

# TENNESSEE

## Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2007



Comprehensive Annual Financial Report • For the Fiscal Year Ended June 30, 2007

# Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2007

PHIL BREDESEN, Governor



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

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



**STATE OF TENNESSEE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2007**

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# INTRODUCTORY SECTION

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**Memphis, Tennessee** was founded May 22, 1819, by John Overton, James Winchester, and Andrew Jackson. Memphis is the largest city in the state of Tennessee and the 18th largest city in the United States. The city is located on the eastern banks of the Mississippi River and is well known for its cultural contributions to the identity of the American South. Known as the birthplace of rock and roll and the home of the blues, Memphis has played a major part in the development of not only these two musical genres, but also those of gospel and country music. Due to its location, Memphis is a major hub for commerce among the transportation and shipping industry.

## Memphis Facts

**Population:** 670,902 (2006)

**Incorporated:** 1826

**Fortune 500 Companies:** Federal Express, Autozone.

**Famous Memphians:** Elvis Presley, Cybill Shepherd, Danny Thomas.

**Colleges and Universities:** University of Memphis, Lemoyne-Owen College, Crichton College, and Christian Brothers University.

**County:** Shelby

**Professional Sports:** Memphis Grizzlies (NBA), Memphis Redbirds (AAA-MLB).

**Annual Festivals:** Memphis in May, Carnival Memphis.

**Points of Interests:** National Civil Rights Museum, Memphis Brooks Museum of Art, Children's Museum of Memphis, Graceland, Pink Palace Museum and Planetarium, Mud Island, Beale Street, Sun Studios, Memphis Zoo.



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

**DAVE GOETZ  
COMMISSIONER**

December 7, 2007

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

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2007.

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

State statutes require an annual audit of all financial statements of the state. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2007. The independent auditor's report is located at the front of the financial section of this report.

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

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

### **Profile of the Government**

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

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

State legislation requires the Governor to present his proposed budget to the General Assembly at the beginning of each annual session. Annual budgets are adopted for the general fund, special revenue funds (except Fraud and Economic Crime, Community Development and the Dairy Promotion Board), and debt service fund. The General Assembly enacts the budget through passage of specific departmental appropriations, the sum of which may not

exceed estimated revenues. Before signing the Appropriations Act, the Governor may veto or reduce any specific appropriation, subject to legislative override. Once passed and signed, the budget becomes the State's financial plan for the coming year.

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

### **Local economy**

By most broad measures of economic activity, 2006 was a good year for Tennessee. Nonfarm job growth should total nearly 1.3 percent for the year, personal income should be up 6 percent and the unemployment rate should average 5.2 percent. The weakness in manufacturing was sustained, however, with a setback of 1.2 percent projected for 2006. The uneven pattern of growth across metropolitan and non-metropolitan areas of the state also continued; rural Tennessee in particular has been hit hard by the loss of manufacturing jobs while metropolitan communities have benefited from strong growth in the service sector.

The short-term outlook for the state calls for slightly slower growth in 2007 than in 2006 with growth then showing some acceleration in 2008. The primary factor weighing down on the economy in the near term include higher interest rates, a slowdown in residential construction, high energy prices and further setbacks in manufacturing. Strong job growth in services should continue to provide an important foundation for economic expansion in metropolitan Tennessee.

The Southeastern states have been known historically for their concentration in manufacturing, though there has always been considerable variation in the dominance of industry across states within the region. On average, manufacturing jobs accounted for 11.9 percent of nonfarm jobs in the Southeast in the third quarter of 2006, ahead of the 10.5 percent average for the nation. Tennessee's manufacturing share of 14.5 percent places it fourth in the region in terms of industrial importance.

While Tennessee has enjoyed healthy job growth in the last year, the pace of employment expansion has fallen below that of many other states in the region. On a year-over-year basis, the Tennessee state economy saw jobs expand at a 1.2 percent pace in the third quarter of 2006, as did Arkansas and Mississippi. Eight states in the region performed better than Tennessee's 1.2 posting, Florida's 3.1 percent job growth being especially impressive.

Tennessee's 4.5 percent unemployment rate matched the rate for the national economy in October 2006 and placed it fifth-lowest in the region. Virginia enjoyed the lowest rate of unemployment, while South Carolina was the highest among the Southeastern states. Tennessee is enjoying the lowest unemployment rate experienced in a number of years since rates in the past three years have averaged 5.5 percent.

Among the twelve southeastern states in individual wellbeing, as measured by per capita personal income, Tennessee ranks fourth at per capita income of \$32,446. The highest levels of per capita income are found in Virginia and Florida with Mississippi ranking at the bottom in the region. Per capita personal income has increased each of the past three years on average—\$28,416 in 2003, \$29,566 in 2004, and \$30,908 in 2005. The national figure sets at \$36,105.

In 2005, the number of farms in Tennessee continued a decades-long decline from 274,000 in 1935, to 92,000 in 1995, to 84,000 farms in 2005. Despite this decline in numbers, Tennessee ranks fourth among all states in the number of farms. Tennessee is twenty-fifth in total land in farms (11.6 million acres) and forty-fourth in average size of farms (138 acres). Agriculture in Tennessee is very diverse. The state's top agricultural commodities include farm animals (including cattle, hogs, and poultry) greenhouse/nursery, and various kinds of crops (including soybeans, cotton, corn, tobacco).

### **Long-term financial planning**

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

The expansion of this fund is a priority. The reserve increased \$49.3 million in 2005-2006 and \$218.2 in 2006-2007 budget years. The increase in this reserve in 2006-2007 not only met expectations but exceeded the minimum legal requirement.

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

Tennessee pursues an aggressive cash management and investment program. One aspect of this program that is believed unique to Tennessee is the state's direct access into the Federal Reserve wire system. Through the State Trust of Tennessee, wire services in the federal system are accessed by the State's investment office. This provides the State flexibility in investing and concentrating cash balances, pension fund assets, and in redeeming warrants and checks issued against the Treasury. During fiscal year 2007, uncommitted State funds were invested in short-term collateralized deposits as follows (averaged): certificates of deposit (31%), commercial paper (30%), U.S. Treasuries (33%), and money market accounts (6%). The composite weighted average yield on these investments was 5.3%, up from 4.11% last year.

#### **Relevant financial policies**

The budget projects moderate growth in state revenues next year. This, along with surplus funds carried forward from last year, is adequate to fund a balanced plan for next year, in which recurring program requirements are funded by recurring revenue growth and one-time needs are addressed by the surplus and nonrecurring funds.

As required by budget law and careful budget management practices, the state will maintain the revenue fluctuation reserve at five percent of the general and education fund revenues.

Also, based on an established budget principle of maintaining education as a number one priority, approximately 90 percent of a new multi-million dollar revenue stream generated from an increase in the state's cigarette tax will go to education.

#### **Major initiatives**

Tennessee continues to focus on making education the state's fundamental priority, and on continuing to improve job creation and economic development, public safety, and making state government focused and more responsive to its citizens.

The voluntary pre-kindergarten program continued to expand during 2006-2007 with funding from the General Fund. The pre-kindergarten program is designed to give preference to children who qualify as at-risk, however, the goal is to extend the program beyond at-risk and make it available to every four year-old child in the state.

The Basic Education Program (BEP) which provides funding to local education agencies includes full funding for significant improvements this year. The BEP funding increased by \$290.1 million over last year to provide for the instructional component of the BEP, to improve the teacher's base salary average, and to provide for at-risk students.

Funding for higher education includes increases to operating improvements to limit tuition increases to the range of 5 to 6 percent in 2007-2008. Increases were also included for agricultural research and extension and public service programs.

The capital outlay budget totals \$505 million including \$190 million for higher education, \$100 million to establish a K-12 school construction bond pool, and \$89 million for land conservation, state parks, and historic sites. Also, capital outlay includes additional funding for the prison expansion in Bledsoe County and grants to local governments in the state.

Additional funding is proposed for the Cover Tennessee healthcare programs. This is the second-year adjustment for this new program, which is available to uninsured children through age 18, with a household income below 250 percent of the poverty level. Maternity coverage also is available for pregnant women.

#### Awards and acknowledgements

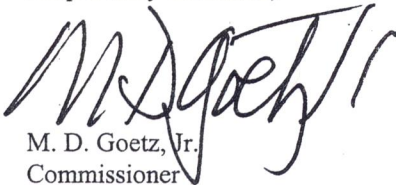
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2006. This was the twenty-eighth consecutive year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

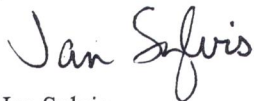
The Tennessee Consolidated Retirement System has also received a Certificate of Achievement for Excellence in Financial Reporting award for seventeen consecutive years for its Comprehensive Annual Financial Report. In addition, the GFOA presented its Distinguished Budget Presentation Award to the state for its annual budget for the fiscal years ended June 30, 1992 through June 30, 1995 and June 30, 1998 through June 30, 2006. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

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

Respectfully submitted,



M. D. Goetz, Jr.  
Commissioner



Jan Sylvis  
Chief of Accounts



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

December 7, 2007

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

Ladies and Gentlemen:

In accordance with Section 4-3-304, Tennessee Code Annotated, transmitted herewith is the auditor's report on the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2007.

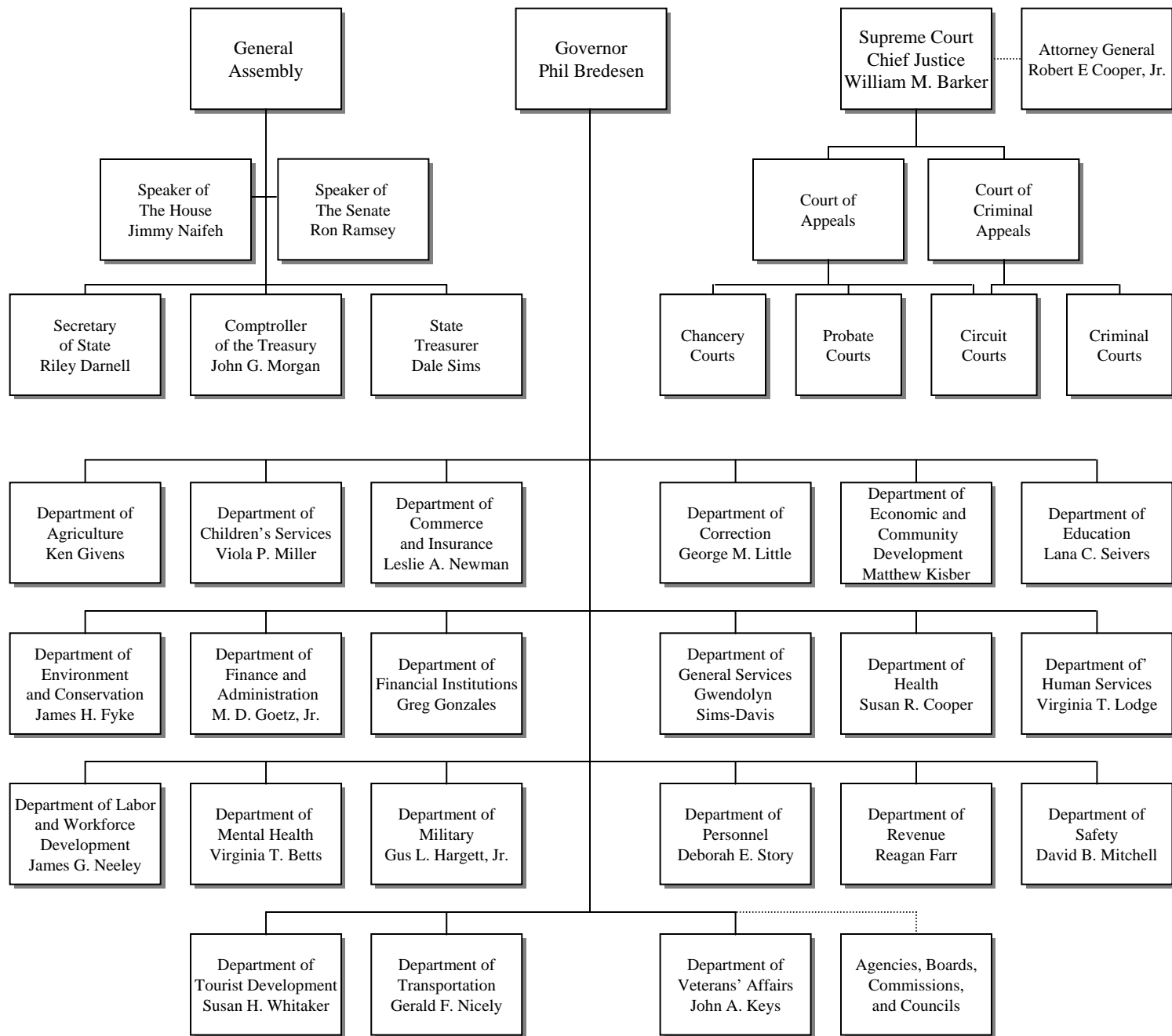
Respectfully,

A handwritten signature in cursive script that reads "John G. Morgan".

