,358	$ 58,172	$ 162,530
Restricted	232,853	159	233,012
Total fund balances	337,211	58,331	395,542
Total liabilities and fund balances	$ 340,708	$ 58,331	$ 399,039

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
REVENUES			
Licenses, fines, fees, and permits	$ -	$ 3,858	$ 3,858
Investment income	24,158	(257)	23,901
Total revenues	24,158	3,601	27,759
EXPENDITURES			
Education	8,392	-	8,392
Recreation and resources development	-	26	26
Total expenditures	8,392	26	8,418
Excess (deficiency) of revenues over (under) expenditures	15,766	3,575	19,341
Net change in fund balances	15,766	3,575	19,341
Fund balances, July 1	321,445	54,756	376,201
Fund balances, June 30	$ 337,211	$ 58,331	$ 395,542

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NONMAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2018
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
ASSETS				
Current assets:				
Cash and cash equivalents	$ 17,725	$ 187,735	$ 54,259	$ 92,779
Receivables:				
Accounts receivable	-	3,322	1,006	-
Loans receivable	47	-	-	8,924
Total current assets	17,772	191,057	55,265	101,703
Noncurrent assets:				
Loans receivable	-	-	-	124,804
Total noncurrent assets	-	-	-	124,804
Total assets	17,772	191,057	55,265	226,507
LIABILITIES				
Current liabilities:				
Accounts payable and accruals	-	45,264	10,664	47
Unearned revenue	-	90	38	-
Total current liabilities	-	45,354	10,702	47
Noncurrent liabilities:				
Others	-	-	-	3,544
Total noncurrent liabilities	-	-	-	3,544
Total liabilities	-	45,354	10,702	3,591
NET POSITION				
Unrestricted	17,772	145,703	44,563	222,916
Total net position	$ 17,772	$ 145,703	$ 44,563	$ 222,916

STATE OF TENNESSEE
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2018
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 8,885	$ 17,468	$ 1,877	$ 380,728
-	-	-	4,328
-	7,978	-	16,949
8,885	25,446	1,877	402,005
-	45,759	-	170,563
-	45,759	-	170,563
8,885	71,205	1,877	572,568
-	-	194	56,169
-	12	-	140
-	12	194	56,309
-	-	-	3,544
-	-	-	3,544
-	12	194	59,853
8,885	71,193	1,683	512,715
$ 8,885	$ 71,193	$ 1,683	$ 512,715

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services	$ -	$ -	$ -	$ 1,942
Investment income	240	-	-	1,045
Premiums	-	515,167	136,454	-
Total operating revenues	240	515,167	136,454	2,987
Operating expenses				
Contractual services	-	25,120	7,247	298
Materials and supplies	-	-	-	-
Benefits	-	463,966	119,378	-
Other	-	3,411	732	-
Total operating expenses	-	492,497	127,357	298
Operating income (loss)	240	22,670	9,097	2,689
Nonoperating revenues (expenses)				
Grants	-	-	-	6,973
Interest income	-	1,916	538	-
Other	-	-	-	(2,695)
Total nonoperating revenues (expenses)	-	1,916	538	4,278
Income (loss) before contributions and transfers	240	24,586	9,635	6,967
Transfers in	-	-	-	3,870
Transfers out	(957)	-	-	-
Change in net position	(717)	24,586	9,635	10,837
Net position, July 1, restated	18,489	121,117	34,928	212,079
Net position, June 30	$ 17,772	$ 145,703	$ 44,563	$ 222,916

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,225	$ 356	$ 242	$ 3,765
-	310	-	1,595
-	-	-	651,621
1,225	666	242	656,981
151	30	1,012	33,858
-	-	1	1
-	-	-	583,344
-	-	1	4,144
151	30	1,014	621,347
1,074	636	(772)	35,634
-	-	-	6,973
108	-	30	2,592
-	-	-	(2,695)
108	-	30	6,870
1,182	636	(742)	42,504
-	-	-	3,870
-	-	-	(957)
1,182	636	(742)	45,417
7,703	70,557	2,425	467,298
$ 8,885	$ 71,193	$ 1,683	$ 512,715

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$ -	$ 521,059	$ 139,124	$ -
Payments to suppliers	-	(493,491)	(129,773)	-
Payments to employees	-	-	-	-
Payments for interfund services used	-	(683)	(128)	(298)
Net cash provided by (used for) operating activities	-	26,885	9,223	(298)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	-	-	-	6,973
Transfers in	-	-	-	3,870
Transfers out	(957)	-	-	-
Net cash provided by (used for) noncapital financing activities	(957)	-	-	10,843
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans issued and other disbursements to borrowers	-	-	-	(16,880)
Collection of loan principal	-	-	-	13,160
Interest received	240	1,916	538	3,034
Net cash provided by (used for) investing activities	240	1,916	538	(686)
Net increase (decrease) in cash and cash equivalents	(717)	28,801	9,761	9,859
Cash and cash equivalents, July 1	18,442	158,934	44,498	82,920
Cash and cash equivalents, June 30	$ 17,725	$ 187,735	$ 54,259	$ 92,779
Reconciliation of operating income to net cash provided by (used for) operating activities				
Operating income (loss)	$ 240	$ 22,670	$ 9,097	$ 2,689
Adjustment to reconcile operating income (loss) to net cash from operating activities:				
Interest income	-	-	-	(1,942)
Investment income	(240)	-	-	(1,045)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
(Increase) decrease in receivables	-	2,929	773	-
Increase (decrease) in accounts payable	-	1,284	(651)	-
Increase (decrease) in unearned revenue	-	2	4	-
Total adjustments	(240)	4,215	126	(2,987)
Net cash provided by (used for) operating activities	$ -	$ 26,885	$ 9,223	$ (298)

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,225	$ 30	$ 242	$ 661,680
(151)	-	(819)	(624,234)
-	-	(1)	(1)
-	(30)	-	(1,139)
1,074	-	(578)	36,306
-	-	-	6,973
-	-	-	3,870
-	-	-	(957)
-	-	-	9,886
-	(13,425)	-	(30,305)
-	7,225	-	20,385
108	596	30	6,462
108	(5,604)	30	(3,458)
1,182	(5,604)	(548)	42,734
7,703	23,072	2,425	337,994
$ 8,885	$ 17,468	$ 1,877	$ 380,728
$ 1,074	$ 636	$ (772)	$ 35,634
-	(326)	-	(2,268)
-	(310)	-	(1,595)
-	-	-	3,702
-	-	194	827
-	-	-	6
-	(636)	194	672
$ 1,074	$ -	$ (578)	$ 36,306

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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:

Strategic Technology Solutions—A division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2018
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
ASSETS						
Current assets:						
Cash and cash equivalents	$ 108,529	$ 188,875	$ 52,523	$ 4,846	$ 458,295	$ 402,413
Receivables, net	1,240	2,831	17	5	961	6,212
Due from other funds	734	-	-	-	174	-
Inventories, at cost	520	-	-	140	-	-
Prepayments	-	-	-	-	-	-
Total current assets	111,023	191,706	52,540	4,991	459,430	408,625
Noncurrent assets:						
Due from other funds	387	-	-	-	-	-
Net investment in capital leases	-	-	-	-	7,708	-
Restricted net pension assets	49	-	1	6	-	-
Capital assets:						
Land, at cost	-	-	-	-	57,926	-
Structures and improvements, at cost	-	-	-	-	524,902	-
Machinery and equipment, at cost	84,054	-	167,201	3,176	1,837	-
Less: Accumulated depreciation	(54,738)	-	(101,444)	(2,650)	(270,366)	-
Construction in progress	-	-	-	-	130,396	-
Software in development	-	-	-	-	-	-
Total noncurrent assets	29,752	-	65,758	532	452,403	-
Total assets	140,775	191,706	118,298	5,523	911,833	408,625
DEFERRED OUTFLOWS OF RESOURCES	10,908	-	312	733	4,657	-
LIABILITIES						
Current liabilities:						
Accounts payable	17,637	1,117	4,056	283	11,687	64,840
Accrued payroll and related deductions	2,924	-	74	196	-	-
Due to other funds	197	81	5	16	8,204	-
Due to component units	20	10	-	-	-	-
Lease obligations payable	-	-	-	-	346	-
Bond payable	-	-	-	-	14,468	-
Unearned revenue	-	1	-	-	3,397	45,123
Others	581	33,950	50	50	-	-
Total current liabilities	21,359	35,159	4,185	545	38,102	109,963
Noncurrent liabilities:						
Pension	17,647	-	494	1,286	-	-
Lease obligations payable	-	-	-	-	7,423	-
Commercial paper payable	-	-	-	-	9,387	-
Bonds payable	-	-	-	-	165,184	-
Others	10,710	107,280	742	807	-	-
Total noncurrent liabilities	28,357	107,280	1,236	2,093	181,994	-
Total liabilities	49,716	142,439	5,421	2,638	220,096	109,963
DEFERRED INFLOWS OF RESOURCES	858	-	124	92	52	-
NET POSITION						
Net investment in capital assets	29,316	-	65,757	526	252,491	-
Restricted for:						
Capital projects	-	-	-	-	4,485	-
Pensions	49	-	1	6	-	-
Unrestricted	71,744	49,267	47,307	2,994	439,366	298,662
Total net position	$ 101,109	$ 49,267	$ 113,065	$ 3,526	$ 696,342	$ 298,662

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2018
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 1,987	$ 2,476	$ 1,250	$ 78	$ 16,389	$ 12,298	$ 9,925	$ 33,773	$ 1,293,657
2	427	139	-	-	2	420	1	12,257
-	-	-	-	-	29	-	5	942
261	-	94	-	-	-	2,136	-	3,151
264	-	-	-	-	-	-	-	264
2,514	2,903	1,483	78	16,389	12,329	12,481	33,779	1,310,271
-	-	-	-	-	-	-	-	387
-	-	-	-	-	-	-	-	7,708
5	11	2	1	12	16	8	12	123
-	-	-	-	-	-	746	-	58,672
-	-	-	-	-	-	2,038	-	526,940
4,663	21	86	12	120	416	9,127	114,625	385,338
(3,341)	(11)	(85)	(8)	(111)	(400)	(7,692)	(108,036)	(548,882)
-	-	-	-	-	-	16	-	130,412
-	-	-	-	-	-	-	663	663
1,327	21	3	5	21	32	4,243	7,264	561,361
3,841	2,924	1,486	83	16,410	12,361	16,724	41,043	1,871,632
299	1,257	357	123	3,268	7,341	1,633	2,619	33,507
189	74	150	58	130	34	670	281	101,206
97	402	81	11	813	1,633	435	861	7,527
8	28	6	-	64	116	30	56	8,811
-	-	-	2	113	-	1	-	146
-	-	-	-	-	-	-	-	346
-	-	-	-	-	-	-	-	14,468
-	-	-	-	-	-	-	-	48,521
37	46	42	7	189	298	92	119	35,461
331	550	279	78	1,309	2,081	1,228	1,317	216,486
516	2,321	582	196	4,388	8,604	3,059	4,439	43,532
-	-	-	-	-	-	-	-	7,423
-	-	-	-	-	-	-	4,380	13,767
-	-	-	-	-	-	-	-	165,184
599	814	667	111	3,294	5,186	1,685	3,065	134,960
1,115	3,135	1,249	307	7,682	13,790	4,744	11,884	364,866
1,446	3,685	1,528	385	8,991	15,871	5,972	13,201	581,352
122	212	62	13	609	425	508	363	3,440
1,322	10	1	4	9	16	4,235	2,872	356,559
-	-	-	-	-	-	-	-	4,485
5	11	2	1	12	16	8	12	123
1,245	263	250	(197)	10,057	3,374	7,634	27,214	959,180
$ 2,572	$ 284	$ 253	$ (192)	$ 10,078	$ 3,406	$ 11,877	$ 30,098	$ 1,320,347

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 189,711	$ 62,949	$ 45,564	$ 7,197	$ 141,106	$ 1,000
Premiums	-	-	-	-	-	805,198
Total operating revenues	189,711	62,949	45,564	7,197	141,106	806,198
Operating expenses						
Personal services	41,532	-	1,235	3,281	-	-
Contractual services	117,243	11,124	5,180	2,464	82,696	34,082
Materials and supplies	22,586	-	18,524	1,287	2,209	-
Rentals and insurance	15	5,634	8,874	118	47,362	-
Depreciation and amortization	9,734	-	14,557	133	12,115	-
Benefits	-	22,522	445	-	-	705,265
Other	937	-	49	7	20	4,405
Total operating expenses	192,047	39,280	48,864	7,290	144,402	743,752
Operating income (loss)	(2,336)	23,669	(3,300)	(93)	(3,296)	62,446
Nonoperating revenues (expenses)						
Grants	-	890	-	-	-	-
Insurance claims recoveries	-	-	433	-	817	-
Gain on sales of capital assets	-	-	-	-	5,731	-
Interest income	-	2,178	-	-	6,320	4,268
Interest expense	-	-	-	-	(7,334)	-
Total nonoperating revenues (expenses)	-	3,068	433	-	5,534	4,268
Income (loss) before contributions and transfers	(2,336)	26,737	(2,867)	(93)	2,238	66,714
Capital contributions	-	-	756	-	26,574	-
Transfers in	2,250	-	3,613	341	157,191	-
Transfers out	(15,486)	-	-	-	(115,739)	-
Change in net position	(15,572)	26,737	1,502	248	70,264	66,714
Net position, July 1, restated	116,681	22,530	111,563	3,278	626,078	231,948
Net position, June 30	$ 101,109	$ 49,267	$ 113,065	$ 3,526	$ 696,342	$ 298,662