John G. Morgan  
Comptroller of the Treasury

JGM/gme

# STATE OF TENNESSEE ORGANIZATION CHART As of June 30, 2007



# 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, 2006

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



A handwritten signature in black ink, reading "Oliver S. Cox".

President

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director



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# FINANCIAL SECTION

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Auditor's Report**

December 7, 2007

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

Dear Mr. Morgan:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of and for the year ended June 30, 2007, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Tennessee Local Development Authority, Tennessee Student Assistance Corporation, Tennessee State School Bond Authority, and Water and Wastewater Financing Board.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

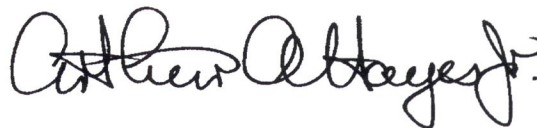
As discussed in Note 4 to the financial statements, the State has implemented the Governmental Accounting Standards Board's Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

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

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

In accordance with *Government Auditing Standards*, we will issue our report dated December 7, 2007, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA  
Director

AAH/jmc

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our management discussion and analysis (MD&A) of the State of Tennessee's (the State's) financial performance provides an overview of the State's financial activities for the year ended June 30, 2007. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-6 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

### FINANCIAL HIGHLIGHTS

- **Government-wide:**

Net Assets - The assets of the State exceeded its liabilities at June 30, 2007, by \$26.47 billion (reported as net assets). Of this amount, \$3 billion may be used to meet the State's obligations not funded by restricted net assets. However, \$21.03 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

Changes in Net Assets - The State's net assets increased by \$1.7 billion. Much of this increase results from the State's decision to utilize the modified approach for reporting infrastructure capital assets. Because of this decision, the State capitalized infrastructure expenditures of \$736.7 million and did not record depreciation expense. Other capital assets are depreciated.

Component units - Component units reported net assets of \$4.7 billion, an increase of \$568.4 million.

- **Fund Level:**

At June 30, 2007, the State's governmental funds reported combined ending fund balances of \$4.5 billion, an increase of \$872.7 million (see discussion on page 20) compared to the prior year. Of the combined fund balance approximately \$2.24 billion is available for spending at management's discretion (unreserved fund balance), however \$542.9 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

The State's total debt increased by \$4.078 million during the fiscal year to total \$1.249 billion. This change results from the State's decision to issue general obligation bonds during the fiscal year to obtain long-term financing for capital projects.

### USING THIS ANNUAL REPORT

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

## Reporting the State as a Whole

### *The Statement of Net Assets and the Statement of Activities*

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

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

- Governmental activities—general government; education; health and social services; law, justice and public safety; recreation and resources development; regulation of business and professions; transportation; intergovernmental revenue sharing; payments to fiduciary funds, and interest on long-term debt.
- Business-type activities—employment security, insurance programs, loan programs and other.
- Component units—significant component units include the Tennessee Housing Development Agency, the Tennessee Education Lottery Corporation, the Tennessee Board of Regents, and the University of Tennessee. Although these and other smaller entities are legally separate, these "component units" are important because the State is financially accountable for them.

## Reporting the State's Most Significant Funds

### *Fund financial statements*

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

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

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

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

## The State as Trustee

### Reporting the State's Fiduciary Responsibility

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

## THE STATE AS A WHOLE

### Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by \$26.47 billion as of June 30, 2007.

By far the largest portion of the State's net assets (79%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee						
Net Assets						
(Expressed in Thousands)						
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 6,752,432	\$ 5,888,899	\$ 1,705,301	\$ 1,655,221	\$ 8,457,733	\$ 7,544,120
Capital assets	21,552,553	20,690,211			21,552,553	20,690,211
Total assets	<u>28,304,985</u>	<u>26,579,110</u>	<u>1,705,301</u>	<u>1,655,221</u>	<u>30,010,286</u>	<u>28,234,331</u>
Current and other liabilities	1,753,041	1,715,443	53,978	54,024	1,807,019	1,769,467
Noncurrent liabilities	1,724,879	1,692,069	7,617	4,996	1,732,496	1,697,065
Total liabilities	<u>3,477,920</u>	<u>3,407,512</u>	<u>61,595</u>	<u>59,020</u>	<u>3,539,515</u>	<u>3,466,532</u>
Net assets:						
Invested in capital assets, net of related debt	21,030,511	20,242,006			21,030,511	20,242,006
Restricted net assets	792,542	725,209	1,472,523	1,459,045	2,265,065	2,184,254
Unrestricted net assets	3,004,012	2,204,383	171,183	137,156	3,175,195	2,341,539
Total net assets	<u>\$ 24,827,065</u>	<u>\$ 23,171,598</u>	<u>\$ 1,643,706</u>	<u>\$ 1,596,201</u>	<u>\$ 26,470,771</u>	<u>\$ 24,767,799</u>

An additional portion of the State's net assets (8.56 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets (\$3.18 billion) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted. See notes to the financial statements, note 4, on page 55 for explanations for June 30, 2006 adjustments.

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

The State's net assets increased by \$1.7 billion during the year ended June 30, 2007. As previously discussed, much of this increase was attributable to the State's decision to adopt the modified approach to infrastructure. Because of this decision, the State capitalized \$736.7 million in infrastructure expenditures and did not record depreciation expense. Also, Tennessee does not fund highway construction by issuing debt, but it is funded primarily with fuel taxes and federal grants in the Highway Fund. Most of the remaining increase of \$963.3 million resulted from operations in the General Fund, Education Trust, Sewer Treatment Loan, and other nonmajor enterprise funds, which is discussed later in this MD&A.

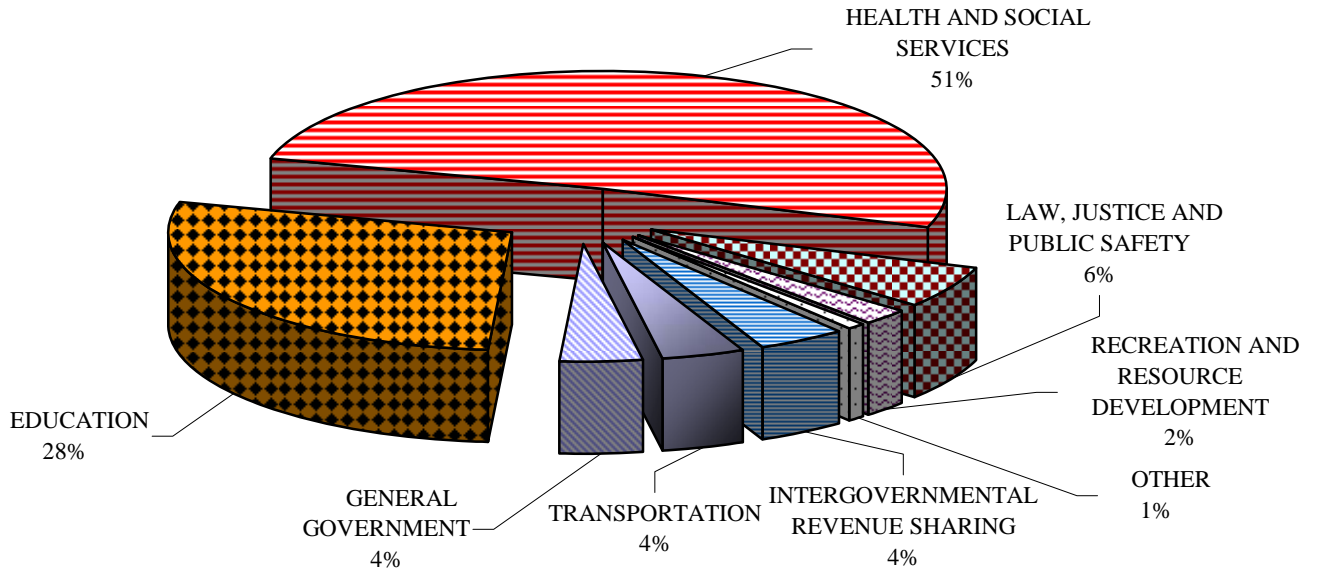


State of Tennessee  
Changes in Net Assets  
(Expressed in Thousands)

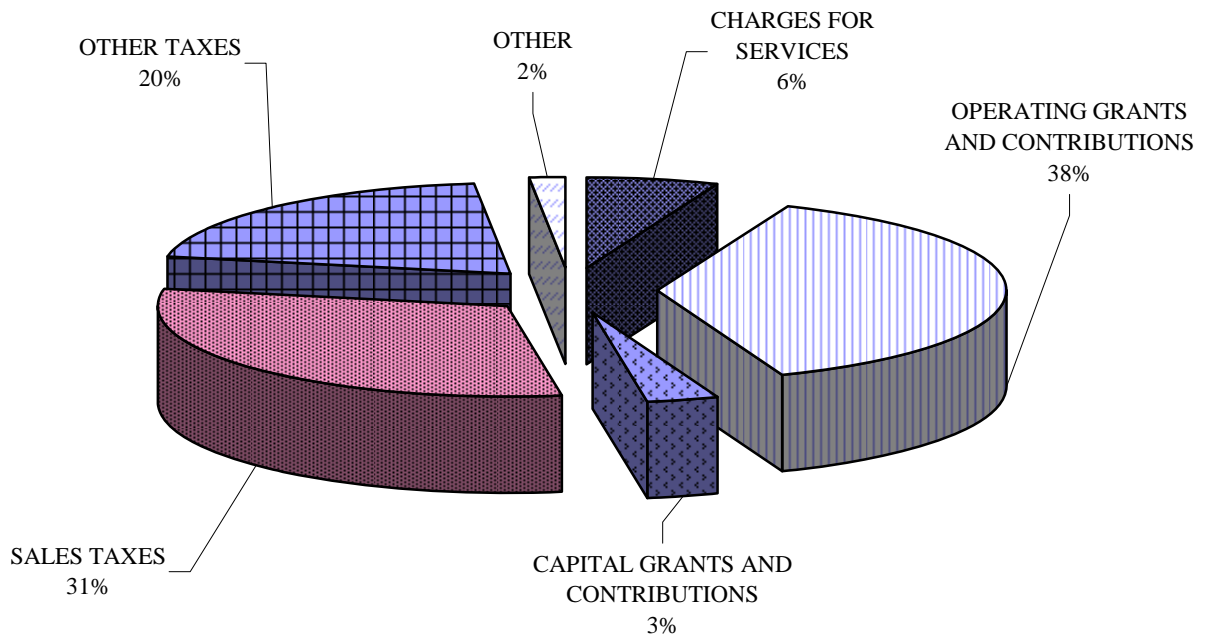
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,361,767	\$ 1,663,270	\$ 810,786	\$ 843,625	\$ 2,172,553	\$ 2,506,895
Operating grants and contributions	8,481,473	8,314,981	116,569	129,998	8,598,042	8,444,979
Capital grants and contributions	708,384	615,584			708,384	615,584
General revenues:						
Sales Taxes	6,819,570	6,540,224			6,819,570	6,540,224
Other taxes	4,486,164	4,042,427			4,486,164	4,042,427
Other	364,284	266,758			364,284	266,758
Total revenues	22,221,642	21,443,244	927,355	973,623	23,148,997	22,416,867
Expenses:						
General government	730,663	705,897			730,663	705,897
Education	5,879,087	5,443,135			5,879,087	5,443,135
Health and social services	10,415,284	10,171,071			10,415,284	10,171,071
Law, justice and public safety	1,207,070	1,214,957			1,207,070	1,214,957
Recreation and resources development	481,166	466,689			481,166	466,689
Regulation of business and professions	122,150	86,945			122,150	86,945
Transportation	834,212	640,120			834,212	640,120
Intergovernmental revenue sharing	815,832	738,349			815,832	738,349
Interest on long-term debt	50,003	49,460			50,003	49,460
Payments to fiduciary fund	25,950				25,950	
Employment security			467,327	452,043	467,327	452,043
Insurance programs			413,483	434,136	413,483	434,136
Loan programs			1,473	1,487	1,473	1,487
Other			2,595	2,496	2,595	2,496
Total expenses	20,561,417	19,516,623	884,878	890,162	21,446,295	20,406,785
Increase (decrease) in net assets before contributions and transfers	1,660,225	1,926,621	42,477	83,461	1,702,702	2,010,082
Transfers	(5,028)	(22,783)	5,028	22,783		
Contributions to permanent funds	270	369			270	369
Increase (decrease) in net assets	1,655,467	1,904,207	47,505	106,244	1,702,972	2,010,451
Net assets, July 1	23,171,598	21,267,391	1,596,201	1,489,957	24,767,799	22,757,348
Net assets, June 30	\$ 24,827,065	\$ 23,171,598	\$ 1,643,706	\$ 1,596,201	\$ 26,470,771	\$ 24,767,799

**Governmental activities.** Net assets of the State's governmental activities increased by \$1.66 billion, which accounts for 97.2% of the total growth of net assets of the primary government. Most of this increase is due to the State capitalizing \$736.7 million in infrastructure expenditures and not recording depreciation expense on these assets. In addition, the General Fund increased \$662.1 million. This increase was primarily due to economic growth contributing to an increase in tax collections of \$723 million. See notes to the financial statements, note 4, on page 55 for explanations for June 30, 2006 adjustments.

## EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



## REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



**Business-type activities.** Net assets of the State's business-type activities increased by \$47.5 million, which accounts for 2.8 percent of the total growth in net assets of the primary government. The majority of the increase was caused by a \$33.4 million increase in the Teacher Group Insurance Funds, which resulted from a January 1, 2007, premium increase as well as increased enrollment and a \$43.4 million increase in the Sewer Treatment Loan Program, which resulted from additional loans issued and the federal monies received for these loans, and the Clean Water Loan Fund increase of \$11 million due to increased loan activity. Employment Security reported a deficit of \$41 million as a result of increased expenditures of \$14 million towards the purchase of a new building and reduced revenue of \$25 million resulting from a decrease in the employer rate table for fiscal year 2007. See notes to the financial statements, note 4, on page 55 for explanations for June 30, 2006 adjustments.

## **THE STATE'S FUNDS**

Tax collections increased for the year and expenditures also increased. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been increased to \$542.9 million or 3.77% of General Fund expenditures.

General fund revenue collections increased for the year by \$651.2 million. Contributing to this increase was federal revenue collections which increased by \$123 million primarily due to increased expenditures in the TennCare program. Also, Sales tax collections in the General fund increased by \$126 million and Franchise and Excise tax collections were up \$246 million due to continued economic improvements.

General fund expenditures increased approximately \$547.2 million. TennCare expenditures increased by \$97 million and the State implemented a new healthcare program, Cover Tennessee, which accounts for \$78.8 million of additional expenditures not included in the prior year. Mental Retardation expenditures increased by \$63.8 million. Costs incurred for the care of children in State custody increased an additional \$60.3 million. These increases reflect the rising cost of community residential placements and associated medical costs as well as increased demand for services in the health and social services function.

Assets in the General fund increased by approximately 21.27%. The fund balance of the General fund increased significantly with an increase of 32.62%.

The Education Trust Fund revenue increased \$231.6 million for the year. The sales tax appropriated to the fund increased by \$169.0 million. In addition, the net lottery proceeds and unclaimed prize money transferred from the Tennessee Education Lottery Corporation (TELC) increased by \$5.1 million and the interest earned on these funds increased by \$8.1 million. These proceeds fund scholarships for eligible Tennessee citizens to attend post-secondary educational institutions located in Tennessee and other educational programs. Of the \$488.5 million Education Trust fund balance, \$453.3 million is restricted for the distribution of scholarships.

Education Trust Fund expenditures increased approximately \$422.3 million or 8.0%. Most of the increase was to maintain full funding of the Basic Education Program (BEP) formula, fully fund the BEP growth factor, provide for teacher salary increases and group health insurance increases for local education agencies, and provide additional funding for at-risk student programs and English Language Learner students (\$200.3 million). Expenditures also increased in the school nutrition and special education programs (23.9 million). This increase was mostly due to additional children being served by the school nutrition programs, an increase in the federal reimbursement rate for the meals served and, an expansion of the special education programs at the local level. Also, expenditures increased for the lottery-funded programs by \$53.8 million. This occurred mostly because of the increase in eligible students receiving scholarships. In addition, appropriations to the college and university systems increased approximately \$91.2 million to provide additional funding for operational support, to restore prior year budgetary cuts, to provide for employee salary increases and to provide for group health insurance, 401(k) match, and retirement system rate increases.

The total plan net assets of the pension trust funds were \$32.3 billion, up over \$3.5 billion from the prior year. As a result of the improved performance of the financial markets, the pension trust funds incurred a net investment gain of \$3.8 billion.

### **General Fund Budgetary Highlights**

Tax collections were \$438.14 million over estimates due to the continuing growth in retail sales and other economic expansions across the State. Federal revenue collections were less than estimates by \$206.3 million primarily due to the unexpected disapproval by the federal government of some of the costs associated with forecasted TennCare program expansions and, as a result, expenditures were also less than forecasted. Additionally, there was less than expected participation in the TennCare pharmacy program. There was a favorable variance between budgeted and actual expenditures in Economic and Community Development primarily due to the approval of grants in a community

infrastructure program that involved more multiple year projects than were expected. These grants were approved in the current year but will not be reimbursed to the grantees until the projects are completed in future years.

### Capital Asset and Debt Administration

#### Capital Assets

The State's investment in capital assets at June 30, 2007, of \$21.553 billion, net of \$1.149 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government Governmental Activities (Expressed in Thousands)		
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Land	\$ 1,299,443	\$ 1,201,165
Infrastructure	17,756,402	16,993,170
Construction in progress	1,236,900	1,262,922
Structures and improvements	1,782,224	1,762,457
Machinery and equipment	587,081	569,938
Software in development	<u>39,055</u>	
Subtotal	22,701,105	21,789,652
Accumulated depreciation	<u>(1,148,552)</u>	<u>(1,099,441)</u>
Total	<u>\$ 21,552,553</u>	<u>\$ 20,690,211</u>

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

Capital assets, including those under construction, increased from fiscal year 2006 to 2007 by approximately 4 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure (highways and bridges). Infrastructure increased in total by \$795 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by \$647.4 million and decreased (projects completed and capitalized) by \$784.8 million. Infrastructure right-of-way acreage increased the land classification by \$88.6 million. The structures and improvements increase of \$28.4 million consisted largely of improvements to a State office building in Jackson (\$6.5 million), new buildings at the Taft Youth Development Center (\$3.8 million), a new Labor and Workforce Career Center in Murfreesboro (\$3.6 million), a sewage treatment plant upgrade at Turney Center (\$2.2 million) and other miscellaneous projects. The net change in machinery and equipment of \$17.2 million resulted primarily from replacing aged equipment. The State's Enterprise Resource Planning system project, *Edison*, is in the application development stage, accounting for the capitalization of \$39.1 million in software in development.

In accordance with generally accepted accounting standards, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,136 bridges.

The decision to use the modified approach was essentially made because the State has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 106), indicated that bridges were rated at 10 points above the State's established condition level and roadways were 15 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2006-2007 fiscal year reflects an improvement over previous years. Some new projects have been approved—expansions at the West Tennessee State Prison in Lauderdale County and the Turney Center in Hickman County, improvements at the Knoxville Veterans Cemetery, statewide construction of special needs residential group homes, and the Army Aviation Support Facility in Blount County—for general government. A number of new projects, such as renovations at the Tennessee Board of Regents and the University of Tennessee facilities and the Southwest Tennessee Community College – Macon Cove Academic Building have been approved. In addition, the capital

outlay budget consists of expenditures for maintenance of existing facilities (state and higher education institutions), projects funded by the Federal Government, and statutory requirements for prisons' physical plant maintenance and additions.

**Debt Administration**

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

<u>Purpose</u>	<u>Unissued June 30, 2007</u>
Highway	\$ 882,800
Higher Education	74,075
Environment and Conservation	11,012
General Government	1,273,610
Local Development Authority	<u>11,800</u>
Total	<u>\$ 2,253,297</u>

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

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Bonds, net	\$ 1,115,488	\$ 1,096,765	\$ 2,534	\$ 3,378
Commercial Paper	<u>130,824</u>	<u>144,625</u>	<u>          </u>	<u>          </u>
Total	<u>\$ 1,246,312</u>	<u>\$ 1,241,390</u>	<u>\$ 2,534</u>	<u>\$ 3,378</u>

The State issued \$110 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short-term basis. Nearly two-thirds of the outstanding debt has been issued either for capital projects of two of the State's major Component Units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bonds are rated AA, Aa1, and AA by Fitch Investors Service, Moody's Investors Service, and Standard & Poor's Rating Group, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2007, the State's annual debt service limit of \$674 million was well above the debt service required \$146 million, with a legal debt service margin of \$528 million.