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 17,251	$ 10,531	$ 3,390	$ 1,095	$ 14,410	$ 25,873	$ 23,620	$ 32,377	$ 576,074
-	-	-	-	-	-	-	-	805,198
17,251	10,531	3,390	1,095	14,410	25,873	23,620	32,377	1,381,272
1,635	5,855	1,438	566	13,308	24,212	6,671	11,845	111,578
2,950	3,718	1,039	559	3,241	1,888	9,115	11,556	286,855
12,410	57	887	9	270	45	7,368	1,070	66,722
101	10	4	2	68	6	267	1	62,462
258	4	8	3	7	19	232	11,857	48,927
-	25	-	-	-	-	-	-	728,257
3	15	8	3	252	28	21	17	5,765
17,357	9,684	3,384	1,142	17,146	26,198	23,674	36,346	1,310,566
(106)	847	6	(47)	(2,736)	(325)	(54)	(3,969)	70,706
-	-	-	-	-	-	-	-	890
-	-	-	-	-	-	-	-	1,250
-	-	-	-	-	-	-	-	5,731
-	-	-	-	-	-	-	-	12,766
-	-	-	-	-	-	-	(57)	(7,391)
-	-	-	-	-	-	-	(57)	13,246
(106)	847	6	(47)	(2,736)	(325)	(54)	(4,026)	83,952
-	-	-	-	-	-	-	-	27,330
-	-	-	-	-	1,917	-	-	165,312
-	-	-	-	-	-	-	-	(131,225)
(106)	847	6	(47)	(2,736)	1,592	(54)	(4,026)	145,369
2,678	(563)	247	(145)	12,814	1,814	11,931	34,124	1,174,978
$ 2,572	$ 284	$ 253	$ (192)	$ 10,078	$ 3,406	$ 11,877	$ 30,098	$ 1,320,347

STATE OF TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 8,946	$ 19,705	$ 766	$ 41	$ 7,491	$ 404,190
Receipts from interfund services provided	181,884	46,112	44,906	7,154	131,798	442,898
Payments to suppliers	(124,002)	(39,887)	(29,691)	(2,653)	18,812	(776,564)
Payments to employees	(41,149)	-	(1,292)	(3,317)	-	-
Payments for interfund services used	(17,317)	(7,162)	(5,083)	(1,131)	(149,700)	(2,029)
Net cash provided by (used for) operating activities	8,362	18,768	9,606	94	8,401	68,495
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Operating grants received	-	890	-	-	-	-
Transfers in	2,250	-	3,613	341	156,936	-
Net cash provided by (used for) noncapital financing activities	2,250	890	3,613	341	156,936	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(20,713)	-	(17,747)	(41)	(129,760)	-
Bond and commercial paper proceeds	-	-	-	-	17,042	-
Proceeds from sale of capital assets	-	-	2,100	-	8,808	-
Insurance claims recoveries	-	-	433	-	817	-
Bond issuance cost	-	-	-	-	(19)	-
Principal payments	-	-	-	-	(21,670)	-
Interest paid	-	-	-	-	(8,529)	-
Net cash provided by (used for) capital and related financing activities	(20,713)	-	(15,214)	(41)	(133,311)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	-	2,178	-	-	6,320	4,268
Net cash provided by (used for) investing activities	-	2,178	-	-	6,320	4,268
Net increase (decrease) in cash and cash equivalents	(10,101)	21,836	(1,995)	394	38,346	72,763
Cash and cash equivalents, July 1	118,630	167,039	54,518	4,452	419,949	329,650
Cash and cash equivalents, June 30	$ 108,529	$ 188,875	$ 52,523	$ 4,846	$ 458,295	$ 402,413
Reconciliation of operating income to net cash provided by (used for) operating activities						
Operating income (loss)	$ (2,336)	$ 23,669	$ (3,300)	$ (93)	$ (3,296)	$ 62,446
Adjustment to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	9,734	-	14,557	133	12,115	-
Loss (gain) on disposal of capital assets	831	-	46	-	-	-
Bond issuance costs	-	-	-	-	18	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:						
(Increase) decrease in receivables	558	2,497	109	(2)	(144)	3,477
(Increase) decrease in due from other funds	562	-	-	-	(70)	-
(Increase) decrease in due from component units	-	208	-	-	-	-
(Increase) decrease in inventories	405	-	-	(4)	-	-
(Increase) decrease in prepaids	-	-	-	-	4,985	-
(Increase) decrease in net pension assets	(17)	-	-	-	-	-
(Increase) decrease in deferred outflows of resources	(492)	-	(15)	14	-	-
Increase (decrease) in accounts payable	(867)	(6,626)	(1,768)	56	1,043	596
Increase (decrease) in due to other funds	34	81	-	5	(4,647)	-
Increase (decrease) in due to component units	(14)	(1,061)	-	-	-	-
Increase (decrease) in deferred inflows of resources	(36)	-	(23)	(15)	-	-
Increase (decrease) in unearned revenue	-	-	-	-	(1,603)	1,976
Total adjustments	10,698	(4,901)	12,906	187	11,697	6,049
Net cash provided by (used for) operating activities	$ 8,362	$ 18,768	$ 9,606	$ 94	$ 8,401	$ 68,495
Schedule of noncash capital and related financing activities						
Contributions of capital assets	$ -	$ -	$ 560	$ -	$ 26,574	$ -
Assets Acquired by Transfer	-	-	196	-	255	-
Capital Assets Disposed of by Transfer	(15,486)	-	-	-	(115,732)	-
Refunding bond premium	-	-	-	-	93	-
Refunding bond proceeds	-	-	-	-	1,518	-
Total noncash capital and related financing activities	$ (15,486)	$ -	$ 756	$ -	$ (87,292)	$ -

STATE OF TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 85	$ 2,978	$ 1,753	$ 15	$ 90	$ 135	$ 12,158	$ 171	$ 458,524
17,167	7,203	1,537	1,080	14,320	25,709	11,702	32,201	965,671
(14,134)	(1,468)	(1,056)	(386)	(2,388)	(428)	(15,884)	(7,475)	(997,204)
(1,687)	(5,899)	(1,449)	(576)	(13,377)	(23,662)	(7,055)	(11,752)	(111,215)
(1,364)	(2,490)	(849)	(152)	(1,270)	(1,462)	(1,672)	(5,123)	(196,804)
67	324	(64)	(19)	(2,625)	292	(751)	8,022	118,972
-	-	-	-	-	-	-	-	890
-	-	-	-	-	1,917	-	-	165,057
-	-	-	-	-	1,917	-	-	165,947
(751)	-	(9)	-	-	-	(875)	(2,222)	(172,118)
-	-	-	-	-	-	-	-	17,042
-	-	-	-	-	-	-	-	10,908
-	-	-	-	-	-	-	-	1,250
-	-	-	-	-	-	-	-	(19)
-	-	-	-	-	-	-	(4,380)	(26,050)
-	-	-	-	-	-	-	(57)	(8,586)
(751)	-	(9)	-	-	-	(875)	(6,659)	(177,573)
-	-	-	-	-	-	-	-	12,766
-	-	-	-	-	-	-	-	12,766
(684)	324	(73)	(19)	(2,625)	2,209	(1,626)	1,363	120,112
2,671	2,152	1,323	97	19,014	10,089	11,551	32,410	1,173,545
$ 1,987	$ 2,476	$ 1,250	$ 78	$ 16,389	$ 12,298	$ 9,925	$ 33,773	$ 1,293,657
$ (106)	$ 847	$ 6	$ (47)	$ (2,736)	$ (325)	$ (54)	$ (3,969)	$ 70,706
258	4	8	3	7	19	232	11,857	48,927
-	-	3	-	-	-	132	2	1,014
-	-	-	-	-	-	-	-	18
1	(427)	(101)	-	-	-	241	-	6,209
-	77	-	-	-	(29)	-	(5)	535
-	-	-	-	-	-	-	-	208
(27)	-	(36)	-	-	-	(275)	-	63
(22)	-	-	-	-	-	-	-	4,963
-	(1)	-	-	(5)	(4)	8	(2)	(21)
30	82	(11)	(9)	(354)	(3,103)	55	117	(3,686)
(97)	(287)	64	34	431	3,564	(985)	(100)	(4,942)
3	6	1	-	13	38	6	16	(4,444)
-	-	-	2	(41)	-	(4)	-	(1,118)
27	23	2	(2)	60	132	(107)	106	167
-	-	-	-	-	-	-	-	373
173	(523)	(70)	28	111	617	(697)	11,991	48,266
$ 67	$ 324	$ (64)	$ (19)	$ (2,625)	$ 292	$ (751)	$ 8,022	$ 118,972
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,134
-	-	-	-	-	-	-	-	451
-	-	-	-	-	-	-	-	(131,218)
-	-	-	-	-	-	-	-	93
-	-	-	-	-	-	-	-	1,518
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (102,022)

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. The level of contributions is determined by actuarial valuation.

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

INVESTMENT TRUST FUNDS:

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

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

- **External Retirement Investment Fund—**This fund accounts for assets in the custody of the Treasurer, solely for investment purposes, that consist exclusively of assets of individual retirement accounts.

PRIVATE-PURPOSE TRUST FUNDS:

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

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

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

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

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

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

AGENCY FUNDS:

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

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

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

- **External Pension Plan**—This fund is used to account for activities and balances of an external retirement plan whose administrative and investing functions have been contracted to the Department of Treasury of the State of Tennessee.

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2018
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension
ASSETS				
Cash and cash equivalents	$ 12,636	$ 11,914	$ 102	$ 24,652
Cash collateral on loaned securities	2,822,251	2,661,096	22,682	5,506,029
Receivables:				
Employer contributions	22,695	38,717	4,151	65,563
Member contributions	7,136	21,548	5,199	33,883
Due from other funds	11,807	-	-	11,807
Due from component units	10,132	-	-	10,132
Investments, at fair value:				
TRGT pooled funds	25,416,341	23,965,018	204,268	49,585,627
Capital assets, at cost:				
Machinery and equipment	19,036	17,949	153	37,138
Less - accumulated depreciation	(8,474)	(7,990)	(68)	(16,532)
Total assets	28,313,560	26,708,252	236,487	55,258,299
LIABILITIES				
Accounts payable and accruals	15,091	14,257	325	29,673
Securities lending collateral	2,822,252	2,661,095	22,682	5,506,029
Total liabilities	2,837,343	2,675,352	23,007	5,535,702
NET POSITION				
Restricted for				
Pension benefits	25,476,217	24,032,900	213,480	49,722,597
Employees' flexible benefits	-	-	-	-
Total net position	$ 25,476,217	$ 24,032,900	$ 213,480	$ 49,722,597

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2018
(Expressed in Thousands)

Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
$ 617	$ 25,269
-	5,506,029
-	65,563
-	33,883
202	12,009
3	10,135
-	49,585,627
-	37,138
-	(16,532)
822	55,259,121
2	29,675
-	5,506,029
2	5,535,704
-	49,722,597
820	820
$ 820	$ 49,723,417

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension
ADDITIONS				
Contributions:				
Members	$ 121,257	$ 176,442	$ 43,731	$ 341,430
Employers	739,160	318,337	34,957	1,092,454
Other	2,604	-	-	2,604
Total contributions	863,021	494,779	78,688	1,436,488
Investment income:				
Net increase in fair value of investments	1,985,961	1,879,862	13,643	3,879,466
Securities lending income	52,031	49,253	355	101,639
Total investment income	2,037,992	1,929,115	13,998	3,981,105
Less: Investment expenses	(31,891)	(30,188)	(218)	(62,297)
Securities lending expense	(33,062)	(31,297)	(226)	(64,585)
Net investment income	1,973,039	1,867,630	13,554	3,854,223
Total additions	2,836,060	2,362,409	92,242	5,290,711
DEDUCTIONS				
Annuity benefits	1,317,487	1,197,446	2	2,514,935
Death benefits	2,590	2,749	29	5,368
Other	-	-	-	-
Refunds	21,135	18,427	1,597	41,159
Administrative expenses	13,268	5,789	1,847	20,904
Total deductions	1,354,480	1,224,411	3,475	2,582,366
Change in net position	1,481,580	1,137,998	88,767	2,708,345
Net position, July 1	23,994,637	22,894,902	124,713	47,014,252
Net position, June 30	$ 25,476,217	$ 24,032,900	$ 213,480	$ 49,722,597

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
$ 5,876	$ 347,306
-	1,092,454
-	2,604
5,876	1,442,364
-	3,879,466
-	101,639
-	3,981,105
-	(62,297)
-	(64,585)
-	3,854,223
5,876	5,296,587
-	2,514,935
-	5,368
5,491	5,491
-	41,159
70	20,974
5,561	2,587,927
315	2,708,660
505	47,014,757
$ 820	$ 49,723,417

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2018
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	External Retirement Investment Fund	Total Investment Trust Funds
ASSETS				
Cash and cash equivalents	$ 1,140,783	$ 912	$ -	$ 1,141,695
Receivables:				
Interest and dividends	-	220	-	220
Investments, at fair value:				
Government bonds	-	61,418	-	61,418
TRGT pooled funds	-	-	10,560	10,560
Investments, at amortized cost:				
Short-term investments	1,017,666	-	-	1,017,666
Total assets	2,158,449	62,550	10,560	2,231,559
NET POSITION				
Amounts held in trust for:				
Pool participants	2,158,449	62,550	10,560	2,231,559
Total net position	$ 2,158,449	$ 62,550	$ 10,560	$ 2,231,559

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	External Retirement Investment Fund	Total Investment Trust Funds
ADDITIONS				
Investment income:				
Interest	$ 28,816	$ 6	$ 668	$ 29,490
Total investment income	28,816	6	668	29,490
Less: Investment expenses	(849)	(32)	(11)	(892)
Net investment income	27,967	(26)	657	28,598
Capital share transactions:				
Shares sold	4,564,554	-	2,829	4,567,383
Less: Shares redeemed	(4,433,366)	-	(127)	(4,433,493)
Net capital share transactions	131,188	-	2,702	133,890
Total additions	159,155	(26)	3,359	162,488
Change in net position	159,155	(26)	3,359	162,488
Net position, July 1	1,999,294	62,576	7,201	2,069,071
Net position, June 30	$ 2,158,449	$ 62,550	$ 10,560	$ 2,231,559