## FACTORS THAT WILL AFFECT THE FUTURE

Governor Bredeesen's primary objective of last year—to assist Tennesseans without access to health insurance—resulted in new programs that began enrollment in the third and fourth quarters of this fiscal year. *CoverKids* is an insurance program that creates a partnership between state and federal government to extend health coverage for every uninsured child in Tennessee. *AccessTN* is a plan to provide health insurance to seriously ill adults who can afford health coverage, but who have previously been turned down by insurance companies. *CoverTN* creates a partnership between the State, small employers and qualified employees to offer guaranteed, affordable, low cost health insurance coverage for working Tennesseans who are uninsured. *CoverTN* begins its second phase in January 2008, in which employers with 50 or more employees will be eligible. *CoverRX* continues the State's successful Safety Net program for affordable medication for low-income, working Tennesseans. The *Project Diabetes* program launches a major public health effort to help Tennesseans improve their exercise and eating habits, focusing on reducing diabetes and obesity. The programs, operational in the second half of fiscal year 2007, are expected to increase enrollment in subsequent years.

On August 16, 2007, Moody's Investors Service upgraded the State of Tennessee's general obligation bond rating to Aa1 from Aa2 and revised its outlook to stable from positive. The rating upgrade reflects actions taken by the State to strengthen its finances and return to long-term fiscal stability, together with ongoing state economic improvement that has benefited revenue performance and has led to increased reserve levels. In addition, the Aa1 rating also reflects the State's historically moderate debt levels and well-funded pension systems.

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Tobacco Master Settlement Agreement (Agreement) includes base payments to all states and territories through 2025, and continues in perpetuity. Lawsuits related to alleged noncompliance with certain provisions of the Agreement have been filed against a number of the states, including Tennessee, by some of the tobacco companies. Several factors, the outcome of which is unknown at this time, may affect current and future tobacco settlement payments. Approximately \$15 million was withheld from the April 2007 payments and \$17 million is the anticipated withholding in April 2008. While the State may vigorously dispute any adjustments or withholdings, it could take years to have those disputes resolved.

The State is moving closer to implementing *Edison*, its Enterprise Resource Planning system. The system is designed to update and improve many of the State's administrative business processes. *Edison* will integrate functions such as human resources, payroll, benefits, financials, and procurement and will eliminate many of the State's legacy administrative systems. In July 2006, the State contracted with MAXIMUS, the prime contractor, and PeopleSoft, the software provider. The *Edison* team expects the first modules—human resources, payroll, and benefits—to be implemented on July 1, 2008. This implementation date is 6 months later than originally planned to add an extra round of testing to ensure a successful implementation. The implementation date for the final modules of the project—financials and procurement—has also been extended. These final modules will go live in three waves—October 1, December 1, 2008 and March 1, 2009.

The Governor made education a top State priority in his 2007-08 budget through a revision in the Basic Education Program (BEP) formula that increased funding by \$295.5 million to local education agencies. Primary components of the funding include 1) an increase in the state share of instructional materials from 65 percent to 75 percent or \$135.6 million, 2) an increase in the base average of teacher salaries to \$38,000 per year at a cost of \$61.4 million, 3) an increase to full funding by the state of \$119.3 million for resources for at-risk students, and 4) a decrease of \$53.3 million slated for redistribution of funding to poorer school districts.

The Legislature again approved \$25 million in funding to expand the voluntary pre-kindergarten program.

Moreover, an additional \$70.3 million was appropriated to higher education institutions for operational increases. This increase in funding ensured that tuition increases did not exceed 7 percent.

In accordance with a new accounting standard, the State has contracted with an actuarial firm to perform a valuation of the post-employment healthcare benefits provided to retirees for the June 30, 2008 financial reporting year. The State administers four healthcare plans—Employee Group, Teacher Group, Local Government Group, and Medicare Supplement for active and retired employees. The valuation, by plan, will provide all of the required accounting and financial reporting information for each contributing employer in each plan.

In the latter part of 2005, the State began construction of a new prison facility that is considered to be the largest, most complex facility construction project in the State's history. The Morgan County Correctional Complex, an expansion of

the existing facility, is projected to cost \$180 million, a combination of state and federal funding, and is expected to be completed in February, 2009. The project will result in a high security unit and medium security housing, an expansion of 2,441 beds and is being constructed using precast cells. At June 30, 2007, the project is 50.47% completed.

A joint effort between the State and The Nature Conservancy working with Lyme Timber and Conservation Forestry, LLC is underway to permanently conserve more than 127,000 acres through the purchase of fee interests (includes dirt, timber and mineral rights), conservation easements and timber rights on properties located in several counties of the State. Known as the North Cumberland Conservation Plan, the property stretches from Frozen Head Natural Area near Oliver Springs to the Royal Blue Wildlife Management Area northwest of Knoxville. The State used current funds for its \$82 million share of the cost. Partners in the approximately \$134 million project include the Nature Conservancy for \$12 million, Conservation Forestry for \$13.6 million, and Lyme Timber for \$26.7 million

Another significant capital project for the State is the restoration of the Executive Residence in Nashville which is nearing completion. The restoration of the property, spearheaded by First Lady Andrea Conte in 2003, is the first since the home was built more than 70 years ago. Some of the restoration cost was obtained through donations in an effort led by First Lady Conte. The cost of all improvements to date is \$8.15 million.

### **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 8<sup>th</sup> Avenue North, Suite 1400, Nashville, TN 37243.

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# BASIC FINANCIAL STATEMENTS

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**Nashville, Tennessee**, the state's capital, was founded in 1779 by James Robertson. Nashville was originally named Fort Nashborough after the American Revolutionary War hero Francis Nash. The city is located on the Cumberland River in the north central part of Tennessee. The city was home to three U.S. presidents: Andrew Jackson, the 7<sup>th</sup> president; James K. Polk, the 11<sup>th</sup> president, and Andrew Johnson, the 17<sup>th</sup> president. Known as Music City USA, Nashville is considered the home of country music and has become a major music recording and production center only second to New York City. Other major industries of the Metro Nashville area include health care, automotive, insurance, finance, and publishing.

## Nashville Facts

**Population:** 607,413 (2005)

**Incorporated:** 1806

**Fortune 500 Companies:** HCA Inc., Caremark Rx.

**Famous Nashvillians:** Julian Bond, Madison Bell, Rita Coolidge, Vivien Theodore Thomas.

**Colleges and Universities:** Vanderbilt University, Tennessee State University, Belmont University, Fisk University, Lipscomb University, Meharry Medical College, American Baptist College.

**County:** Davidson

**Professional Sports:** Tennessee Titans (NFL), Nashville Predators (NHL), Nashville Sounds (AAA-MLB).

**Annual Festivals:** CMA Music Festival, Tennessee State Fair, Nashville Film Festival, African Street Festival, Country Music Marathon.

**Points of Interests:** Fort Nashborough, The Parthenon, State Capitol, The Hermitage, Country Music Hall of Fame, Ryman Auditorium, Schermerhorn Symphony Center, Frist Center for Visual Arts, Nashville Zoo.



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State of Tennessee  
Statement of Net Assets  
June 30, 2007

(Expressed in Thousands)

Assets	Primary Government			Total Component Units
	Governmental Activities	Business-Type Activities	Total	
Cash and cash equivalents	\$ 3,905,374	\$ 445,319	\$ 4,350,693	\$ 1,757,153
Cash on deposit with fiscal agent		675,215	675,215	
Investments	249,965		249,965	1,490,488
Investments with fiscal agent				32
Receivables, net	2,438,093	95,828	2,533,921	524,836
Internal balances	9,441	(9,441)		
Due from primary government				8,164
Due from component units	83,321	15	83,336	
Inventories, at cost	27,017	142	27,159	12,993
Prepayments	12,622		12,622	11,262
Loans receivable, net	15,904	498,195	514,099	2,520,718
Lease receivable	4,879		4,879	
Deferred charges and other	3,337	28	3,365	30,780
Restricted assets:				
Cash and cash equivalents	2,479		2,479	23,093
Investments				203,269
Receivables, net				2,688
Capital assets:				
Land, at cost	1,299,443		1,299,443	162,139
Infrastructure	17,756,402		17,756,402	234,035
Structures and improvements, at cost	1,782,224		1,782,224	2,951,610
Machinery and equipment, at cost	587,081		587,081	797,816
Less-Accumulated depreciation	(1,148,552)		(1,148,552)	(1,869,974)
Construction in progress	1,236,900		1,236,900	474,953
Software in development	39,055		39,055	
<b>Total assets</b>	<b>28,304,985</b>	<b>1,705,301</b>	<b>30,010,286</b>	<b>9,336,055</b>
<b>Liabilities</b>				
Accounts payable and other current liabilities	1,373,944	47,956	1,421,900	334,799
Due to primary government				83,336
Due to component units	5,956		5,956	
Unearned revenue	370,709	6,022	376,731	141,113
Other	2,432		2,432	30,181
Noncurrent liabilities:				
Due within one year	227,112	911	228,023	536,290
Due in more than one year	1,497,767	6,706	1,504,473	3,506,509
<b>Total liabilities</b>	<b>3,477,920</b>	<b>61,595</b>	<b>3,539,515</b>	<b>4,632,228</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	21,030,511		21,030,511	1,922,204
Restricted for:				
Wildlife Resources	26,067		26,067	
Capital projects				110,883
Lottery scholarships	434,574		434,574	
Single family bond programs				450,445
Sewer loans		653,307	653,307	
Unemployment compensation		735,360	735,360	
Drinking water loans		83,856	83,856	
Other	41,457		41,457	402,588
Permanent:				
Expendable	154,691		154,691	336,830
Nonexpendable	135,753		135,753	693,898
Unrestricted	3,004,012	171,183	3,175,195	786,979
<b>Total net assets</b>	<b>\$ 24,827,065</b>	<b>\$ 1,643,706</b>	<b>\$ 26,470,771</b>	<b>\$ 4,703,827</b>

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, 2007

(Expressed in Thousands)

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental activities:				
General government	\$ 730,663	\$ 516,072	\$ 84,201	\$ 4,292
Education	5,879,087	29,052	1,191,907	3,391
Health and social services	10,415,284	403,352	6,733,380	55
Law, justice and public safety	1,207,070	116,780	166,671	38,480
Recreation and resources development	481,166	143,705	121,246	2,215
Regulation of business and professions	122,150	135,848	4,567	42
Transportation	834,212	16,958	179,501	659,909
Intergovernmental revenue sharing	815,832			
Interest on long-term debt	50,003			
Payments to fiduciary fund	25,950			
Total governmental activities	<u>20,561,417</u>	<u>1,361,767</u>	<u>8,481,473</u>	<u>708,384</u>
Business-type activities:				
Employment security	467,327	356,064	70,175	
Insurance programs	413,483	438,275	7,477	
Loan programs	1,473	13,803	38,798	
Other	2,595	2,644	119	
Total business-type activities	<u>884,878</u>	<u>810,786</u>	<u>116,569</u>	
Total primary government	<u>\$ 21,446,295</u>	<u>\$ 2,172,553</u>	<u>\$ 8,598,042</u>	<u>\$ 708,384</u>
<b>Component units:</b>				
Higher education institutions	\$ 3,447,163	\$ 1,118,221	\$ 1,320,419	\$ 150,796
Loan programs	389,468	157,746	214,500	
Lottery program	991,507	989,151	61	
Other	44,364	33,006	10,633	4,157
Total component units	<u>\$ 4,872,502</u>	<u>\$ 2,298,124</u>	<u>\$ 1,545,613</u>	<u>\$ 154,953</u>