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2018
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ASSETS				
Cash and cash equivalents	$ 7,911	$ 1,628	$ 19,975	$ 4,504
Receivables:				
Taxes	-	-	-	-
Interest and dividends	1	-	-	-
Due from component units	8	-	-	-
Investments, at fair value:				
Mutual funds	147,986	-	-	-
Government bonds	-	-	-	-
Corporate bonds	-	-	-	-
Total assets	155,906	1,628	19,975	4,504
LIABILITIES				
Accounts payable and accruals	36	55	-	8
Total liabilities	36	55	-	8
NET POSITION				
Restricted for:				
Individuals, organizations and other governments	155,870	1,573	19,975	4,496
Total net position	$ 155,870	$ 1,573	$ 19,975	$ 4,496

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2018
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ 3,956	$ 6,681	$ 44,655
-	44	44
-	-	1
-	-	8
224	7,936	156,146
367	-	367
878	-	878
5,425	14,661	202,099
5,425	-	5,524
5,425	-	5,524
-	14,661	196,575
$ -	$ 14,661	$ 196,575

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ADDITIONS				
Contributions:				
Federal	$ -	$ 7,290	$ 1,000	$ -
Private	29,147	-	-	-
State	484	-	-	-
Other	-	5,254	-	7,530
Total contributions	29,631	12,544	1,000	7,530
Investment income:				
Net increase/(decrease) in fair value of investments	6,170	-	-	-
Interest	3,818	35	255	87
Total investment income	9,988	35	255	87
Total additions	39,619	12,579	1,255	7,617
DEDUCTIONS				
Payments made under trust agreements	12,311	10,719	-	12,255
Refunds	2,283	2,026	-	-
Administrative expenses	540	-	-	1,497
Total deductions	15,134	12,745	-	13,752
Change in net position	24,485	(166)	1,255	(6,135)
Net position, July 1	131,385	1,739	18,720	10,631
Net position, June 30	$ 155,870	$ 1,573	$ 19,975	$ 4,496

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ -	$ -	$ 8,290
-	6,886	36,033
-	-	484
-	89	12,873
-	6,975	57,680
(13)	357	6,514
83	187	4,465
70	544	10,979
70	7,519	68,659
70	1,564	36,919
-	-	4,309
-	10	2,047
70	1,574	43,275
-	5,945	25,384
-	8,716	171,191
$ -	$ 14,661	$ 196,575

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STATE OF TENNESSEE
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2018
(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	External Pension Plan	Total Agency Funds
ASSETS					
Cash and cash equivalents	$ 388,962	$ 119,154	$ 23,236	$ -	$ 531,352
Receivables:					
Account	-	14	1,974	-	1,988
Taxes	449,295	-	-	-	449,295
Due from other funds	-	6	-	-	6
Investments, at fair value:					
TRGT pooled funds	-	-	-	124,903	124,903
Total assets	838,257	119,174	25,210	124,903	1,107,544
LIABILITIES					
Accounts payable and accruals	838,257	14,691	9,437	-	862,385
Amount held in custody for others	-	104,483	15,773	124,903	245,159
Total liabilities	$ 838,257	$ 119,174	$ 25,210	$ 124,903	$ 1,107,544

STATE OF TENNESSEE
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Local Government Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 362,060	$ 13,837,446	$ (13,810,544)	$ 388,962
Accounts receivable	437,382	502,488	(490,575)	449,295
Total assets	799,442	14,339,934	(14,301,119)	838,257
Liabilities				
Accounts payable and accruals	799,442	4,840,898	(4,802,083)	838,257
Total liabilities	$ 799,442	$ 4,840,898	$ (4,802,083)	$ 838,257

Contingent Revenue Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 115,618	$ 2,238,397	$ (2,234,861)	$ 119,154
Accounts receivable	106	39	(131)	14
Due from other funds	12	18	(24)	6
Total assets	115,736	2,238,454	(2,235,016)	119,174
Liabilities				
Accounts payable and accruals	13,635	358,884	(357,828)	14,691
Amounts held in custody for others	102,101	844,597	(842,215)	104,483
Total liabilities	$ 115,736	$ 1,203,481	$ (1,200,043)	$ 119,174

Retiree Health Plans	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 20,048	$ 116,864	$ (113,676)	$ 23,236
Accounts receivable	3,456	11,139	(12,621)	1,974
Total assets	23,504	128,003	(126,297)	25,210
Liabilities				
Accounts payable and accruals	12,771	25,032	(28,366)	9,437
Amounts held in custody for others	10,733	121,645	(116,605)	15,773
Total liabilities	$ 23,504	$ 146,677	$ (144,971)	$ 25,210

External Pension Plan	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ -	$ 3,016	$ (3,016)	$ -
Accounts receivable	-	2	(2)	-
Investments, at fair value:				
TRGT pooled funds	112,436	20,177	(7,710)	124,903
Total assets	112,436	23,195	(10,728)	124,903
Liabilities				
Accounts payable and accruals	-	3,013	(3,013)	-
Amounts held in custody for others	112,436	22,307	(9,840)	124,903
Total liabilities	$ 112,436	$ 25,320	$ (12,853)	$ 124,903

STATE OF TENNESSEE
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Total - All Agency Funds	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 497,726	$ 16,195,723	$ (16,162,097)	$ 531,352
Accounts receivable	440,944	513,668	(503,329)	451,283
Due from other funds	12	18	(24)	6
Investments, at fair value:				
TRGT pooled funds	112,436	20,177	(7,710)	124,903
Total assets	1,051,118	16,729,586	(16,673,160)	1,107,544
Liabilities				
Accounts payable and accruals	825,848	5,227,827	(5,191,290)	862,385
Amounts held in custody for others	225,270	988,549	(968,660)	245,159
Total liabilities	$ 1,051,118	$ 6,216,376	$ (6,159,950)	$ 1,107,544

COMPONENT UNITS

Tennessee Student Assistance Corporation (TSAC)—The corporation was created by the legislature in 1974 and is responsible for administering student financial assistance programs supported by federal and state funds. In 2015, TSAC's board voted to wind down the activities of the Federal Family Education Loan Program, a loan guarantee program administered by the board and separately reported as another component unit of the state. The portfolio was later transferred to the U.S. Department of Education. In this fiscal year, the remaining balances in this program were reported with the corporation.

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

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

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

State University and Community College System—Created by the General Assembly in 1972 to serve the state and its citizenry by providing educational opportunities, research, continuing education and public activities. As a system, the institutions span the state and are reported 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 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 Community College, Nashville
Northeast State Community College, Blountville
Pellissippi State Community College, Knoxville
Roane State Community College, Harriman
Southwest Tennessee Community College, Memphis
Volunteer State Community College, Gallatin
Walters State Community College, Morristown

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

The purpose of these colleges is to provide occupational and technical training.

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 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, developmental disabilities, 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.

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

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

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

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

STATE OF TENNESSEE
Combining Statement of Net Position
Component Units
June 30, 2018
(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee
ASSETS						
Cash and cash equivalents	$ 3,549	$ 129	$ 216,784	$ 130,218	$ 767,925	$ 1,098,539
Investments	-	-	132,474	-	239,170	26,591
Receivables, net	5,591	55	46,944	79,331	75,391	87,468
Due from primary government	-	825	27	-	21,221	33,807
Inventories, at cost	-	-	-	-	2,913	6,960
Prepayments	-	3	-	15,067	9,588	4,973
Loans receivable	-	-	2,145,382	-	-	-
Fair value of derivatives	-	-	-	-	-	-
Other	-	-	1,106	-	100	4,281
Restricted assets:						
Cash and cash equivalents	-	-	65,958	45	327,490	221,628
Investments	-	-	127,812	-	548,165	1,146,445
Receivables, net	-	-	790	-	109,894	287,850
Net pension assets	6	7,317	35	-	3,414	2,316
Other	-	-	-	-	5,393	-
Capital assets:						
Land, at cost	-	-	-	-	173,677	91,300
Infrastructure	-	-	-	-	517,644	234,793
Structures and improvements, at cost	-	-	-	2,635	3,439,068	3,137,470
Machinery and equipment, at cost	91	146	5,108	6,357	520,122	606,000
Less accumulated depreciation	(61)	(91)	(2,232)	(5,816)	(1,865,491)	(1,652,555)
Construction in progress	-	-	-	-	129,833	368,568
Total assets	9,176	8,384	2,740,188	227,837	5,025,517	5,706,434
DEFERRED OUTFLOWS OF RESOURCES	1,424	762	4,609	-	194,902	154,520
LIABILITIES						
Accounts payable and accruals	513	120	78,251	110,052	149,595	205,448
Due to primary government	24	5	91	113,598	10,247	6,552
Unearned revenue	-	-	1,205	749	81,639	69,872
Fair value of derivatives	-	-	-	-	-	-
Other	-	-	-	-	18,502	16,947
Noncurrent liabilities:						
Due within one year	242	80	91,637	738	61,010	106,074
Due in more than one year	3,293	202	2,063,358	2,655	1,262,387	1,647,441
Total liabilities	4,072	407	2,234,542	227,792	1,583,380	2,052,334
DEFERRED INFLOWS OF RESOURCES	100	762	365	-	29,207	47,691
NET POSITION						
Net investment in capital assets	29	55	2,876	3,176	2,225,906	1,674,130
Restricted for:						
Debt service	-	-	-	-	10,375	1,263
Capital projects	-	-	-	-	44,768	49,644
Single family bond programs	-	-	423,248	-	-	-
Pensions	6	7,317	35	-	3,414	2,316
Other	5,539	-	15,233	45	215,351	543,996
Permanent and endowment:						
Expendable	-	-	-	-	78,843	153,152
Nonexpendable	-	-	-	-	376,031	862,536
Unrestricted	854	605	68,498	(3,176)	653,144	473,892
Total net position	$ 6,428	$ 7,977	$ 509,890	$ 45	$ 3,607,832	$ 3,760,929

STATE OF TENNESSEE
Combining Statement of Net Position
Component Units
June 30, 2018
(Expressed in Thousands)

Proprietary Fund Types					
Local Development Authority	Tennessee Veterans' Homes Board	Tennessee State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 14,726	$ 13,989	$ 74,096	$ 812	$ 49,729	$ 2,370,496
-	-	-	3,729	-	401,964
-	3,584	15,400	60	-	313,824
-	898	-	-	-	56,778
-	281	-	-	-	10,154
-	182	-	-	-	29,813
3,018	-	1,990,671	-	-	4,139,071
-	-	69	-	-	69
-	590	-	11	-	6,088
595	3,704	9,810	-	-	629,230
-	-	202,380	-	-	2,024,802
-	-	-	-	-	398,534
-	1,593	-	-	-	14,681
-	-	-	-	-	5,393
-	2,467	-	-	-	267,444
-	3,725	-	-	-	756,162
-	53,461	-	-	-	6,632,634
-	4,031	-	-	-	1,141,855
-	(17,848)	-	-	-	(3,544,094)
-	931	-	-	-	499,332
18,339	71,588	2,292,426	4,612	49,729	16,154,230
102	2,695	37,433	-	-	396,447
161	2,599	18,119	417	12	565,287
-	131	-	-	-	130,648
-	-	2,212	-	-	155,677
-	-	87	-	-	87
-	153	-	-	-	35,602
495	1,072	73,079	-	-	334,427
2,026	4,697	2,230,223	-	-	7,216,282
2,682	8,652	2,323,720	417	12	8,438,010
-	955	917	-	-	79,997
-	42,511	-	-	-	3,948,683
-	508	-	-	-	12,146
-	-	-	-	-	94,412
-	-	-	-	-	423,248
-	1,593	-	-	-	14,681
-	6,770	-	-	-	786,934
-	-	-	-	-	231,995
-	-	-	-	-	1,238,567
15,759	13,294	5,222	4,195	49,717	1,282,004
$ 15,759	$ 64,676	$ 5,222	$ 4,195	$ 49,717	$ 8,032,670

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2018
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Component units					
Higher education institutions:					
State University and Community College System	$ 2,655,325	$ 990,611	$ 884,898	$ 83,526	$ (696,290)
University of Tennessee	2,331,885	837,354	963,141	94,515	(436,875)
Total higher education institutions	4,987,210	1,827,965	1,848,039	178,041	(1,133,165)
Loan programs:					
Tennessee Student Assistance Corporation	141,548	4,585	6,260	-	(130,703)
Tennessee Housing Development Agency	428,947	110,587	319,876	-	1,516
Local Development Authority	254	489	203	-	438
Tennessee State School Bond Authority	90,740	76,515	(1,309)	-	(15,534)
Total loan programs	661,489	192,176	325,030	-	(144,283)
Tennessee Education Lottery	1,621,828	1,620,509	32	-	(1,287)
Other programs:					
Tennessee Community Services Agency	4,491	1,613	2,720	-	(158)
Access Tennessee Insurance Plan	2,529	-	-	-	(2,529)
Tennessee Veterans' Homes Board	56,275	57,950	171	-	1,846
Certified Cotton Growers'	479	484	-	-	5
Total other programs	63,774	60,047	2,891	-	(836)
Total	$ 7,334,301	$ 3,700,697	$ 2,175,992	$ 178,041	$ (1,279,571)

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2018
(Expressed in Thousands)

General Revenues								
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change in Net Position	Net Position July 1	Net Position June 30
$ 798,593	$ 29,893	$ 16,713	$ (4,667)	$ 12,555	$ 156,797	$ 3,451,035	$ 3,607,832
593,141	105	2,477	14,186	68,026	241,060	3,519,869	3,760,929
1,391,734	29,998	19,190	9,519	80,581	397,857	6,970,904	7,368,761
101,653	-	-	-	-	(29,050)	35,478	6,428
-	-	188	-	-	1,704	508,186	509,890
-	-	-	-	-	438	15,321	15,759
-	9,645	-	-	-	(5,889)	11,111	5,222
101,653	9,645	188	-	-	(32,797)	570,096	537,299
-	-	1,294	-	-	7	38	45
-	-	3	-	-	(155)	8,132	7,977
-	-	653	-	-	(1,876)	51,593	49,717
-	86	-	-	-	1,932	62,744	64,676
-	-	59	-	-	64	4,131	4,195
-	86	715	-	-	(35)	126,600	126,565
$ 1,493,387	$ 39,729	$ 21,387	$ 9,519	$ 80,581	$ 365,032	$ 7,667,638	$ 8,032,670