General revenues:

Taxes:

Sales and use

Fuel

Business

Other

Payments from primary government

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Miscellaneous

Contributions to permanent funds

Transfers

Total general revenues, contributions, and transfers

Change in net assets

Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and  
Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (126,098)		\$ (126,098)	
(4,654,737)		(4,654,737)	
(3,278,497)		(3,278,497)	
(885,139)		(885,139)	
(214,000)		(214,000)	
18,307		18,307	
22,156		22,156	
(815,832)		(815,832)	
(50,003)		(50,003)	
(25,950)		(25,950)	
<u>(10,009,793)</u>		<u>(10,009,793)</u>	
	\$ (41,088)	(41,088)	
	32,269	32,269	
	51,128	51,128	
	<u>168</u>	<u>168</u>	
	42,477	42,477	
<u>(10,009,793)</u>	<u>42,477</u>	<u>(9,967,316)</u>	
			\$ (857,727)
			(17,222)
			(2,295)
			<u>3,432</u>
			<u>(873,812)</u>
6,819,570		6,819,570	
867,520		867,520	
2,884,618		2,884,618	
734,026		734,026	
			1,314,344
			26,026
113,940		113,940	58,635
250,344		250,344	7,658
270		270	35,580
<u>(5,028)</u>	<u>5,028</u>		
<u>11,665,260</u>	<u>5,028</u>	<u>11,670,288</u>	<u>1,442,243</u>
1,655,467	47,505	1,702,972	568,431
<u>23,171,598</u>	<u>1,596,201</u>	<u>24,767,799</u>	<u>4,135,396</u>
<u>\$ 24,827,065</u>	<u>\$ 1,643,706</u>	<u>\$ 26,470,771</u>	<u>\$ 4,703,827</u>

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# GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

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

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

State of Tennessee  
Balance Sheet  
Governmental Funds  
June 30, 2007

(Expressed in Thousands)

	General	Education	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 2,440,036	\$ 98,456	\$ 874,522	\$ 3,413,014
Investments			249,965	249,965
Receivables, net	1,507,279	583,050	335,260	2,425,589
Due from other funds	18,208	353	927	19,488
Due from component units	5,155	76,644	1,020	82,819
Inventories, at cost	11,263		7,325	18,588
Prepayments	47		6	53
Deferred charges and other	2,477			2,477
Loans receivable, net	100		15,804	15,904
Leases receivable	2,060			2,060
<b>Restricted assets:</b>				
Cash and cash equivalents			2,479	2,479
<b>Total assets</b>	<b>\$ 3,986,625</b>	<b>\$ 758,503</b>	<b>\$ 1,487,308</b>	<b>\$ 6,232,436</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 961,489	\$ 181,757	\$ 130,593	\$ 1,273,839
Due to other funds	21,248	632	2,238	24,118
Due to component units	3,650	444	1,862	5,956
Unearned revenue	307,278	87,216	61,719	456,213
Payable from restricted assets				
Other	398		2,034	2,432
<b>Total liabilities</b>	<b>1,294,063</b>	<b>270,049</b>	<b>198,446</b>	<b>1,762,558</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Related assets	16,052		7,325	23,377
Encumbrances and contracts	10,478	1,243	290,964	302,685
Continuing appropriations	917,646	33,720		951,366
<b>Specific purposes:</b>				
Lottery scholarships		453,250		453,250
Regulatory boards	18,865			18,865
Title and registration system	23,943			23,943
Commerce and insurance division	10,886			10,886
Judicial information systems	17,319			17,319
Heritage conservation trust	17,642			17,642
Other specific purposes	110,332		2,726	113,058
<b>Permanent funds:</b>				
Expendable			154,691	154,691
Nonexpendable			135,753	135,753
<b>Unreserved, undesignated reported in:</b>				
General fund	199			199
Special revenue funds		241	568,800	569,041
Debt service fund			5,398	5,398
Capital projects fund			123,205	123,205
<b>Unreserved, designated for:</b>				
Revenue fluctuations	542,900			542,900
Other specific purposes	1,006,300			1,006,300
<b>Total fund balances</b>	<b>2,692,562</b>	<b>488,454</b>	<b>1,288,862</b>	<b>4,469,878</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,986,625</b>	<b>\$ 758,503</b>	<b>\$ 1,487,308</b>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	21,125,274
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	137,634
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	571,242
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,476,963)
<b>Net assets of governmental activities</b>	<b>\$ 24,827,065</b>

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, 2007

(Expressed in Thousands)

	General	Education	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes:				
Sales	\$ 2,790,970	\$ 3,927,220	\$ 97,217	\$ 6,815,407
Fuel	13,516		850,465	863,981
Business	2,598,780	163,781	181,433	2,943,994
Other	675,872	134	35,252	711,258
Licenses, fines, fees, and permits	194,229	1,765	380,027	576,021
Interest on investments	128,292	5	49,783	178,080
Federal	7,046,587	843,591	873,124	8,763,302
Departmental services	2,008,804	58,899	165,747	2,233,450
Other	222,447	305,890	9,479	537,816
Total revenues	<u>15,679,497</u>	<u>5,301,285</u>	<u>2,642,527</u>	<u>23,623,309</u>
<b>Expenditures</b>				
Current:				
General government	519,402		36,143	555,545
Education		5,768,128	7,235	5,775,363
Health and social services	11,662,476			11,662,476
Law, justice and public safety	1,270,060		5,342	1,275,402
Recreation and resources development	365,406		160,479	525,885
Regulation of business and professions	84,570		50,385	134,955
Transportation			1,541,850	1,541,850
Intergovernmental revenue sharing	521,171		294,661	815,832
Debt service:				
Principal			81,790	81,790
Interest			50,363	50,363
Debt issuance costs			1,173	1,173
Capital outlay			343,712	343,712
Total expenditures	<u>14,423,085</u>	<u>5,768,128</u>	<u>2,573,133</u>	<u>22,764,346</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,256,412</u>	<u>(466,843)</u>	<u>69,394</u>	<u>858,963</u>
<b>Other financing sources (uses)</b>				
Bonds and commercial paper issued			196,290	196,290
Commercial paper redeemed			(103,498)	(103,498)
Bond premium			2,049	2,049
Insurance claim recoveries	233		3,780	4,013
Transfers in	142,905	544,319	211,020	898,244
Transfers out	(737,420)	(18,254)	(227,744)	(983,418)
Total other financing sources (uses)	<u>(594,282)</u>	<u>526,065</u>	<u>81,897</u>	<u>13,680</u>
Net change in fund balances	<u>662,130</u>	<u>59,222</u>	<u>151,291</u>	<u>872,643</u>
Fund balances, July 1	<u>2,030,432</u>	<u>429,232</u>	<u>1,137,571</u>	<u>3,597,235</u>
Fund balances, June 30	<u>\$ 2,692,562</u>	<u>\$ 488,454</u>	<u>\$ 1,288,862</u>	<u>\$ 4,469,878</u>

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



State of Tennessee  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of Governmental Funds  
 To the Statement of Activities  
 For the Year Ended June 30, 2007

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	\$	872,643
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.		884,687
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(28,496)
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(13,052)
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.		(48,830)
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.		<u>(11,485)</u>
Changes in net assets of governmental activities	\$	<u><u>1,655,467</u></u>

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

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# PROPRIETARY FUND FINANCIAL STATEMENTS

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

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

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

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

State of Tennessee  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 230,539		\$ 214,780	\$ 445,319	\$ 492,360
Cash on deposit with fiscal agent		\$ 675,215		675,215	
Receivables:					
Accounts receivable		86,723	5,897	92,620	12,705
Interest	36	3,172		3,208	
Loans receivable	21,408		5,418	26,826	
Due from other funds		470		470	2,390
Due from component units			15	15	502
Inventory			142	142	8,429
Prepaid expenses					69
Total current assets	<u>251,983</u>	<u>765,580</u>	<u>226,252</u>	<u>1,243,815</u>	<u>516,455</u>
Noncurrent assets:					
Deferred charges			28	28	365
Due from other funds					1,024
Loans receivable	404,862		66,507	471,369	
Lease receivable					2,618
Capital assets:					
Land, at cost					57,569
Structures and improvements, at cost					467,701
Machinery and equipment, at cost					253,075
Less-accumulated depreciation					(358,784)
Construction in progress					7,718
Total capital assets, net of accumulated depreciation					<u>427,279</u>
Total noncurrent assets	<u>404,862</u>		<u>66,535</u>	<u>471,397</u>	<u>431,286</u>
Total assets	<u>\$ 656,845</u>	<u>\$ 765,580</u>	<u>\$ 292,787</u>	<u>\$ 1,715,212</u>	<u>\$ 947,741</u>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accruals	\$ 55	\$ 15,125	\$ 32,809	\$ 47,989	\$ 75,656
Due to other funds		9,911	8	9,919	693
Lease obligations payable					333
Bonds payable			870	870	13,573
Unearned revenue		5,184	838	6,022	39,311
Other					28,934
Total current liabilities	<u>55</u>	<u>30,220</u>	<u>34,525</u>	<u>64,800</u>	<u>158,500</u>
Noncurrent liabilities:					
Lease obligations payable					1,982
Commercial paper payable					15,541
Bonds payable, net			1,664	1,664	138,618
Other noncurrent liabilities	3,483		1,559	5,042	61,858
Total noncurrent liabilities	<u>3,483</u>		<u>3,223</u>	<u>6,706</u>	<u>217,999</u>
Total liabilities	<u>3,538</u>	<u>30,220</u>	<u>37,748</u>	<u>71,506</u>	<u>376,499</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt					257,353
Unrestricted	653,307	735,360	255,039	1,643,706	313,889
Total net assets	<u>\$ 653,307</u>	<u>\$ 735,360</u>	<u>\$ 255,039</u>	<u>\$ 1,643,706</u>	<u>\$ 571,242</u>

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

State of Tennessee  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Operating revenues</b>					
Charges for services	\$ 12,518		\$ 3,929	\$ 16,447	\$ 393,750
Investment income	12,909		2,429	15,338	
Premiums		\$ 356,064	438,275	794,339	610,502
Other					6
<b>Total operating revenues</b>	<u>25,427</u>	<u>356,064</u>	<u>444,633</u>	<u>826,124</u>	<u>1,004,258</u>
<b>Operating expenses</b>					
Personal services			981	981	56,071
Contractual services	851		20,158	21,009	249,550
Materials and supplies			663	663	89,726
Rentals and insurance			120	120	53,799
Interest			137	137	
Depreciation and amortization			10	10	35,621
Benefits		449,492	392,811	842,303	593,902
Other		17,835	1,820	19,655	8,867
<b>Total operating expenses</b>	<u>851</u>	<u>467,327</u>	<u>416,700</u>	<u>884,878</u>	<u>1,087,536</u>
Operating income (loss)	<u>24,576</u>	<u>(111,263)</u>	<u>27,933</u>	<u>(58,754)</u>	<u>(83,278)</u>
<b>Nonoperating revenues (expenses)</b>					
Taxes					2
Operating grants	15,492	39,105	7,968	62,565	3,333
Interest income		31,070	7,596	38,666	19,987
Interest expense					(8,113)
<b>Total nonoperating revenues (expenses)</b>	<u>15,492</u>	<u>70,175</u>	<u>15,564</u>	<u>101,231</u>	<u>15,209</u>
Income (loss) before contributions and transfers	40,068	(41,088)	43,497	42,477	(68,069)
Capital contributions					2,388
Transfers in	3,304		1,724	5,028	54,196
Change in net assets	43,372	(41,088)	45,221	47,505	(11,485)
Net assets, July 1	<u>609,935</u>	<u>776,448</u>	<u>209,818</u>	<u>1,596,201</u>	<u>582,727</u>
Net assets, June 30	<u>\$ 653,307</u>	<u>\$ 735,360</u>	<u>\$ 255,039</u>	<u>\$ 1,643,706</u>	<u>\$ 571,242</u>