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 110,587	$ 1,619,728	$ 1,183,425	$ 1,335,339	$ 489
Investment income	2,738	-	5,753	4,470	203
Grants and contributions	-	-	-	-	-
Other	-	781	59,395	138,300	-
Total operating revenues	113,325	1,620,509	1,248,573	1,478,109	692
Operating expenses					
Personal services	20,177	15,210	1,656,248	1,493,230	-
Contractual services	6,214	149,096	-	-	111
Mortgage service fees	6,833	-	-	-	-
Materials and supplies	1,436	-	593,395	594,154	-
Rentals and insurance	12	1,652	-	-	-
Interest	58,239	-	-	-	130
Depreciation and amortization	4,288	762	110,920	128,059	-
Lottery prizes	-	1,023,883	-	-	-
Nursing home services	-	-	-	-	-
Scholarships and fellowships	-	-	263,037	64,439	-
Benefits	-	-	-	-	-
Other	6,408	9,520	-	-	13
Total operating expenses	103,607	1,200,123	2,623,600	2,279,882	254
Operating income (loss)	9,718	420,386	(1,375,027)	(801,773)	438
Nonoperating revenues (expenses)					
Grant income	317,326	-	606,847	234,052	-
Grant expense	(325,340)	-	-	-	-
Interest expense	-	-	(23,455)	(42,794)	-
Interest income	-	1,294	51,606	69,968	-
Payments from primary government	-	-	798,593	593,141	-
Grants and contributions	-	-	-	6,347	-
Gifts	-	-	10,459	14,600	-
Payments to primary government	-	(421,680)	-	-	-
Other	-	7	(8,308)	1,528	-
Total nonoperating revenues (expenses)	(8,014)	(420,379)	1,435,742	876,842	-
Income (loss) before capital grants and contributions	1,704	7	60,715	75,069	438
Capital payments from primary government	-	-	60,253	87,647	-
Capital grants and gifts	-	-	23,274	6,868	-
Additions to permanent endowments	-	-	12,555	68,026	-
Other	-	-	-	3,450	-
Change in net position	1,704	7	156,797	241,060	438
Net position, July 1, restated	508,186	38	3,451,035	3,519,869	15,321
Net position, June 30	$ 509,890	$ 45	$ 3,607,832	$ 3,760,929	$ 15,759

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

Tennessee Veterans' Homes Board	Tennessee State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 53,325	$ 76,515	$ 484	$ -	$ 4,379,892
-	(1,309)	-	-	11,855
-	-	-	-	-
67	-	-	-	198,543
53,392	75,206	484	-	4,590,290
35,936	-	-	-	3,220,801
-	2,054	479	299	158,253
-	-	-	-	6,833
-	-	-	-	1,188,985
-	-	-	2,230	3,894
-	75,518	-	-	133,887
1,907	-	-	-	245,936
-	-	-	-	1,023,883
18,250	-	-	-	18,250
-	-	-	-	327,476
-	-	-	-	-
-	13,168	-	-	29,109
56,093	90,740	479	2,529	6,357,307
(2,701)	(15,534)	5	(2,529)	(1,767,017)
4,558	9,645	-	-	1,172,428
-	-	-	-	(325,340)
(172)	-	-	-	(66,421)
171	-	59	653	123,751
-	-	-	-	1,391,734
-	-	-	-	6,347
86	-	-	-	25,145
-	-	-	-	(421,680)
(10)	-	-	-	(6,783)
4,633	9,645	59	653	1,899,181
1,932	(5,889)	64	(1,876)	132,164
-	-	-	-	147,900
-	-	-	-	30,142
-	-	-	-	80,581
-	-	-	-	3,450
1,932	(5,889)	64	(1,876)	394,237
62,744	11,111	4,131	51,593	7,624,028
$ 64,676	$ 5,222	$ 4,195	$ 49,717	$ 8,018,265

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STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2018
(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Total Governmental Fund Type Component Units
REVENUES			
Interest on investments	$ -	$ 3	$ 3
Departmental services	112,495	4,333	116,828
Other	3	-	3
Total revenues	112,498	4,336	116,834
EXPENDITURES			
Education	141,538	-	141,538
Health and social services	-	4,589	4,589
Total expenditures	141,538	4,589	146,127
Excess (deficiency) of revenues over (under) expenditures	(29,040)	(253)	(29,293)
Fund balances, July 1	37,643	1,140	38,783
Fund balances, June 30	$ 8,603	$ 887	$ 9,490
Reconciliation to net position:			
Fund balances per above	$ 8,603	$ 887	$ 9,490
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	30	55	85
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(391)	(135)	(526)
Resources and obligations related to pension and other postemployment benefits are not available nor due and payable, respective, in the current period and therefore are not reported in the fund.	(1,814)	7,170	5,356
Net position on statement of net position	$ 6,428	$ 7,977	$ 14,405

SUPPLEMENTARY SCHEDULES

STATE OF TENNESSEE

Schedule 1

Debt Service Requirements to Maturity

General Obligation Bonds
June 30, 2018
(Expressed in Thousands)

	General Long-Term Debt			Facilities Revolving Fund Debt		
For the Year Ended June 30	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2019	$ 144,712	$ 72,163	$ 216,875	$ 14,468	$ 6,756	$ 21,224
2020	141,801	68,020	209,821	13,964	6,192	20,156
2021	135,918	61,655	197,573	13,082	5,542	18,624
2022	136,173	55,360	191,533	13,132	4,901	18,033
2023	128,945	49,217	178,162	12,400	4,276	16,676
2024	126,631	43,809	170,440	12,059	3,736	15,795
2025	119,609	38,825	158,434	11,926	3,247	15,173
2026	117,725	33,805	151,530	11,600	2,737	14,337
2027	112,277	28,988	141,265	9,993	2,267	12,260
2028	108,082	24,415	132,497	9,398	1,847	11,245
2029	101,005	19,899	120,904	7,991	1,452	9,443
2030	78,089	15,852	93,941	6,556	1,113	7,669
2031	68,380	12,460	80,840	5,120	842	5,962
2032	61,740	9,471	71,211	3,885	638	4,523
2033	39,777	7,130	46,907	3,592	466	4,058
2034	33,191	5,372	38,563	3,175	300	3,475
2035	33,191	3,712	36,903	3,175	141	3,316
2036	30,216	2,127	32,343	599	47	646
2037	16,223	966	17,189	281	25	306
2038	7,470	374	7,844	244	12	256
Totals	$ 1,741,155	$ 553,620	$ 2,294,775	$ 156,640	$ 46,537	$ 203,177

STATE OF TENNESSEE

Schedule 2

Schedule of Outstanding Debt

All Fund Types
For the Last Five Fiscal Years
(Expressed in Thousands)

	June 30				
	2014	2015	2016	2017	2018
Internal service funds:					
General obligation commercial paper	$ 59,930	$ 26,564	$ 17,310	$ 12,788	$ 13,767
Facilities Revolving Fund general obligation bonds	161,299	196,080	185,009	167,529	156,640
	221,229	222,644	202,319	180,317	170,407
General long-term debt:					
General obligation bonds	$ 1,656,651	$ 1,575,935	$ 1,714,196	$ 1,738,001	$ 1,741,155
General obligation commercial paper	264,436	171,122	228,226	180,168	151,409
	1,921,087	1,747,057	1,942,422	1,918,169	1,892,564
Totals for primary government	$ 2,142,316	$ 1,969,701	$ 2,144,741	$ 2,098,486	$ 2,062,971

STATE OF TENNESSEE

Schedule 3

Schedule of General Obligation Commercial Paper Outstanding - By Purpose

All Fund Types
June 30, 2018
(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 118,513
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	46,663
Purpose: To finance improvements to mental health and mental retardation facilities and grants to local governments.	
Total Outstanding	$ 165,176

STATE OF TENNESSEE

Schedule 4

Schedule of Outstanding Debt

Component Units
For the Last Five Fiscal Years
(Expressed in Thousands)

	June 30				
	2014	2015	2016	2017	2018
Component Units:					
Local Development Authority bonds	$ 5,674	$ 4,737	$ 3,929	$ 3,130	$ 2,521
Tennessee Housing Development Agency bonds	1,962,990	1,948,970	1,875,620	1,944,050	2,089,025
Veterans' Homes Board loan	6,157	5,685	5,217	5,106	4,255
Tennessee State School Bond Authority bonds	1,780,558	2,155,864	2,077,220	2,002,387	2,208,003
Tennessee State School Bond Authority revolving credit	157,584	61,682	84,480	188,152	95,299
University of Tennessee notes	133	113	94	75	55
University of Tennessee bonds	77,171	75,269	70,814	68,283	65,676
State and University Community College System notes	2,492	1,063	941	840	1,372
State and University Community College System bonds	300	200	100	-	-
State and University Community College System commercial paper	3,955	3,801	3,362	3,222	2,722
	$ 3,997,014	$ 4,257,384	$ 4,121,777	$ 4,215,245	$ 4,468,928

STATE OF TENNESSEE
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2018 and 2017
(Expressed in Thousands)

Revenue by Source	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
Taxes:		
Sales and use	$ 3,672,928	$ 3,547,922
Gasoline	10,065	10,900
Motor fuel	2,061	2,030
Gasoline inspection	752	741
Total fuel taxes	12,878	13,671
Franchise	910,028	873,185
Excise	1,444,514	1,495,219
Gross receipts	364,900	368,224
Beer	14,565	15,072
Alcoholic beverage	66,677	64,246
Mixed drink	59,682	52,791
Tobacco	29,466	29,551
Business	238,610	173,098
Insurance companies premium	968,291	913,485
Retaliatory	9,377	9,615
Workers compensation premium	43,647	43,725
Enhanced coverage	449,257	448,787
Medicaid provider	11,054	11,552
Fantasy Sports	327	301
Other	1,311	1,447
Total business tax	4,611,706	4,500,298
Income	245,980	250,126
Privilege	361,436	343,276
Inheritance and estate	(350)	9,241
Other	-	1
Total other taxes	607,066	602,644
Total taxes	8,904,578	8,664,535
Licenses, fines, fees and permits:		
Motor vehicle registration	51,910	45,187
Motor vehicle title registration fees	22,495	21,192
Drivers licenses	37,614	38,391
Arrests, fines and fees	8,659	7,913
Regulatory board fees	170,422	166,852
Other	210,286	203,355
Total licenses, fines, fees and permits	501,386	482,890
Investment income	78,248	36,866
Federal	10,137,011	9,858,146
Departmental services:		
Charges to the public	311,283	323,385
Interdepartmental charges	877,051	837,908
Charges to cities, counties, etc.	884,853	940,229
Total departmental services	2,073,187	2,101,522
Other	277,701	219,420
Total revenues by source	$ 21,972,111	$ 21,363,379

STATE OF TENNESSEE

Schedule 6

Comparative Schedules of Expenditures by Function and Department

General Fund
For the Fiscal Years Ended June 30, 2018 and 2017
(Expressed in Thousands)

	For the Year Ended	
Expenditures by Function and Department	**June 30, 2018**	**June 30, 2017**
General government:		
Legislative	$ 44,561	$ 54,895
Secretary of State	40,474	38,842
Comptroller	100,707	96,996
Treasurer	82,618	90,905
Governor	5,156	5,027
Commissions	74,780	69,903
Finance and Administration	163,660	135,090
General Services	26,998	25,907
Revenue	118,777	113,433
Miscellaneous Appropriations	134	150
Total general government	657,865	631,148
Health and social services:		
Veterans Services	14,355	6,903
Labor and Workforce Development	175,505	164,626
TennCare	11,457,653	11,267,088
Mental Health	356,865	319,020
Intellectual Disabilities	145,421	169,114
Health	636,809	591,664
Human Services	2,214,804	2,323,835
Children's Services	874,448	813,316
Total health and social services	15,875,860	15,655,566
Law, justice and public safety:		
Judicial	363,274	345,137
Correction	973,800	926,039
Probation and Paroles	7,719	7,419
Military	90,896	107,456
Bureau of Criminal Investigation	88,849	80,905
Safety	240,771	217,191
Total law, justice and public safety	1,765,309	1,684,147
Recreation and resource development:		
Agriculture	85,635	85,513
Tourist Development	30,507	32,806
Environment and Conservation	272,517	238,638
Economic and Community Development	191,889	166,802
Total recreation and resources development	580,548	523,759
Regulation of business and professions:		
Commerce and Insurance	89,143	81,886
Financial Institutions	19,523	17,067
Total regulation of business and professions	108,666	98,953
Intergovernmental revenue sharing	931,384	759,450
Total expenditures by function and department	$ 19,919,632	$ 19,353,023

STATISTICAL SECTION

STATISTICAL SECTION

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

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

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. No adjustments have been made for prior period adjustments.

Schedule 1

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

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	$ 988,309	$ 1,078,294	$ 1,048,423	$ 942,465	$ 987,800	$ 959,641	$ 858,569	$ 981,862	$ 961,058	$ 870,036
Education	6,520,569	6,893,801	7,127,705	7,018,189	7,083,806	7,383,077	7,302,492	7,507,413	7,927,694	8,234,390
Health and social services (3)	11,697,900	12,849,335	13,739,733	13,952,342	14,079,899	13,912,421	14,258,216	14,930,669	14,976,007	15,192,989
Law, justice, and public safety	1,338,869	1,365,134	1,436,045	1,567,730	1,539,288	1,612,248	1,522,333	1,605,231	1,692,610	1,784,864
Recreation and resources development	538,386	499,080	606,317	646,494	554,421	646,781	666,997	665,491	628,906	716,104
Regulation of business and professions	126,003	132,784	127,887	126,395	158,228	158,644	175,667	194,662	205,684	215,749
Transportation	979,454	1,010,029	911,666	1,012,399	1,062,091	1,126,744	1,126,447	1,045,959	1,282,462	1,213,247
Intergovernmental revenue sharing	810,063	874,094	825,777	851,535	844,628	897,312	980,258	1,045,095	1,073,737	1,309,519
Interest on long-term debt	51,977	60,566	63,555	62,119	71,933	67,520	60,622	60,891	58,503	62,430
Payments to fiduciary fund		19,747	63114	58,453	22,386	827	400	680	664	372
Total governmental activities expenses	23,051,530	24,782,864	25,950,222	26,238,121	26,404,480	26,765,215	26,952,001	28,037,953	28,807,325	29,599,700
Business-type activities:										
Employment security (1)	1,427,713	2,135,537	1,613,716	1,232,324	750,529	451,470	289,415	241,852	232,690	222,988
Insurance programs	514,065	557,371	552,626	540,746	544,250	541,205	556,634	585,757	620,734	620,005
Loan programs	1,345	1,406	1,561	1,757	1,577	1,469	1,493	1,865	1,710	1,705
Other	2,265	1,385	25	620	163	76	68	367	216	1,014
Total business-type activities expenses	1,945,388	2,695,699	2,167,928	1,775,447	1,296,519	994,220	847,610	829,841	855,350	845,712
Total primary government expenses	$ 24,996,918	$ 27,478,563	$ 28,118,150	$ 28,013,568	$ 27,700,999	$ 27,759,435	$ 27,799,611	$ 28,867,794	$ 29,662,675	$ 30,445,412
Program Revenues										
Governmental activities:										
Charges for services:										
General government	$ 753,066	$ 778,352	$ 856,264	$ 673,945	$ 775,135	$ 812,528	$ 787,280	$ 796,608	$ 784,087	$ 1,019,219
Education	35,124	44,813	50,052	56,898	85,722	73,276	58,961	50,274	40,849	38,385
Health and social services	615,871	499,694	724,971	772,850	714,788	756,038	957,133	1,030,133	1,189,026	1,071,646
Law, justice, and public safety	122,064	121,201	120,137	125,879	139,622	140,123	137,905	161,110	168,808	161,132
Recreation and resources development	142,657	141,278	139,302	151,545	155,422	145,675	153,788	164,390	169,896	175,065
Regulation of business and professions	151,095	148,788	149,090	168,590	154,896	165,611	182,959	200,087	194,108	214,121
Transportation	15,936	28,322	29,769	29,601	35,470	31,863	45,840	56,466	59,301	63,670
Operating grants and contributions (2)	9,758,691	12,076,579	12,677,291	11,897,517	11,697,733	11,355,859	11,291,412	11,930,270	11,742,175	12,064,641
Capital grants and contributions	592,719	782,188	901,798	903,281	772,061	762,251	727,573	686,774	695,029	738,173
Total governmental activities program revenues	12,187,223	14,621,215	15,648,674	14,780,106	14,530,849	14,243,224	14,342,851	15,076,112	15,043,279	15,546,052
Business-type activities:										
Charges for services:										
Employment security	585,668	710,113	754,108	769,446	632,408	370,752	343,808	290,005	288,964	260,627
Insurance programs	504,130	525,662	547,207	542,756	569,982	598,209	581,436	565,174	599,635	652,846
Loan programs	15,684	16,584	17,350	15,600	12,450	8,897	8,865	9,214	10,255	11,386
Other	1,543	1,043	206	133	231	221	230	239	236	242
Operating grants and contributions (2)	508,249	1,482,113	1,035,693	749,005	327,928	134,026	64,053	85,287	57,418	88,198
Total business-type activities program revenues	1,615,274	2,735,515	2,354,564	2,076,940	1,542,999	1,112,105	998,392	949,919	956,508	1,013,299
Total primary government program revenues	$ 13,802,497	$ 17,356,730	$ 18,003,238	$ 16,857,046	$ 16,073,848	$ 15,355,329	$ 15,341,243	$ 16,026,031	$ 15,999,787	$ 16,559,351
Net (Expense)/Revenue										
Governmental activities	$ (10,864,307)	$ (10,161,649)	$ (10,301,548)	$ (11,458,015)	$ (11,873,631)	$ (12,521,991)	$ (12,609,150)	$ (12,961,841)	$ (13,764,046)	$ (14,053,648)
Business-type activities	(330,114)	39,816	186,636	301,493	246,480	117,885	150,782	120,078	101,158	167,587
Total primary government net expense	$ (11,194,421)	$ (10,121,833)	$ (10,114,912)	$ (11,156,522)	$ (11,627,151)	$ (12,404,106)	$ (12,458,368)	$ (12,841,763)	$ (13,662,888)	$ (13,886,061)

Schedule 1

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Sales and use	$ 6,326,857	$ 6,170,977	$ 6,461,461	$ 6,884,762	$ 7,018,128	$ 7,276,443	$ 7,713,695	$ 8,258,134	$ 8,547,149	$ 8,831,333
Fuel	817,873	874,511	846,384	842,133	834,956	843,164	862,156	899,631	915,415	1,099,342
Business (4)	2,671,226	2,944,465	3,536,200	3,926,566	4,122,814	3,948,253	4,336,333	4,631,629	5,206,841	5,196,013
Other	563,501	504,750	525,192	608,762	648,193	641,244	719,370	722,040	627,070	624,585
Unrestricted investment earnings	42,883	7,245	4,602	772	4,144	7,079	6,121	15,076	36,148	84,104
Miscellaneous	226,907	195,414	217,630	253,489	282,705	221,138	224,064	243,432	234,586	284,299
Contributions to permanent funds	217	196	180	174	180	547	136	170	2,624	142
Transfers	(3,541)	(3,608)	(2,134)	(4,655)	(4,256)	(4,622)	(8,046)	(1,096)	(5,290)	(4,715)
Total governmental activities	10,645,923	10,693,950	11,589,515	12,512,003	12,906,864	12,933,246	13,853,829	14,769,016	15,564,543	16,115,103
Business-type activities:										
Transfers	3,541	3,608	2,134	4,655	4,256	4,622	8,046	1,096	5,290	4,715
Total business-type activities	3,541	3,608	2,134	4,655	4,256	4,622	8,046	1,096	5,290	4,715
Total primary government general revenues and other changes in net position	$ 10,649,464	$ 10,697,558	$ 11,591,649	$ 12,516,658	$ 12,911,120	$ 12,937,868	$ 13,861,875	$ 14,770,112	$ 15,569,833	$ 16,119,818
Changes in Net Position										
Governmental activities	$ (218,384)	$ 532,301	$ 1,287,967	$ 1,053,988	$ 1,033,233	$ 411,255	$ 1,244,679	$ 1,807,175	$ 1,800,497	$ 2,061,455
Business-type activities	(326,573)	43,424	188,770	306,148	250,736	122,507	158,828	121,174	106,448	172,302
Total primary government	$ (544,957)	$ 575,725	$ 1,476,737	$ 1,360,136	$ 1,283,969	$ 533,762	$ 1,403,507	$ 1,928,349	$ 1,906,945	$ 2,233,757

(1) The decrease in expenses in the employment security program between fiscal years 2010 and 2011 was due to a decrease in unemployment claims.

(2) The decrease in operating grants and contributions for business-type activities between fiscal years 2010 and 2011 was due to a decrease in in unemployment claims. The increase in operating grants and contributions from fiscal year 2010 to 2011 for governmental activities was due to the increase in federal funds for reimbursement of medical and pharmacy costs which increased significantly.

(3) The increase in expenses from fiscal years 2010 to 2011 for health and social services was because of rising medical and pharmacy costs.

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

Schedule 2

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets (3)	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234	$ 28,201,282	$ 28,617,760	$ 29,616,706
Restricted	965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324	1,150,817	1,595,049	1,777,806	2,081,564
Unrestricted (1)(2)	1,495,656	1,284,192	1,330,947	1,183,704	1,458,291	1,299,446	940,922	1,534,817	2,736,079	2,704,085
Total governmental activities net position	$ 25,036,800	$ 25,569,101	$ 26,856,959	$ 27,985,116	$ 28,978,083	$ 29,397,293	$ 29,523,973	$ 31,331,148	$ 33,131,645	$ 34,402,355
Business-type activities										
Net investment in capital assets	$									
Unrestricted	1,342,361	$ 1,385,785	$ 1,574,664	$ 1,880,812	$ 2,134,924	$ 2,264,747	$ 2,420,530	$ 2,541,704	$ 2,648,152	$ 2,806,842
Total business-type activities net position	$ 1,342,361	$ 1,385,785	$ 1,574,664	$ 1,880,812	$ 2,134,924	$ 2,264,747	$ 2,420,530	$ 2,541,704	$ 2,648,152	$ 2,806,842
Primary Government										
Net investment in capital assets	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234	$ 28,201,282	$ 28,617,760	$ 29,616,706
Restricted	965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324	1,150,817	1,595,049	1,777,806	2,081,564
Unrestricted	2,838,017	2,669,977	2,905,611	3,064,516	3,593,215	3,564,193	3,361,452	4,076,521	5,384,231	5,510,927
Total primary government net position	$ 26,379,161	$ 26,954,886	$ 28,431,623	$ 29,865,928	$ 31,113,007	$ 31,662,040	$ 31,944,503	$ 33,872,852	$ 35,779,797	$ 37,209,197

(1) The increase in unrestricted net position between fiscal years 2015 and 2016 was mostly attributable to the increase in cash and cash equivalents caused by a increase in revenue collections from business and sales taxes.

(2) The increase in unrestricted net position between fiscal years 2016 and 2017 was attributable to (1) the increase in cash and cash equivalents caused by a increase in revenue collections from business and sales taxes, and (2) a correction of a federal billing issue from fiscal year 2016.

(3) The increase in net investment in capital assets between fiscal years 2017 and 2018 was mostly attributable to an increase in infrastructure.

Schedule 3

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
General Fund										
Nonspendable	N/A	N/A	$ 19,343	$ 18,609	$ 21,349	$ 21,075	$ 20,184	$ 18,765	$ 25,117	$ 21,208
Restricted	N/A	N/A	100,942	63,192	73,346	68,331	69,540	71,304	73,855	73,202
Committed	N/A	N/A	235,301	286,918	355,546	281,969	302,603	314,545	334,316	372,189
Assigned	N/A	N/A	1,179,652	1,250,677	1,585,964	1,138,496	1,285,945	1,612,001	2,263,154	1,949,089
Unassigned	N/A	N/A	507,501	698,663	476,264	567,286	885,215	1,224,464	1,008,428	1,410,118
Total general fund			$ 2,042,739	$ 2,318,059	$ 2,512,469	$ 2,077,157	$ 2,563,487	$ 3,241,079	$ 3,704,870	$ 3,825,806
All Other Governmental Funds										
Nonspendable	N/A	N/A	$ 144,426	$ 147,468	$ 150,579	$ 153,004	$ 519,590	$ 525,078	$ 531,981	$ 536,481
Restricted	N/A	N/A	951,222	980,972	990,317	1,024,350	575,853	1,020,805	1,207,452	1,507,973
Committed	N/A	N/A	191,557	344,696	398,864	396,298	389,401	373,312	336,412	379,483
Assigned	N/A	N/A	710,582	672,610	575,300	759,845	736,691	787,006	1,148,144	1,596,551
Unassigned	N/A	N/A								
Total all other governmental funds			$ 1,997,787	$ 2,145,746	$ 2,115,060	$ 2,333,497	$ 2,221,535	$ 2,706,201	$ 3,223,989	$ 4,020,488

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

Schedule 4

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Taxes	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171	$ 12,762,694	$ 13,717,684	$ 14,536,940	$ 15,151,281	$ 15,694,388
Licenses, fines, fees, and permits	677,766	675,009	693,702	731,752	725,785	727,158	799,462	913,535	973,810	1,058,073
Interest on investments	23,964	36,443	45,089	17,411	35,987	67,117	27,865	56,708	89,231	119,676
Federal [(1)]	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185	11,750,878	11,601,522	12,126,450	11,915,967	12,245,029
Departmental services	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141	1,994,334	2,108,043	2,170,683	2,392,179	2,342,471
Other	535,534	519,936	513,919	595,305	630,355	604,336	584,672	647,996	622,690	734,439
Total revenues	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624	27,906,517	28,839,248	30,452,312	31,145,158	32,194,076
Expenditures										
Current:										
General government	581,364	558,013	563,195	575,919	538,243	553,807	565,415	573,475	654,354	683,678
Education	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325	7,182,444	7,140,936	7,322,279	7,778,143	8,134,979
Health and social services	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483	14,493,610	14,906,413	15,600,711	15,655,566	15,875,861
Law, justice, and public safety	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252	1,555,028	1,552,156	1,618,669	1,693,161	1,772,563
Recreation and resources development	599,885	555,717	682,531	705,043	655,168	711,526	757,166	777,748	736,884	797,848
Regulation of business and professions	131,614	139,200	136,644	135,877	164,673	165,238	187,360	205,830	215,733	222,903
Transportation	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946	1,753,581	1,708,328	1,672,379	1,728,331	1,910,831
Intergovernmental revenue sharing	810,063	874,094	825,777	851,535	844,628	897,312	980,258	1,045,095	1,073,737	1,309,519
Debt service:										
Principal	83,960	101,804	112,234	115,935	274,858	142,643	313,050	246,503	296,444	267,376
Interest	52,110	64,344	68,496	65,471	76,041	75,155	68,325	67,409	71,817	75,163
Debt issuance costs	4,362	4,837	4,363	4,793	2,659	1,452	1,741	2,324	2,225	2,193
Capital outlay	472,451	485,937	391,519	483,279	515,999	491,077	406,396	469,307	462,231	339,789
Total expenditures	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275	28,022,873	28,587,544	29,601,729	30,368,626	31,392,703
Revenues over (under) expenditures	(871,915)	(257,496)	153,526	(19,772)	35,349	(116,356)	251,704	850,583	776,532	801,373
Other Financing Sources (Uses)										
Bonds and commercial paper issued	601,664	415,033	307,318	637,868	290,178	91,281	143,200	447,222	274,348	243,419
Commercial paper redeemed	(273,443)	(155,973)	(155,382)	(201,235)						
Insurance claim recoveries	251			2,734	1,061	1,335	1,597	1,288	725	1,058
Premium on bond sale	30,147	26,358	11,132	37,069			10,308	53,170	42,335	25,282
Refunding bonds issued [(2)(3)]	91,536	43,985	43,014	464,809	25,713					
Refunding bond premium [(2)(3)]	10,670		2,122	88,775	11,672		81,321	98,390	214,452	36,059
Refunding payment to escrow [(2)(3)]	(101,707)	(43,985)	(44,816)	(552,898)	(25,473)		(81,092)	(98,159)	(214,016)	(35,976)
Other		21,146	52,741							
Proceeds from pledged revenue				58,453	22,183	472				
Transfers in	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860	1,561,780	1,173,753	1,229,231	1,711,662	2,028,533
Transfers out [(4)]	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)	(1,763,423)	(1,206,423)	(1,419,467)	(1,824,459)	(2,225,529)
Total other financing sources (uses)	299,864	259,814	108,907	454,876	142,126	(108,555)	122,664	311,675	205,047	72,846
Net Change in Fund Balances	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475	$ (224,911)	$ 374,368	$ 1,162,258	$ 981,579	$ 874,219
Debt Service as a Percentage of Noncapital Expenditures	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%	0.8036%	1.3784%	1.0865%	1.2445%	1.1191%

Note: T.C.A 67-1-1702 requires returns, tax information and tax administration information to remain confidential except as authorized by said T.C.A.