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

State of Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007

(continued on next page)

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Cash flows from operating activities</b>					
Receipts from customers and users		\$ 360,489	\$ 436,231	\$ 796,720	\$ 201,051
Receipts from interfund services provided		2,084	453	2,537	817,635
Payments to suppliers	\$		(415,321)	(415,321)	(928,049)
Payments to employees			(981)	(981)	(56,504)
Payments for unemployment benefits		(446,579)		(446,579)	
Payments for interfund services used	(851)	(15,795)	(2,559)	(19,205)	(76,138)
Net cash from (used for) operating activities	(851)	(99,801)	17,823	(82,829)	(42,005)
<b>Cash flows from noncapital financing activities</b>					
Operating grants received	15,492	39,252	7,993	62,737	
Negative cash balance implicitly financed		679		679	
Negative cash balance implicitly repaid					(574)
Transfers in	3,304		1,724	5,028	54,196
Payments to component units			(25)	(25)	
Principal payments			(835)	(835)	
Interest paid			(159)	(159)	
Tax revenues received					2
Subsidy to borrowers			(173)	(173)	
Net cash from (used for) noncapital financing activities	18,796	39,931	8,525	67,252	53,624
<b>Cash flows from capital and related financing activities</b>					
Purchase of capital assets					(43,240)
Bond and commercial paper proceeds					24,005
Proceeds from sale of capital assets					2,305
Bond issuance cost					(44)
Principal payments					(31,226)
Interest paid					(8,127)
Net cash from (used for) capital and related financing activities					(56,327)
<b>Cash flows from investing activities</b>					
Loans issued	(88,837)		(12,870)	(101,707)	
Collection of loan principal	23,575		5,240	28,815	
Interest received	25,402	31,070	11,311	67,783	19,987
Net cash from (used for) investing activities	(39,860)	31,070	3,681	(5,109)	19,987
Net increase (decrease) in cash and cash equivalents	(21,915)	(28,800)	30,029	(20,686)	(24,721)
Cash and cash equivalents, July 1	252,454	704,015	184,751	1,141,220	517,081
Cash and cash equivalents, June 30	\$ 230,539	\$ 675,215	\$ 214,780	\$ 1,120,534	\$ 492,360

(continued from previous page)

State of Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>					
Operating income (loss)	\$ 24,576	\$ (111,263)	\$ 27,933	\$ (58,754)	\$ (83,278)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization			11	11	35,620
Loss on disposal of capital assets					5,097
Bond issuance cost					59
Capital lease executory costs paid					28
Investment income			(3,593)	(3,593)	
Charges for services			(121)	(121)	
Interest income	(25,427)			(25,427)	
Interest expense			137	137	
Subsidy to borrowers			31	31	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		6,410	(3,499)	2,911	(5,074)
(Increase) decrease in due from other funds		(88)		(88)	(1)
(Increase) decrease in due from component units			(14)	(14)	(109)
(Increase) decrease in inventories			(101)	(101)	513
(Increase) decrease in prepaid expenses					217
Increase (decrease) in accounts payable		2,902	(1,701)	1,201	4,118
Increase (decrease) in due to other funds		2,040		2,040	47
Increase (decrease) in unearned revenue		198	(1,260)	(1,062)	758
Total adjustments	(25,427)	11,462	(10,110)	(24,075)	41,273
Net cash provided by (used for) operating activities	\$ (851)	\$ (99,801)	\$ 17,823	\$ (82,829)	\$ (42,005)
<b>Noncash investing, capital and financing activities</b>					
Contributed capital assets					\$ 2,154
Capital asset acquired by capital lease					146
Total noncash investing, capital and financing activities					\$ 2,300

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

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# FIDUCIARY FUNDS FINANCIAL STATEMENT

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

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

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

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



State of Tennessee  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 569,810	\$ 1,438,292	\$ 39,762	\$ 435,747
Receivables:				
Accounts				67
Taxes			43	353,308
Interest and dividends	168,631	14,731	5	
Due from sale of investments	16,256			
Foreign currency receivable	5,797			
Due from other governments	44,292			
Real estate income	1,342			
Other	25,428			
Total receivables	261,746	14,731	48	353,375
Due from other funds	9,246		8	10,110
Due from component units	7,653			68
Investments, at fair value:				
Short-term securities	527,595	823,094		
Government bonds	9,067,293			
Corporate bonds	5,310,927			
Corporate stocks	15,552,927			
Mutual funds			68,233	
Real estate	1,083,488			
Total investments	31,542,230	823,094	68,233	
Total assets	32,390,685	2,276,117	108,051	799,300
<b>Liabilities</b>				
Accounts payable and accruals	17,996		228	670,860
Due to other funds				8,007
Foreign currency payable	5,797			
Amounts held in custody for others				120,433
Total liabilities	23,793		228	799,300
<b>Net assets</b>				
Held in trust for:				
Pension benefits	32,365,969			
Employees' flexible benefits	923			
Pool participants		2,276,117		
Individuals, organizations and other governments			107,823	
Total net assets	\$ 32,366,892	\$ 2,276,117	\$ 107,823	\$ -

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

State of Tennessee  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
<b>Additions</b>			
Contributions:			
Members	\$ 240,424		
Employers	562,729		
Federal			\$ 8,015
Political subdivisions	231,699		
Private			6,441
State			25,950
Other			2,774
Total contributions	<u>1,034,852</u>		<u>43,180</u>
Investment income:			
Net increase in fair value of investments	2,717,645		6,559
Interest	731,828	\$ 109,431	3,422
Dividends	306,520		
Real estate income	59,162		
Total investment income	<u>3,815,155</u>	<u>109,431</u>	<u>9,981</u>
Less: Investment expenses			
Administrative fee	23,752	1,031	
Net investment income	<u>3,791,403</u>	<u>108,400</u>	<u>9,981</u>
Capital share transactions:			
Shares sold		4,436,426	
Less: Shares redeemed		<u>4,069,897</u>	
Net capital share transactions		<u>366,529</u>	
Total additions	<u>4,826,255</u>	<u>474,929</u>	<u>53,161</u>
<b>Deductions</b>			
Annuity benefits:			
Retirement benefits	1,003,464		
Cost of living	221,464		
Death benefits	5,503		
Other benefits	7,413		25,863
Refunds	36,343		3,416
Administrative expenses	6,469		372
Total deductions	<u>1,280,656</u>		<u>29,651</u>
Change in net assets held in trust for:			
Pension benefits	3,545,334		
Employees' flexible benefits	265		
Individuals, organizations and other governments		474,929	23,510
Net assets, July 1	<u>28,821,293</u>	<u>1,801,188</u>	<u>84,313</u>
Net assets, June 30	<u>\$ 32,366,892</u>	<u>\$ 2,276,117</u>	<u>\$ 107,823</u>

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

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**State of Tennessee**  
**Comprehensive Annual Financial Report**  
**For the Year Ended June 30, 2007**  
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**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

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

**A. Financial reporting entity**

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

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.
2. The Community Services Agencies (CSAs) (Governmental Fund Types) listed below are to provide coordination of funds or programs for the care of the citizens of the State:

Memphis and Shelby County Community Services Agency  
Northeast Community Services Agency  
East Tennessee Community Services Agency  
Upper Cumberland Community Services Agency  
Southeast Community Services Agency  
Mid-Cumberland Community Services Agency  
South Central Community Services Agency  
Northwest Community Services Agency  
Southwest Community Services Agency

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

3. The Tennessee Housing Development Agency (Proprietary Fund Type) is responsible for making loans and mortgages to qualified sponsors, builders, developers and purchasers of low and moderate income family dwellings. The Board of the agency consists of state officials, appointees of the Governor, and appointees of the Speakers of the House and Senate. The agency budget is approved by the State.
4. The Tennessee Education Lottery Corporation (Proprietary Fund Type) is responsible for the operation of a state lottery with net proceeds to be given to the State to be used for education programs and purposes in accordance with the Constitution of Tennessee. The corporation is governed by a board of directors composed of seven directors appointed by the Governor.
5. The Tennessee Board of Regents (Proprietary Fund Type) is responsible for the operation of six universities, thirteen community colleges and twenty-seven technology centers. The Board is comprised of state officials and appointees by the Governor and the State provides a substantial amount of funding.
6. The University of Tennessee Board of Trustees (Proprietary Fund Type) is responsible for the operation of the University of Tennessee, located primarily on four campuses across the State. The Board is appointed by the Governor and the State provides a substantial amount of the funding.
7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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

8. The Tennessee State Veterans' Homes Board (Proprietary Fund Type) is responsible for the operation of nursing homes for honorably discharged veterans of the United States armed forces. The Board is appointed by the Governor and its budget is approved by the State. In addition, the issuance of bonds must be approved by the State Funding Board.
9. The Tennessee State School Bond Authority (Proprietary Fund Type) finances projects for the University of Tennessee, Tennessee Board of Regents and the Tennessee Student Assistance Corporation. The Authority also finances improvement projects for qualifying K-12 schools in the State in conjunction with a federal government program. The Board of the Authority consists primarily of state officials; therefore, the State is able to impose its will on the organization.
10. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.
11. The Access Tennessee (Proprietary Fund Type) health insurance pool was established to offer health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions.

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

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

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

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

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

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

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

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

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**B. Government-wide and fund financial statements**

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

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

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

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

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

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

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

The State reports the following major governmental funds:

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

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



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

The State reports the following major proprietary funds:

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

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

Additionally, the State reports the following fund types:

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

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

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

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

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

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

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**D. Assets, liabilities, and net assets or equity**

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

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

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

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

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

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

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

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

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

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

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

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

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

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

6. Compensated absences—It is the State’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State’s policy is to pay this only if the employee is sick or upon death. All vacation pay is accrued when earned in the government-wide and proprietary fund financial statements.
7. Long-term obligations—In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized bond premium or discount and, when applicable, the deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

*Restricted net assets* consist of net assets in which constraints are placed on the use of those net assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

Restrictions imposed by enabling legislation could be changed by future legislative action. Of the \$2.3 billion restricted by the primary government, \$467 million was by enabling legislation.

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

9. Fund equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
10. Fiscal year end—The fiscal year end of the primary government and component units is June 30, except for the Dairy Promotion Board, a special revenue fund; which has a December 31 year end. Also, the Certified Cotton Growers’ Organization, a component unit, has a December 31 year end.
11. Comparative data/reclassifications—Comparative total data for the prior year have not been presented.