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

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

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

(4) The decrease in transfers out between 2014 and 2015 was due primarily to a reduction of transfers out from the General Fund to the Capital Projects fund, to the Debt Service fund, and transfers out for the leasing of buildings.

Schedule 5

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Auto dealers	$ 7,938	$ 6,725	$ 7,671	$ 8,430	$ 9,275	$ 9,830	$ 10,563	$ 11,801	$ 12,623	$ 12,749
Purchases from manufacturers	4,496	3,493	3,656	4,009	4,042	4,170	4,460	4,877	5,205	5,367
Miscellaneous durable goods	16,347	13,747	14,494	15,583	16,373	16,806	17,548	18,623	20,141	21,100
Eating and drinking places	8,973	8,840	9,057	9,507	10,198	10,576	11,196	12,030	12,611	12,959
Food stores	8,600	8,821	8,884	9,216	9,690	10,249	10,695	11,101	11,511	12,087
Liquor stores	636	657	685	728	793	836	894	971	975	928
Hotels and motels	2,313	2,038	2,067	2,333	2,488	2,539	2,883	3,225	3,602	3,591
Other retail and service	28,237	26,805	27,315	28,756	30,179	31,135	32,886	34,914	36,533	38,091
Miscellaneous nondurable goods	7,784	7,364	7,645	7,987	8,423	8,693	9,047	9,469	9,907	9,919
Transportation, communication	7,910	7,729	6,921	7,085	6,560	6,396	6,307	6,493	6,391	8,140
Total taxable sales	$ 93,234	$ 86,219	$ 88,395	$ 93,634	$ 98,021	$ 101,230	$ 106,479	$ 113,504	$ 119,499	$ 124,931

Source: An Economic Report to the Governor of the State of Tennessee January 2018

Schedule 6

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.00%
Energy fuels used by manufacturers and nurserymen	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Cable and wireless TV (between $15 and $27.50) and satellite services	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retail:										
Building materials	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513	$ 371,086	$ 392,853	$ 430,312	$ 468,750	$ 492,326
General merchandise	810,503	799,387	817,350	840,896	836,055	845,407	854,971	889,297	895,864	881,916
Food stores	520,280	510,104	517,420	539,402	546,972	555,692	579,660	595,739	618,427	571,341
Auto dealers and service stations	672,112	690,797	760,119	830,875	869,748	933,751	1,013,333	1,123,746	1,177,213	1,184,189
Apparel and accessory stores	191,132	191,110	194,172	205,480	215,308	217,170	228,680	238,993	239,541	242,207
Furniture and home furnishings	215,352	207,398	214,575	224,096	221,025	228,231	250,667	268,657	281,955	291,561
Eating and drinking places	596,893	598,562	615,741	653,210	681,255	706,095	757,929	809,367	838,150	845,819
Miscellaneous retail stores	568,197	560,527	578,884	613,097	637,761	664,927	736,728	812,020	818,129	848,254
Total retail	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637	4,522,359	4,814,821	5,168,131	5,338,029	5,357,613
Services:										
Hotels and lodging places	146,253	137,973	144,129	160,868	164,403	175,227	198,123	224,621	236,505	238,462
Personal services	46,564	46,777	46,923	47,932	49,145	49,724	52,239	52,236	52,465	53,561
Business services	239,143	224,044	236,982	249,083	260,000	273,397	276,961	298,046	304,629	322,692
Auto repair, services, and parking	157,972	153,781	160,268	176,923	172,698	178,693	189,611	204,497	208,532	215,481
Miscellaneous repair services	25,321	22,801	23,189	24,384	25,636	26,807	27,823	31,070	32,770	32,560
Motion pictures	21,512	19,803	17,794	18,972	18,323	18,900	18,160	19,341	19,517	18,459
Amusement services	58,225	57,636	60,071	63,922	69,280	73,891	81,249	90,027	96,706	103,495
Health services	14,228	14,305	13,683	15,122	10,750	15,463	14,956	17,232	17,497	17,497
Other services	43,434	36,802	40,752	42,200	37,140	40,659	45,803	46,006	43,365	41,153
Total services	752,652	713,922	743,791	799,406	807,375	852,761	904,925	983,076	1,011,986	1,043,360
Non-retail, non-services:										
Agriculture, forestry, fishing	7,381	7,312	7,259	7,257	7,096	7,304	7,189	7,957	7,939	7,835
Mining	6,126	5,933	5,741	6,491	5,814	6,765	6,822	7,727	7,787	8,153
Construction	52,415	44,038	48,503	49,782	51,094	54,483	56,717	65,278	65,093	76,564
Manufacturing	256,995	225,530	241,844	255,062	256,157	264,955	289,940	317,036	336,122	350,115
Transportation	69,930	34,556	38,345	43,525	40,728	29,009	35,272	33,769	31,262	35,741
Communications	477,281	443,576	430,847	416,347	387,780	379,013	393,980	391,511	416,319	524,788
Electric, gas, and sanitary services	236,692	215,020	237,479	239,531	239,441	245,644	252,014	247,867	260,315	263,119
Wholesale trade	393,100	361,217	398,111	438,113	436,411	447,524	460,079	499,421	527,466	551,886
Finance, insurance, real estate	12,981	17,766	14,027	13,847	14,620	15,207	18,676	22,661	29,816	32,953
Total non-retail, non-services	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141	1,449,904	1,520,689	1,593,227	1,682,119	1,851,154
County Clerk	101,136	110,328	120,986	134,188	133,101	143,818	152,856	172,516	184,186	194,694
Consumer Use Tax	5,250	4,322	4,695	6,334	4,293	5,636	6,006	6,138	5,774	9,354
Flood Relief Tax Rebate	N/A	N/A	(2,649)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	(121)	N/A	N/A	N/A	N/A	N/A	N/A
Unclassified	N/A	N/A	N/A	208,275	258,465	279,555	278,851	305,095	321,652	431,459
Grand Total	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012	$ 7,254,033	$ 7,678,148	$ 8,228,183	$ 8,543,746	$ 8,887,634

Source: Revenue Collections Reports, Tennessee Department of Revenue

Notes: T.C.A 67-1-1702 requires returns, tax information and tax administration information to remain confidential except as authorized by said T.C.A.

N/A means not available

Disaster relief includes May 2010 flood tax rebate, April 2011 disaster relief, and sales tax rebate on storm shelters.

The 2012 report differed from the 2013 report in that it did not include Unclassified as a category. However, the 2013 report included the amount for 2012 and 2013. FY 2012 grand total was revised to include this amount.

The 2018 report differed from the 2017 report for the total reported for Unclassified. FY 2017 was revised to reflect the amount reported in FY 2018.

Schedule 8

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities debt:										
General obligation bonds	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437	$ 2,124,897	$ 2,162,881	$ 2,160,357
General obligation commercial paper	176,308	241,390	214,217	197,770	215,146	324,366	197,686	245,536	192,956	165,176
Capital leases	10,810	16,301	15,503	14,666	13,790	21,798	20,599	20,943	19,394	17,900
Total governmental activities debt	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566	2,342,622	2,178,722	2,389,853	2,375,231	2,343,433
Business-type activities debt:										
General obligation bonds										
Total business-type activities debt										
Total primary government debt	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566	$ 2,342,622	$ 2,178,722	$ 2,389,853	$ 2,375,231	$ 2,343,433
Debt Ratios										
Personal income	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	$ 277,316,000	$ 287,851,000	298,646,000	N/A
Ratio of total debt to personal income	0.79%	0.87%	0.85%	0.96%	0.94%	0.88%	0.79%	0.83%	0.80%	
Population	6,296	6,346	6,403	6,456	6,496	6,549	6,600	6,651	6,716	N/A
Net general bonded debt per capita	$ 270	$ 304	$ 307	$ 358	$ 368	$ 354	$ 327	$ 359	354	
General Bonded Debt:										
General obligation bonds	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437	$ 2,124,897	$ 2,162,881	$ 2,160,357
General obligation commercial paper	176,308	241,390	214,217	197,770	215,146	324,366	197,686	245,536	192,956	165,176
Assets restricted for debt principal	(14,509)									
Total net bonded debt	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776	$ 2,320,824	$ 2,158,123	$ 2,370,433	$ 2,355,837	$ 2,325,533
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	46.38%	38.01%	41.09%	41.65%	43.11%	42.55%	50.24%	49.20%	52.98%	57.70%

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

Notes:
(1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 12 in the basic financial statements.

Schedule 9

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

Debt Capacity(1)*

State tax revenues allocated for FYE June 30, 2017 to:		
General fund	$ 11,771,970 *	
Debt service fund	730,511 *	
Highway fund	410,390 *	
Total allocated revenues		$ 12,912,871
Legal debt service limit (10% of total allocated revenues)		1,291,287
Less: maximum annual debt service at June 30, 2018		238,098 *
Legal debt service margin		$ 1,053,189

* Obtained from the Office of State and Local Finance

Debt Capacity- Ten Year Trend(1)

	FOR THE FISCAL YEAR ENDED JUNE 30, 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Debt limit	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288	$ 648,934	$ 637,424	$ 1,168,731	$ 1,240,437	$ 1,291,287
Total net debt service applicable to limit	154,803	186,684	203,866	209,820	243,779	227,401	225,620	241,023	240,693	238,098
Legal debt service margin	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509	$ 421,533	$ 411,804	$ 927,708	$ 999,744	$ 1,053,189
Legal debt service margin as a percentage of the debt limit	70.56%	61.83%	63.41%	67.30%	64.48%	64.96%	64.60%	79.38%	80.60%	81.56%

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

Pledged Revenues(2)

	Collections for Fiscal Year 2018 Portion Pledged	All Governmental Fund Types	Fiscal Year 2018 Pledged Amount
Gasoline tax	25%	$ 804,806	$ 201,202
Petroleum products fee	100%	68,965	68,965
Motor vehicle registration fee	50%	287,116	143,558
Franchise tax	100%	928,028	928,028
		$ 2,088,915	$ 1,341,753

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

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Population	6,215	6,296	6,346	6,403 (est)	6,456 (est)	6,496 (est)	6,549 (est)	6,600 (est)	6,651 (est)	6,716 (est)
Total personal income	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	$ 277,316,000	$ 287,851,000	$ 298,646,000
Per capita personal income	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682	$ 40,734	$ 42,241	$ 44,209	$ 46,805	$ 47,472
Unemployment rate	7.9%	10.9%	9.4%	9.1%	8.0%	8.2%	6.9%	5.9%	4.8%	3.0%
Unemployment rate by sector:										
Trade, Transportation, and Utilities	10.0%	16.4%	15.0%	12.9%	11.6%	12.3%	11.9%	7.8%	9.3%	N/A
Government	1.9%	2.4%	4.9%	4.4%	5.6%	5.1%	3.3%	0.2%	0.8%	N/A
Education and Health Services	3.7%	4.1%	3.6%	5.0%	4.9%	5.1%	4.6%	2.6%	3.5%	N/A
Professional and Business Services	7.1%	14.4%	9.0%	11.8%	7.3%	10.1%	8.0%	7.0%	4.6%	N/A
Manufacturing	8.4%	14.3%	13.2%	10.2%	7.7%	6.6%	6.9%	5.7%	7.9%	N/A
Leisure and Hospitality	10.4%	17.6%	12.2%	14.3%	12.2%	7.6%	7.0%	9.4%	6.4%	N/A
Financial Activities	2.8%	8.8%	8.6%	8.0%	4.2%	5.4%	2.4%	3.0%	2.1%	N/A
Natural Resources, Mining, and Construction	11.1%	30.2%	25.1%	20.1%	25.3%	19.2%	9.3%	8.3%	5.3%	N/A
Other Services	3.8%	5.2%	5.1%	8.0%	7.8%	6.3%	4.1%	7.2%	2.8%	N/A
Information	3.8%	6.6%	4.2%	2.8%	6.3%	6.8%	6.6%	N/A	N/A	N/A

Source: Population from www.census.gov; Unemployment rate by sector from www.bls.gov
All other from the University of Tennessee Economic Report to the Governor 2018

Notes: N/A means not available

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST CALENDAR YEAR
(expressed in percentage)

Monthly Unemployment Rate

Calendar Year 2017	
January	5.7%
February	4.9%
March	4.6%
April	3.7%
May	2.9%
June	4.2%
July	4.1%
August	3.6%
September	2.9%
October	3.0%
November	3.3%
December	3.1%

Source: https://www.jobs4tn.gov

Schedule 11

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

Industry	2017 Number of Employees	2017 Rank	2017 Percentage of Total Nonagricultural Wage and Salary Employment	2008 Number of Employees	2008 Rank	2008 Percentage of Total Nonagricultural Wage and Salary Employment
Trade, Transportation, and Utilities	627,800	1	20.79%	600,100	1	21.63%
Government	433,200	2	14.35%	424,900	2	15.31%
Education and Health Services	429,300	3	14.22%	361,600	3	13.03%
Professional and Business Services	415,300	4	13.75%	321,100	5	11.57%
Manufacturing	346,800	5	11.48%	361,000	4	13.01%
Leisure and Hospitality	329,000	6	10.89%	273,800	6	9.87%
Financial Activities	155,700	7	5.16%	145,000	7	5.23%
Natural Resources, Mining, and Construction	125,200	8	4.15%	132,400	8	4.77%
Other Services	111,900	9	3.71%	104,500	9	3.77%
Information	45,600	10	1.51%	50,500	10	1.82%
Total	3,019,800		100.00%	2,774,900		100.00%
	Calendar Year 2017			Calendar Year 2008		
Total State Employment	3,080,280			2,846,160		

Source: An Economic Report to the Governor of the State of Tennessee January 2018
and the Tennessee Department of Labor and Workforce Development Website

Note: TCA 50-7-701 states, "Information thus obtained pursuant to the administration hereof shall be held confidential and shall not be published or be open to public inspection in any manner revealing the individual's or the employing unit's identity." This TCA prohibits the release of principal employer information from the Tennessee Department of Labor and Workforce Development. The above schedule is being presented as an alternative to the principal employer schedule.

Schedule 12

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

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government	4,947	4,866	4,786	4,705	4,703	4,327	4,299	4,348	4,740	5,126
Education	1,157	1,193	1,154	1,128	1,259	1,118	1,122	1,167	1,357	1,332
Health and social services	19,704	19,241	17,917	17,453	17,036	16,735	16,209	15,546	15,449	15,366
Law, justice and public safety	10,530	10,629	10,534	10,592	10,940	11,249	10,826	10,675	10,839	10,707
Recreation and resources development	3,698	3,640	3,564	3,515	3,458	3,431	3,441	3,377	3,394	3,420
Regulation of business and professions	708	717	714	706	711	724	716	688	685	696
Transportation	4,167	4,326	3,940	3,809	3,678	3,439	3,355	3,487	3,838	3,953
Total	44,911	44,612	42,609	41,908	41,785	41,023	39,968	39,288	40,302	40,600

Source: Department of Human Resources

Schedule 13

STATE OF TENNESSEE

OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION

FOR THE LAST TEN FISCAL YEARS

Function	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government										
Motor pool vehicles	7,562	7,536	7,621	6,530	6,280	6,181 (1)	4,462	4,374	4,265	4,272
Buildings	107	107	109	110	110	97	81	78	79	83
Machinery and equipment	3,166	3,888	4,061	4,121	5,895	6,772	6,745	6,896	7,117	7,222
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	242	260	249	307	229	222	187	211	209	245
Health and social services										
Buildings	320	320	316	314	330	346	340	346	345	345
Machinery and equipment	2,462	2,856	2,600	2,862	3,020	3,357	3,499	3,746	3,957	3,602
Law, justice and public safety										
Correctional facilities	19	19	19	19	20	20	20	19	18	18
Armories	83	83	83	83	83	83	82	82	82	81
Machinery and equipment	3,156	3,732	4,424	4,506	5,246	6,441	6,452	6,803	6,772	6,934
Recreation and resources development										
Acreage of state parks	173,878	163,032	173,382	191,563	184,521	188,573	189,102	190,941	200,248	201,925
Machinery and equipment	2,736	2,949	2,912	3,075	3,220	3,198	3,245	3,256	3,344	3,387
Regulation of business and professions										
Machinery and equipment	140	148	146	151	169	230	240	841	836	816
Transportation										
State highways (in miles)	13,882	13,871	13,867	13,877	13,884	13,898	13,884	13,877	13,884	13,890
Bridges, state and local highways	19,536	19,595	19,595	19,659	19,729	19,746	19,776	19,793	19,840	19,858
Facilities	122	122	122	122	122	122	122	122	122	123
Buildings	708	708	754	754	754	755	754	752	758	769

Source: various state agencies

Note: (1) In previous years this number included equipment in addition to vehicles. Equipment should not be included.

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

Function		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government											
Tax returns processed (1)		2,802,137	3,005,798	3,538,518	3,670,716	3,914,540	4,682,702	4,519,309	5,068,829	5,326,693	4,518,104
New corporate charters registered		11,073	11,724	9,717	9,618	9,702	9,781	10,325	10,857	10,794	11,092
Investment return on total portfolio		0.40%	0.25%	0.12%	0.12%	0.11%	0.12%	0.25%	0.50%	1.05%	2.05%
Residential and commercial property reappraisals completed		511,050	677,720	525,516	185,965	1,495,789	640,264	338,538	547,191	1,389,649	549,487
Education											
Number of public schools (K-12)		1,736	1,736	1,736	1,784	1,797	1,823	1,811	1,833	1,819	N/A
Enrollment of public schools (K-12)		930,525	933,703	934,246	935,317	993,256	993,841	995,892	997,893	999,701	N/A
Number of high school graduates from public schools		60,371	62,526	62,147	62,157	62,019	61,838	62,632	64,079	64,987	N/A
Health and social services											
TennCare enrollees		1,233,208	1,199,611	1,208,527	1,213,521	1,187,082	1,271,151	1,429,411	1,550,066	1,397,400	1,418,732
Supplemental Nutrition Assistance Program		1,094,500	1,044,900	1,290,200	1,200,000	1,200,000	1,280,000	1,191,500	1,094,644	1,037,928	931,658
Percentage of population (4)		17.38%	16.60%	20.33%	18.74%	18.59%	19.70%	18.19%	16.59%	15.61%	13.87%
Temporary assistance recipients		60,000	58,000	61,500	57,000	57,000	57,000	37,041	29,889	25,496	21,732
Percentage of population (4)		0.95%	0.92%	0.97%	0.89%	0.88%	0.88%	0.57%	0.45%	0.38%	0.32%
Children in state custody (2)		7,202	7,336	7,870	8,533	8,960	8,552	8,558	8,436	8,235	8,688
Percentage of population (4)		0.11%	0.12%	0.12%	0.13%	0.14%	0.13%	0.13%	0.13%	0.12%	0.13%
Mental health institutes average daily census		688	575	538	517	480	479	493	488	506	492
Law, justice and public safety											
Correctional institutions average daily census		27,325	27,164	27,782	29,231	29,654	29,758	29,571	29,103	29,729	30,242
Department of Safety citations issued		358,104	347,571	301,394	340,575	381,588	419,122	414,310	432,832	447,417	473,410
Drivers licenses issued		1,625,939	1,486,722	1,409,342	1,714,905	1,734,205	1,741,379	1,732,106	1,793,921	1,769,595	1,910,190
Recreation and resources development											
Hunting/fishing licenses and boats registered	(est.)	707,000	689,935	547,660	586,839	538,971	569,447	577,577	537,412	511,673	556,892
Wetland acres acquired	(est.)	2,327	79	559	1,604	1,127	1,598	102,938	2,050	8,610	2,103
Number of visitors to state parks		28,410,067	28,404,662	30,282,836	31,036,603	29,881,059	32,063,100	33,452,320	34,004,609	37,025,015	38,798,379
Air pollution monitoring sites		89	93	32	32	41	40	33	36	32	30
Regulation of business and professions											
Fire safety inspections		34,241	37,920	34,539	27,058	25,601	27,724	16,508	14,037	13,742	13,959
Consumer affairs written complaints		5,481	6,240	5,818	5,541	5,407	5,447	4,654	3,821	3,704	3,783
Transportation											
Lane miles resurfaced (3)		2,893	2,261	2,317	2,298	2,596	2,447	2,239	2,219	2,585	2,914
HELP program services provided		108,460	112,438	116,865	130,941	118,773	124,823	113,429	135,058	145,755	128,311

Source: Tennessee fact book, various state agencies

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

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

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 599,973	$ 476,333	$ 35	$ 31,997
2010	648,298	493,304	12	43,998
2011	685,003	548,787		48,256
2012	584,147	411,729		51,469
2013	619,399	432,636		52,859
2014	650,337	467,845		55,821
2015	700,757	475,416		55,553
2016	746,986	499,862		70,543
2017	780,867	555,401		73,722
2018	802,063	573,017		83,906

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 195,365	$ 114,524		$ 8,914
2010	214,426	122,480		8,914
2011	237,768	133,514		8,839
2012	259,510	97,773		8,589
2013	265,206	94,419		8,511
2014	183,140	91,398		8,469
2015	240,892	95,118		10,655
2016	190,286	102,249		10,626
2017	279,668	102,423		10,926
2018	287,128	110,762		12,310

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)
2009	$ 62,358	$ 33,427		$ 3,512
2010	70,128	39,157		3,512
2011	78,214	36,102		3,531
2012	85,043	26,502		3,330
2013	85,725	28,733		4,343
2014	74,084	34,272		6,014
2015	78,013	36,968		6,096
2016	76,777	40,320		6,329
2017	98,754	40,394		6,332
2018	104,309	44,622		6,212

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)
2009	$ 182,576	$ 92,908		$ 12,962
2010	199,352	101,836		12,962
2011	180,529	100,110		14,928
2012	218,283	74,071		14,780
2013	232,344	77,254		17,575
2014	180,748	82,919		19,641
2015	199,239	85,855		19,122
2016	191,688	90,092		19,914
2017	238,777	90,302		19,507
2018	245,313	96,514		17,970

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)
2009	$ 137,173	$ 91,775	$ 1,699	$ 9,489
2010	159,993	85,322	1,399	9,502
2011	169,479	97,996	1,399	9,229
2012	177,436	77,520	1,399	9,142
2013	192,055	79,860		9,926
2014	115,941	83,259		12,028
2015	139,579	87,764		11,439
2016	155,854	92,971		11,475
2017	177,156	55,392		11,442
2018	189,529	98,105		12,149

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 80,016	$ 38,085		$ 4,041
2010	85,831	44,400		4,041
2011	91,919	40,831		4,071
2012	97,171	28,782		4,056
2013	97,174	29,959		4,237
2014	75,307	38,271		4,241
2015	92,297	39,191		3,600
2016	87,608	39,101		3,793
2017	121,323	32,708		3,443
2018	119,436	35,731		3,345

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Schedule 15

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

(expressed in thousands)

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 76,045	$ 47,577		$ 1,786
2010	81,475	48,133		1,786
2011	89,100	50,616		3,104
2012	100,915	35,747		3,102
2013	110,217	36,914		3,479
2014	93,241	38,454		4,079
2015	112,938	39,302		4,052
2016	99,705	41,897		4,077
2017	126,856	41,992		4,094
2018	127,641	47,030		4,038

Dyersburg State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 6,945	$ 7,276		$ 116
2010	9,027	7,758		116
2011	9,988	7,985		
2012	10,626	6,570		
2013	10,647	6,900		
2014	9,151	7,328		
2015	8,992	7,842		
2016	9,098	8,605		
2017	9,327	8,631		
2018	9,938	9,389		

Chattanooga State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 26,466	$ 23,937		$ 489
2010	29,512	24,926		489
2011	34,021	26,901		285
2012	36,319	20,643		285
2013	36,895	21,983		351
2014	32,676	26,000		374
2015	33,207	27,449		301
2016	34,152	29,269		279
2017	33,350	29,337		283
2018	33,654	31,118		287

Jackson State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 12,383	$ 13,264		$ 166
2010	14,749	11,710		166
2011	15,739	13,193		
2012	16,009	10,652		
2013	14,918	10,871		
2014	13,749	11,105		
2015	15,088	11,401		
2016	15,166	12,376		
2017	15,855	12,404		
2018	15,936	13,562		

Cleveland State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 8,336	$ 10,379		$ 213
2010	9,958	10,992		213
2011	10,979	11,432		45
2012	11,373	9,088		45
2013	11,377	8,887		45
2014	11,513	8,849		45
2015	11,264	9,336		44
2016	11,059	9,735		44
2017	11,294	9,760		44
2018	10,636	10,988		41

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)
2009	$ 11,755	$ 13,824		$ 14
2010	14,406	12,463		18
2011	15,413	14,098		18
2012	15,296	11,467		18
2013	15,792	11,326		112
2014	15,232	12,340		127
2015	16,058	12,842		127
2016	17,358	13,885		127
2017	18,508	13,908		127
2018	20,421	14,954		339

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

(expressed in thousands)

Motlow State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 11,148	$ 12,890		$ 170
2010	13,121	9,143		170
2011	13,983	11,023		
2012	14,494	9,774		
2013	14,062	10,359		
2014	14,036	10,643		
2015	15,314	11,007		
2016	17,814	11,724		
2017	20,370	11,750		
2018	22,208	13,293		

Nashville State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 19,900	$ 15,619		$ 70
2010	24,984	14,585		85
2011	30,011	16,451		85
2012	30,181	13,965		73
2013	30,199	14,592		73
2014	28,533	15,861		73
2015	30,694	16,936		73
2016	29,616	17,726		65
2017	29,065	17,769		67
2018	27,337	20,259		69

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)
2009	$ 15,366	$ 18,104		$ 323
2010	18,411	16,997		323
2011	20,532	19,098		153
2012	21,580	15,571		153
2013	21,902	15,619		145
2014	21,902	17,384		141
2015	20,819	18,012		142
2016	20,689	18,920		142
2017	21,167	18,956		142
2018	21,282	20,938		142

Northeast State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 10,140	$ 12,678		$ 209
2010	10,798	13,247		209
2011	12,141	13,291		43
2012	13,934	12,069		43
2013	12,654	12,970		41
2014	17,593	13,237		40
2015	18,701	14,594		40
2016	22,271	16,028		40
2017	20,413	16,072		40
2018	19,521	18,137		40

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 36,691	$ 38,230		$ 389
2010	39,546	40,340		389
2011	42,093	40,168		390
2012	41,966	32,359		357
2013	39,705	31,281		357
2014	36,221	24,669		358
2015	37,400	25,279		363
2016	33,835	26,091		342
2017	33,337	26,142		361
2018	33,382	27,147		162

Pellissippi State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 25,530	$ 20,983		$ 376
2010	32,052	19,105		376
2011	35,757	22,100		179
2012	36,322	18,910		178
2013	44,992	20,887		178
2014	35,680	23,430		171
2015	18,775	25,599		172
2016	35,347	27,292		162
2017	37,677	27,368		164
2018	41,932	30,478		167