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$1,476.963 million difference are as follows (expressed in thousands):

Bonds payable	\$	947,046
Plus: Premium on bonds issued (to be amortized as interest expense)		38,359
Less: Deferred charge for issuance costs (to be amortized over life of debt)		(2,653)
Less: Deferred charge for bond refundings (to be amortized as interest expense)		(22,107)
Commercial paper payable		115,283
Accrued interest payable		15,148
Capital leases payable		215
Claims and judgments		153,196
Compensated absences		229,999
Long-term accounts payable		2,477
Net adjustment to reduce <i>fund balance—total governmental funds</i> to arrive at <i>net assets—governmental activities</i>	\$	1,476,963

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.” The details of this \$884.687 million difference are as follows (expressed in thousands):

Capital outlay	\$	940,708
Depreciation expense		<u>(56,021)</u>
Net adjustment to increase net changes in fund balances – <i>total governmental funds to arrive at changes in net assets of governmental activities</i>	\$	<u>884,687</u>

Another element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(13.052) million difference are as follows (expressed in thousands):

Debt issued or incurred:		
Issuance of general obligation bonds	\$	(96,157)
Issuance of commercial paper		(100,133)
Bond premium capitalized		(2,050)
Debt reduced:		
General obligation debt		78,712
Commercial paper redeemed		<u>106,576</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>(13,052)</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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 \$(48.830) million difference are as follows (expressed in thousands):

Compensated absences	\$	(25,495)
Claims and judgments		1,560
Accrued interest		(883)
Capital lease		138
Amortization of deferred charge		(40)
Loss on disposal of capital assets		(25,044)
Amortization of issuance costs		(199)
Amortization of bond premiums		3,045
Amortization of deferred amount on bond refunding		<u>(1,912)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u><u>(48,830)</u></u>

**NOTE 3 – Deficit fund equity**

The Certified Cotton Growers’ Organization, a component unit, has a total net asset deficit of \$8.054 million. This deficit occurred because a substantial amount of funds were borrowed, in previous years, to fund the balance of program costs. The monies borrowed are to be repaid by December 15, 2013. The Mid-Cumberland Community Service Agency, a component unit, has a total net asset deficit of \$85 thousand. This deficit occurred as a result of decreased funding.

**NOTE 4 – Accounting changes**

The following schedule enumerates adjustments for the fiscal year ended June 30, 2007 (expressed in thousands):

	6/30/2006 Net Assets As Reported	Adjustments to Net Assets	6/30/2006 Net Assets As Restated
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Government-wide statements:			
Primary Government			
Governmental activities	\$ 23,133,531	\$ 38,067	\$ 23,171,598
Business-type activities	<u>1,614,845</u>	<u>(18,644)</u>	<u>1,596,201</u>
Total primary government	<u>\$ 24,748,376</u>	<u>\$ 19,423</u>	<u>\$ 24,767,799</u>

**Adjustments to Net Assets**

Primary Government—Governmental activities

- \$31.521 million is a correction of an error resulting from the understatement of infrastructure in prior years.
- \$8.616 million is a correction of an error resulting from the understatement of general capital assets in prior years because certain buildings had not been recorded. Related accumulated depreciation was adjusted by \$2.138 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

- \$68 thousand represents net assets of the Child Care Facilities which was reclassified from a component unit to the General Fund.

Primary Government—Business-type activities

- \$18.644 million is a reclassification of the Medicare Supplement enterprise fund to an agency fund as a result of a change in accounting principle.

**Change in Accounting Principle**

The State has implemented the Governmental Accounting Standards Board's Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement requires accounting and financial reporting for postretirement benefits provided to employees similarly to accounting for pension benefits. The statement provides specific guidance for plans that are held as trusts or equivalent arrangements and for plans that are not held in that manner. Plans held in irrevocable trusts are, at least to some extent, advance funding the OPEB obligation; in essence, actuarially determined contributions are being deposited in the trusts on a periodic basis. Plans that are not held in trusts are typically funded on a pay-as-you-go basis. The statement requires plans that maintain a pay-as-you-go funding basis to account and report for the retirees in an agency fund. Any assets accumulated in excess of liabilities to pay premiums or benefits should be offset by liabilities to participating employers. Required notes to the financial statements include a brief plan description, a summary of significant accounting policies, and information about contributions.

The impact of this statement on the State is considerable because both active and retired employees were commingled in each of the healthcare plans administered by the state. The plans administered by the State are continuing to fund the contributions on a pay-as-you-go basis. Therefore, for accounting and financial reporting purposes, retired employees were removed from the state employee group plan (fund), the local education agency plan (fund), and the local government plan (fund) and reclassified into agency funds. In addition, the former enterprise fund, Medicare Supplement, was reclassified as an agency fund.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by the related GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

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

**A. Deposits and investments**

Primary Government

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

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, bonds, notes, and treasury bills of the United States or other obligations guaranteed as to

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS** *(Continued)*  
**JUNE 30, 2007**

principal and interest by the United States or any of its agencies, repurchase agreements for obligations of the United States or its agencies, and securities lending agreements whereby securities may be loaned for a fee. Investments in derivative type securities and investments of high risk are prohibited.

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.



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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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As of June 30, 2007, the State's investments for all funds were as follows (expressed in thousands):

**PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS**  
**INVESTMENTS**

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>United States<sup>1</sup> Treasury/Agency</u>
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	\$ 843,127	\$ 843,127
U.S. Government STRIPS	264,838	264,838
U.S. Government TIPS	1,980,990	1,980,990
U.S. Government Agencies	3,824,380	
Mortgage-Backed		
Government Pass-through	3,955,838	221,560
Corporate Pass-through	1,524,326	
Collateralized Mortgage Obligations		
Government CMO's	117,568	
Corporate CMO's	23,933	
Corporate		
Corporate Bonds	2,311,209	
Corporate Asset-Backed	779,395	
Private Placements	400,341	
Yankee Bonds	18,369	
Supranationals	41,217	
Non-U.S. Fixed Income - Developed Markets		
Government/Sovereign	724,069	
Corporate	237,265	
Short Term		
Commercial Paper	3,290,390	
Certificate of Deposit	9,982	
Agencies	517,613	
Total Debt Investments	<u>20,864,850</u>	<u>\$ 3,310,515</u>
Other Investments		
Equity		
U.S.	10,867,659	
Non-U.S.	4,831,139	
Real Estate	1,083,488	
Commingled Funds		
U.S. Equity	37,505	
U.S. Fixed Income	30,728	
Money Market Funds	32,387	
Total Other Investments	<u>16,882,906</u>	
Total Investments	<u>\$ 37,747,756</u>	

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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

Credit Quality Rating							
AAA	AA	A	BBB	BB	B	A1 <sup>2</sup>	Not Rated <sup>3</sup>
\$ 3,325,582							\$ 498,798
							3,734,278
1,504,335	\$ 19,991						
117,568							
23,933							
51,559	308,046	\$ 823,193	\$ 1,100,150	\$ 9,782	\$ 18,479		
659,054	20,035	10,021	90,285				
77,963	109,392	69,798	143,188				
41,217		9,122	9,247				
359,185	100,506	264,378					
237,265							
						\$ 3,290,390	
	9,982						
\$ <u>6,397,661</u>	\$ <u>567,952</u>	\$ <u>1,176,512</u>	\$ <u>1,342,870</u>	\$ <u>9,782</u>	\$ <u>18,479</u>	\$ <u>3,290,390</u>	\$ <u>517,613</u>
							<u>4,750,689</u>

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the State's investments in debt securities as of June 30, 2007, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires a AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with a AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2007, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

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

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

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

2. Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event the issuer fails on its obligations. An objective stated in the SPIF's investment policy is that the investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Acquisitions are monitored by policy to assure that no more than twenty percent (20%) of the book value of the pool, at the date of acquisition, is invested in a single United States government agency security and that such acquisition does not cause the SPIF's aggregate United States government agency holdings to exceed forty percent (40%) of the total book value of the pool on such date. In addition, the SPIF's investment policy limits the book value of prime banker's acceptances to five percent (5%) of the total book value of the pool and limits such investments in any one commercial bank to the lesser of five percent (5%) of the portfolio's book value or \$25 million. Prime commercial paper investments are limited to five percent (5%) of the total portfolio book value invested in any one single issuing corporation and the total holdings of an issuer's paper should not represent more than five percent (5%) of the issuing corporation's total outstanding commercial paper, with the maximum amount of a specific corporation's commercial paper limited to \$100 million. Prime commercial paper shall not exceed forty percent (40%) of the total pool's book value. The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, BEST or other State funds in any one issuer.

As of June 30, 2007, the combined SPIF, TCRS, COE Trust, BEST and other State funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

<u>Issuer Organization</u>	<u>Carrying Amount</u>	<u>Percentage</u>
Federal Home Loan Mortgage Corporation	\$ 2,784,472	7.38
Federal National Mortgage Association	\$ 3,325,227	8.81

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed ninety (90) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Collateralized certificates of deposit are limited by policy to maturities of one year or less. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 29 to 357 days at June 30, 2007. Interest rates on certificates of deposit held at June 30, 2007, ranged from 5.25% to 5.3%. The days to maturity on U.S. Government Agencies ranged from 72 to 366 days at June 30, 2007. Interest rates on U.S. Government Agencies held at June 30, 2007, ranged from 2.88% to 5.38%. The days to maturity on commercial paper ranged from 3 to 45 days at June 30, 2007. Interest rates on commercial paper held at June 30, 2007, ranged from 5.21% to 5.37%.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

As of June 30, 2007, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND  
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type	Carrying Amount	Weighted Average Maturity (Months)
U.S. Government Agencies/Treasuries	\$ 2,564,553	6.27
Commercial paper	2,723,847	0.17

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

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
DEBT INVESTMENTS  
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2007	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	\$ 1,256,788	2.87
Government Bonds	1,500,391	8.04
Government Strips	264,838	12.77
Government Notes	40,648	0.27
Government Inflation Indexed	1,959,797	3.57
Government State and Local Obligations	4,255	0.19
Government Asset and Mortgage-Backed		
GNMA	217,693	3.47
FHLMC	1,390,664	4.69
FNMA	2,314,651	4.60
Collateralized Mortgage Obligations	117,568	7.49
Corporate Fixed Income		
Collateralized Mortgage Obligations	23,933	13.44
Asset Backed Securities	2,296,395	5.16
Corporate Bonds	2,586,646	6.13
Other Fixed Income		
Private Placements	399,024	7.38
Miscellaneous	4,928	6.93
Short Term		
Commercial Paper	566,543	0.03
Certificates of Deposit	9,982	0.00
Agencies	517,613	0.43
Total Debt Investments	\$ <u>15,472,357</u>	

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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

**CHAIRS OF EXCELLENCE**  
**DEBT INVESTMENTS**  
(expressed in thousands)

<u>Investment Type</u>	<u>Fair Value as of June 30, 2007</u>	<u>Effective Duration (Years)</u>
Debt Investments		
U.S. Government		
U.S. Government Treasuries	\$ 17,421	9.17
U.S. TIPS		
Inflation Indexed Bonds	4,026	7.03
Inflation Indexed Notes	17,167	2.21
U.S. Government Agencies	7,520	1.67
Mortgage-Backed		
Government Pass-through		
GNMA	3,867	5.32
FHLMC	3,964	4.83
FNMA	24,999	4.49
Corporate		
Corporate Bonds	16,486	3.22
Corporate Asset-Backed	7,326	5.77
Private Placements	1,317	5.00
Total Debt Investments	<u>\$ 104,093</u>	

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

Asset-Backed Securities – The TCRS invests in collateralized mortgage obligations which are mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. The TCRS invests in these securities primarily to enhance returns by taking advantage of opportunities available in this sector of the securities markets. Investment terms related to these securities have been considered in the interest rate risk disclosure.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2007, was as follows (expressed in thousands):

<u>Currency</u>	<u>Total Fair Value</u>	<u>Fixed Income</u>	<u>Equity</u>	<u>Cash</u>
Australian Dollar	\$ 259,144	\$ 8,443	\$ 250,425	\$ 276
British Pound Sterling	1,263,570	77,543	1,183,999	2,028
Canadian Dollar	49,779	67	49,571	141
Danish Krone	62,477		62,475	2
Euro Currency	1,806,669	312,885	1,493,692	92
Hong Kong Dollar	134,801		134,750	51
Japanese Yen	1,569,152	569,953	995,983	3,216
New Zealand Dollar	10,640		10,606	34
Norwegian Krone	82,993	33,727	49,171	95
Singapore Dollar	84,307		84,119	188
Swedish Krona	164,588		164,150	438
Swiss Franc	302,380		302,334	46
Total	<u>\$ 5,790,500</u>	<u>\$ 1,002,618</u>	<u>\$ 4,781,275</u>	<u>\$ 6,607</u>

5. Derivatives

The international securities in the TCRS' portfolio expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. The fair value of foreign currency forward contracts outstanding as of June 30, 2007, has been reflected in the financial statements.