(continued on next page)

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

(expressed in thousands)

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 17,802	$ 18,351		$ 139
2010	22,240	18,944		139
2011	24,326	20,729		17
2012	26,812	15,650		17
2013	25,995	15,577		16
2014	25,256	16,230		
2015	26,223	17,198		
2016	31,988	18,643		
2017	32,381	18,715		
2018	31,895	20,810		

Walters State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2009	$ 17,859	$ 19,601		$ 289
2010	21,454	19,180		289
2011	21,821	19,986		102
2012	23,034	16,078		102
2013	23,157	17,227		97
2014	21,112	20,351		94
2015	22,796	20,968		94
2016	22,261	21,879		94
2017	23,557	21,929		94
2018	24,007	23,470		95

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

STATE OF TENNESSEE **Schedule 16**
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 412	$ 13,006	$ 31,426	$ 4,159	$ 7,081
University of Tennessee- Chattanooga	300	8,664	24,782	3,200	5,900
University of Tennessee- Martin	380	9,194	15,234	2,468	3,532
Austin Peay State University	274	8,471	24,467	4,878	6,820
East Tennessee State University	470	9,277	28,459	3,794	4,678
Middle Tennessee State University	408	9,206	28,364	3,280	5,418
Tennessee State University	178	8,007	21,381	3,956	3,750
Tennessee Technological University	258	9,103	25,759	5,000	3,800
University of Memphis	490	9,701	21,413	1,560	2,340
Chattanooga State Community College		4,459	21,505	1,000	
Cleveland State Community College		4,439	21,485	2,168	
Columbia State Community College	44	4,473	21,519	1,850	1,800
Dyersburg State Community College		4,439	21,485	1,232	3,696
Jackson State Community College		4,425	21,471	793	2,257
Motlow State Community College		4,445	21,491	1,260	2,520
Nashville State Community College		4,395	21,441	2,130	
Northeast State Community College		4,451	21,497	2,500	1,000
Pellissippi State Community College	30	4,479	21,525	1,050	2,100
Roane State Community College		4,443	21,489	3,838	3,839
Southwest Tennessee Community College		4,459	21,505	4,275	4,305
Volunteer State Community College		4,433	21,479	2,140	2,250
Walters State Community College		4,428	21,474	1,800	1,800

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

STATE OF TENNESSEE **Schedule 17**
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2018
(expressed in thousands)

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 982,656	$ 8,460	$ 991,116
Austin Peay State University	82,756	3,443	86,199
East Tennessee State University	130,286	9,076	139,362
Middle Tennessee State University	173,706	11,639	185,345
Tennessee State University	21,103	774	21,877
Tennessee Technological University	38,767	29,807	68,574
University of Memphis	130,784	5,078	135,862
Chattanooga State Community College	2,014		2,014
Cleveland State Community College	182		182
Columbia State Community College	3,921		3,921
Nashville State Community College	248		248
Northeast State Community College	111		111
Pellissippi State Community College	597		597
Roane State Community College	393		393
Southwest Tennessee Community College	1,095		1,095
Walters State Community College	261	7,200	7,461
	$ 1,568,880	$ 75,477	$ 1,644,357

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

NATIONAL FEDERATION OF MUNICIPAL ANALYSTS RECOMMENDED DISCLOSURES FOR STATE DEBT

In accordance with the *Recommended Best Practices in Disclosure for state Government General Obligation and Appropriation Debt*, the state makes the following voluntary additional debt disclosures not already presented in the Notes to the Financial statements.

General Disclosure Items

- The state is committed to complying with U.S. Securities and Exchange Commission Rule 15c2-12(b) (5) as it relates to continuing disclosure undertakings. The State reviewed the financial information, operating data and event notices filed by the State within the preceding five years with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system pursuant to the State's Rule 15c2-12 continuing disclosure undertakings and identified, among other things, the following.
    - Rating downgrades of several maturities of one series of the State's general obligation bonds issued in 2003 (all maturities of which series had either been refunded or had matured by August 1, 2011) based on the bonds' insurer were not the subject of material event notices due, in part, to the lack of any direct notification to the State of the specific rating impact on such bonds.
    - Watkins Institute is not deemed to be a component unit of the State and its financial information, including indebtedness, is not reported in the State's CAFR; accordingly, no information on its indebtedness (currently totaling approximately $1.2 million) was reported to EMMA and will not be reported in the future.
    - Information regarding TennCare budgeted expenditures presented in tabular format in relevant Official Statements was not presented in such format in the State's CAFRs, but current-year budgeted and actual TennCare expenditures were presented in each of the State's CAFRs (other than for the 2012 fiscal year, in which only actual TennCare expenditures were presented).
    - Certain TCRS information presented in tabular format in relevant Official Statements (Unfunded Liability if Actuarial Value of Assets were Valued at Market; Historical Funding Progress Based on Fiduciary Net Position/Market Value of Assets; Historical Fiduciary Net Position/Market Value of Assets; Comparison of Market Value of Assets to Actuarial Value of Assets; and Cash Flows) was reported in different form in the State's CAFR and the comprehensive annual financial report of the TCRS filed by the State each year.
    - The TennCare Information and the TCRS Information were also included in the same tabular format in Official Statements posted on EMMA in the last five years, except for actuarial valuation information that was not included in the 2015 Official Statement because of changes in GASB accounting rules.

- The state provides strong systemic support to assist counties and cities in financial distress. State statutes establish a proactive approach and there is no state law that permits counties and cities to file for bankruptcy. Based upon revenue and debt thresholds, cities are required to have a Chief Financial Officer who meets minimum certification and/or continuing education requirements. Local governments in Tennessee have statutory flexibility to raise property taxes and levy certain local option taxes for operating purposes without voter approval. The Local

Government Public Obligations Act establishes budgetary oversight by the state Comptroller for cities and counties with outstanding debt and requires state Comptroller review or approval for certain indebtedness. State statutes require Tennessee's counties and cities to issue financial statements in accordance with generally accepted accounting principles and to have an annual audit conducted in accordance with *Government Auditing Standards*. When a local government is in financial distress as evidenced by improper use of restricted utility resources, state statutes require corrective action and authorize the state Comptroller to approve a plan of repayment. Municipal utility systems are required to be self-supporting. The state's Water and Wastewater Financing Board (WWFB) has oversight of water and/or wastewater facilities that meet statutory criteria for financial distress. The state Comptroller has the authority to authorize counties and cities that are undergoing severe monetary stress to issue long-term funding bonds to pay for current expenditures pursuant to the Cash Basis Law of 1937. With the exception of the Emergency Financial Aid to Local Governments Law of 1995, the state does not have statutory authority to guarantee the debt of local governments. The Emergency Financial Aid to Local Governments Law of 1995 authorizes the state to guarantee the repayment of a loan made to a local government by an external lender if specific statutory conditions are met. Since the inception of the law, the state has not authorized the issuance of emergency financial aid notes. Local governments that issue funding bonds or emergency financial aid notes are subject to strict oversight by the state Comptroller.

- Relative to other direct subsidy debt:
  - The state has been subject to having the direct subsidy reimbursements, from the federal government, related to the Series 2010 Qualified School Construction Bonds (QSCBs) issuance offset by amounts due to the federal government. In general, the subsidy payment has been offset by taxes due from the state, civil penalties and federal sequestration. Other triggers that could result in the loss or reduction of subsidy payments are future federal sequestration or changes in use by the borrower.
  - The Series 2010 QSCBs issuance shall be subject to redemption prior to their stated maturities, in whole or in part, at any time at the "Make-Whole Redemption Price". The Make-Whole Redemption Price is equal to the greater of (a) 100% of the principal amount of the series to be redeemed; or (b) the sum of the present value of the remaining scheduled payments of principal and interest on the 2010 bonds to be redeemed to the maturity date of such Series 2010 Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Bonds are to be redeemed, discounted to the date on which the Series 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30 day months, at the United States Treasury Rate plus 25 basis points (0.25%); plus, in each case, accrued interest on the Series 2010 Bonds to be redeemed to the redemption date.
  - The Series 2010 QSCBs issuance shall also be subject to extraordinary optional redemption prior to maturity, at the option of the TSSBA, upon the occurrence of an extraordinary event, in whole or in part, on any business day at the "Extraordinary Make-Whole Redemption Price" The

Extraordinary Make-Whole Redemption Price is equal to the greater of (a) 100% of the principal amount of the Series 2010 bonds to be redeemed; or (b) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2010 Bonds to be redeemed to the maturity date of such Series 2010 Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Bonds are to be redeemed, discounted to the date on which the Series 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30 day months, at the United states Treasury Rate plus 100 basis points (1.00%); plus, in each case, accrued interest on the Series 2010 Bonds to be redeemed to the redemption date.

Demographics/Economy

- The state Constitution allows the state to levy ad valorem taxes on all of the taxable property within the state for the payment of the principal and interest on the state's general obligation indebtedness; however, the state does not currently levy such a tax and has no current intent to do so.
- The state currently contracts with The University of Tennessee Boyd Center for Business and Economic Research to prepare an annual economic report to the Governor containing short-term business cycle-sensitive forecasts as well as longer-term or trend forecasts for the year and to prepare quarterly updates throughout the year. The report "An Economic Report to the Governor of the state of Tennessee" as well as any updated information can be found at: http://cber.bus.utk.edu/tefslist.htm.
- See the chart below for sales and use tax information.

Tennessee Department of Revenue
Sales and Use Tax - Returns Filed and Tax by Classification
Fiscal Year Ended June 30, 2018
(Thousands of U.S. Dollars)

	Returns Filed	Total (%)	Tax Collections	Total (%)
Retail Trade and Services:				
Building Materials	31,063	2.57%	$492,326	5.54%
General Merchandise	39,305	3.26%	881,916	9.92%
Food Stores	57,117	4.73%	571,341	6.43%
Auto Dealers and Service Stations	86,228	7.15%	1,184,189	13.32%
Apparel and Accessory Stores	38,447	3.19%	242,207	2.73%
Furniture and Home Furnishings	42,210	3.50%	291,561	3.28%
Eating and Drinking Places	147,817	12.25%	845,819	9.52%
Miscellaneous Retail Stores	215,325	17.85%	848,254	9.54%
Services	269,340	22.32%	1,043,361	11.74%
All Other:				
Non-Retail, Non-Services	197,047	16.33%	1,851,154	20.83%
County Clerk	1,298	0.11%	194,694	2.19%
Consumer Use Tax	6,236	0.52%	9,354	0.11%
Unclassified	75,036	6.22%	431,459	4.85%
Total	**1,206,469**	**100.00%**	**$8,887,635**	**100.00%**

Financial statements

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

General Revenue Base

- A breakdown of the state tax revenue allocations, percent and percentage change from estimates, the legal basis for collecting the taxes, a listing of the types of transactions being taxed and any exemptions can be found in the state revenue section of the annual budget document found at https://www.tn.gov/finance/fa/fa-budget-information.html.

- T.C.A. 67-1-100 sets forth a Tennessee Taxpayer Bill of Rights which directs the adoption of policies which would inform and advise taxpayers of their rights and would guarantee Tennessee taxpayers are treated with fairness, courtesy and common sense. Included in the bill of rights is the right to receive a clear set of rules and procedures to resolve tax problems, the right to dispute any proposed assessment, and the right to a speedy, informal and inexpensive review of a proposed assessment in an informal conference. T.C.A. 67-1-1438 contains the requirement for the commissioner of revenue to promptly issue a notice of proposed assessments when a taxpayer is determined to have failed to pay the correct amount of any tax administered by the commissioner. The section also provides the procedures for taxpayers to follow in order to request an informal conference to appeal the proposed assessment. Upon the assessment becoming final, further taxpayer remedies for disputed final tax assessments can be found in T.C.A. 67-1-1801. If the taxpayer believes the final assessments to be unjust, illegal or incorrect, the taxpayer may 1) pay the tax and file a claim for refund or 2) file suit in chancery court challenging all or any portion of such tax. Refer to the contingencies note for discussion of pending litigations.

- Under state law, long-term debt cannot exceed the expected life of the project being financed. The state is also authorized to issue tax revenue anticipation notes, in anticipation of tax revenues in the then current fiscal year. The state constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year.

- Section 28 of the Tennessee State Constitution set forth the assessment rates for real property, tangible personal property and intangible personal property. The section also prohibits the state from levying or authorizing any state or local tax upon the payroll or earned personal income or any state or local tax measured by payroll or earned personal income. Section 30 of the document prohibits the taxation of any article manufactured of the produce of the state, except to pay inspection fees. Further, the General Assembly shall not authorize any municipality to tax incomes, estates, or inheritances, or to impose any other tax not authorized by section 28 and 29 of Article II of the Constitution. T.C.A. 9-9-104 pledges certain tax revenue collections for the debt service of bonds issued before July 1, 2013. The section also includes a covenant with the holders of the bonds, secured by the pledge, that the state will not decrease by legislative action any of the fees or taxes that constitute the special pledge, unless the funding board certifies that all debt service

- payments have been made in full or that the decreased fees will be sufficient to pay future debt service.

- As Tennessee's chief tax collector, the Department of Revenue is responsible for the administration of state tax laws and motor vehicle title and registration laws, as well as the collection of taxes and fees associated with those laws. In addition to collecting state taxes, the department collects taxes for local, county and municipal governments. On a monthly basis, the department apportions revenue collections for distribution to the various state funds and local units of government.

- Tennessee is an origin-based sales tax state for in state vendors and destination-based for out of state vendors. Vendors based in the state are required to charge the rate in effect, at the point of origin of the sale, for all sales made within the state. Vendors based out of state are required to either apply the rate in effect at the buyers ship-to address or charge a predetermined flat rate to all Tennessee buyers. Vendors collect the tax and then prepare state tax filings in a frequency based on the amount of sales tax collected from buyers in the state. Remittances must be submitted electronically except in certain hardship cases.

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, Commissioner
Eugene Neubert, Deputy Commissioner, F&A Operations
Mikel J. Corricelli, Chief of Accounts

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

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

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