Component Units

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

1. University of Tennessee

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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, 2007, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Credit Quality Rating						
	Fair Value	Aaa	Aa1	Aa2	Aa3	A1	A2
<b>Cash Management Pool</b>							
U.S. Treasuries	\$ 61,098	\$ 61,098					
U.S. Agencies	261,995	236,024		\$ 25,971			
Commercial Paper	166,878					\$ 166,878	
<b>Investments</b>							
U.S. Treasuries	\$ 12,322	\$ 12,268					
U.S. Agencies	19,142	17,117		\$ 2,025			
Corporate Bonds	24,151	1,831	\$ 2,182	2,936	\$ 5,554	\$ 2,672	\$ 5,437
Municipal Bonds	1,386	849		192			
Mutual Funds – Bonds	70,919	32,280	10,837	7,389			
Mortgages and Notes	433						
<b>Total</b>	<b>\$ 618,324</b>	<b>\$ 361,467</b>	<b>\$ 13,019</b>	<b>\$ 38,513</b>	<b>\$ 5,554</b>	<b>\$ 169,550</b>	<b>\$ 5,437</b>

(Continued)

Rated Debt Instruments	Credit Quality Rating						
	A3	Baa1	Baa2	Ba2	B2	Caa	Unrated
<b>Cash Management Pool</b>							
U.S. Treasuries							\$ 54
U.S. Agencies							
Commercial Paper							
<b>Investments</b>							
U.S. Treasuries							\$ 54
U.S. Agencies							
Corporate Bonds	\$ 1,541	\$ 581	\$ 569				848
Municipal Bonds						\$ 201	144
Mutual Funds – Bonds				\$ 2,106	\$ 2,003		16,304
Mortgages and Notes							433
<b>Total</b>	<b>\$ 1,541</b>	<b>\$ 581</b>	<b>\$ 569</b>	<b>\$ 2,106</b>	<b>\$ 2,003</b>	<b>\$ 201</b>	<b>\$ 17,783</b>



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

Concentration of Credit Risk

The University places no limit on the amount that may be invested in any one issuer. At June 30, 2007, more than five percent of the University's investments are invested in the following single issuers (expressed in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal Home Loan Bank	\$ 163,893	13.04
Federal National Mortgage Association	84,064	6.69

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2007, the University had the following debt investments and maturities (expressed in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>10+</u>
Cash Management Pool					
Cash Equivalents					
Commercial Paper	\$ 166,878	\$ 166,878			
U.S. Treasury	61,098	5,949	\$ 55,149		
U.S. Agencies	261,995	126,362	135,633		
Investments					
U.S. Treasury	12,322	72	6,095	\$ 4,782	\$ 1,373
U.S. Agencies	19,142	180	12,362	4,897	1,703
Corporate Bonds	24,151	2,176	20,160	1,815	
Municipal Bonds	1,386	151			1,235
Mortgages and Notes	433		31	402	
Bond Mutual Funds	54,615	2,003	1,545	48,525	2,542
	<u>\$ 602,020</u>	<u>\$ 303,771</u>	<u>\$ 230,975</u>	<u>\$ 60,421</u>	<u>\$ 6,853</u>

University foundations' investments in the amount of \$137.881 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

The University has investments in fifty-four limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2007, the estimated fair value of these assets is \$203.1 million and total capital contributions less returns of capital equal \$177.9 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.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

2. Tennessee Board of Regents

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regent's investment policies. Funds, other than endowment, invest similarly to the State policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2007, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Credit Quality Rating					
	Fair Value	AAA	AA	A	BBB	Not Rated
U. S. Agencies	\$ 49,441	\$ 48,457		\$ 49		\$ 935
Corporate Bonds	7,299	327	\$ 2,536	2,232	\$ 278	1,926
Commercial Paper	30,271		22,313	7,958		
Mutual Funds—Bonds	19,960	11,448	119	928		7,465
Collateralized Mortgage Obligation	6					6
Total Debt Instruments	<u>\$ 106,977</u>	<u>\$ 60,232</u>	<u>\$ 24,968</u>	<u>\$ 11,167</u>	<u>\$ 278</u>	<u>\$ 10,332</u>

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, 2007, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Investment Maturities (in years)				
	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
Commercial Paper	\$ 30,271	\$ 30,271			
U.S. Treasuries	36,046	21,558	\$ 10,514	\$ 1,137	\$ 2,837
U.S. Agencies	49,441	15,291	31,983	684	1,483
Corporate Bonds	7,299	1,599	2,837	2,593	270
Mutual Funds—Bonds	19,960	1,354	3,058	3,680	11,868
Collateralized Mortgage Obligation	6			6	
Repurchase Agreements	371	371			
Total Debt Investments	<u>\$ 143,394</u>	<u>\$ 70,444</u>	<u>\$ 48,392</u>	<u>\$ 8,100</u>	<u>\$ 16,458</u>

Certain of the System's foundations utilize private-sector accounting standards. Those foundations reported investments at fair value in the amount of \$175.280 million.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

3. Tennessee Housing Development Agency (THDA)

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

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

Credit Risk

The Agency's investments as of June 30, 2007, were rated by Standard and Poor's as follows (expressed in thousands):

Rated Debt Instruments	Credit Quality Rating					
	Fair Value	U.S. Treasury	AAA	A-1+	AA-	Not Rated
U.S. Agencies	\$ 523,585		\$ 255,911	\$ 253,553	\$ 5,007	\$ 9,114
U.S. Treasuries	100,114	\$ 100,114				
Repurchase Agreements	168,000			35,000		133,000
Total Debt Instruments	\$ <u>791,699</u>	\$ <u>100,114</u>	\$ <u>255,911</u>	\$ <u>288,553</u>	\$ <u>5,007</u>	\$ <u>142,114</u>

Concentration of Credit Risk

At June 30, 2007, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	\$ 339,227	42.80
Federal Home Loan Mortgage Corporation	85,431	10.70
Federal National Mortgage Association	77,331	9.83
Repurchase Agreements – U.S. Agency	168,000	21.21

Interest Rate Risk

As of June 30, 2007, the Agency had the following maturities (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	\$ 270,033	3.767
U.S. Agency Discount	253,552	0.029
U.S. Treasury Coupon	100,114	6.627
Repurchase Agreements	168,000	0.004
Total	\$ <u>791,699</u>	

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**B. Accounts and notes receivable**

Receivables at June 30, 2007, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

**Primary Government**

	<u>Accounts</u>	<u>Taxes</u>	<u>Government</u>	<u>Other</u>	<u>Total Receivables</u>	<u>Allowance for Uncollectibles</u>	<u>Net Total Receivables</u>
Governmental Activities:							
General	\$ 265,359	\$ 643,910	\$ 645,088	\$ 36,454	\$ 1,590,811	\$ (83,532)	\$ 1,507,279
Education	14,154	488,752	112,941		615,847	(32,797)	583,050
Nonmajor governmental	543	86,858	246,245	2,020	335,666	(406)	335,260
Internal Service	<u>9,094</u>		<u>3,466</u>	<u>2</u>	<u>12,562</u>	<u>(58)</u>	<u>12,504</u>
Total—governmental activities	<u>\$ 289,150</u>	<u>\$ 1,219,520</u>	<u>\$ 1,007,740</u>	<u>\$ 38,476</u>	<u>\$ 2,554,886</u>	<u>\$ (116,793)</u>	<u>\$ 2,438,093</u>
Amounts not expected to be collected within one year		<u>\$ 77,864</u>					<u>\$ 77,864</u>
Business-type Activities:							
Employment Security	\$ 43,229	\$ 72,726	\$ 1,896	\$ 3,171	\$ 121,022	\$ (31,127)	\$ 89,895
Sewer Treatment Loan				36	36		36
Nonmajor enterprise	<u>5,897</u>				<u>5,897</u>		<u>5,897</u>
Total—business-type activities	<u>\$ 49,126</u>	<u>\$ 72,726</u>	<u>\$ 1,896</u>	<u>\$ 3,207</u>	<u>\$ 126,955</u>	<u>\$ (31,127)</u>	<u>\$ 95,828</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2007, was as follows (expressed in thousands):

**Primary Government**

	<u>Beginning</u> Balance	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 1,201,165	\$ 99,359	\$ (1,081)	\$ 1,299,443
Infrastructure	16,993,170	784,831	(21,599)	17,756,402
Construction in progress	1,262,922	771,790	(797,812)	1,236,900
Software in development		39,055		39,055
Total capital assets, not being depreciated	<u>19,457,257</u>	<u>1,695,035</u>	<u>(820,492)</u>	<u>20,331,800</u>
Capital assets, being depreciated:				
Structures and improvements	1,762,457	22,161	(2,394)	1,782,224
Machinery and equipment	<u>569,938</u>	<u>76,515</u>	<u>(59,372)</u>	<u>587,081</u>
Total capital assets being depreciated	2,332,395	98,676	(61,766)	2,369,305
Less accumulated depreciation for:				
Structures and improvements	(725,118)	(42,304)	997	(766,425)
Machinery and equipment	<u>(374,323)</u>	<u>(49,334)</u>	<u>41,530</u>	<u>(382,127)</u>
Total accumulated depreciation	<u>(1,099,441)</u>	<u>(91,638)</u>	<u>42,527</u>	<u>(1,148,552)</u>
Total capital assets, being depreciated, net	<u>1,232,954</u>	<u>7,038</u>	<u>(19,239)</u>	<u>1,220,753</u>
Governmental activities capital assets, net	<u>\$ 20,690,211</u>	<u>\$ 1,702,073</u>	<u>\$ (839,731)</u>	<u>\$ 21,552,553</u>

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

Governmental activities:	
General Government	\$ 1,464
Education	1,262
Health and Social Services	9,491
Law, Justice and Public Safety	19,863
Recreation and Resource Development	10,450
Regulation of Business and Professions	687
Transportation	12,804
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>35,617</u>
Total depreciation expense – governmental activities	<u>\$ 91,638</u>

Highway Construction Commitments — At June 30, 2007, the Department of Transportation had contractual commitments of approximately \$641.8 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants (\$592.2 million) and general obligation bond proceeds (\$49.6 million).

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**Discretely Presented Component Units**

Capital asset activity for the year ended June 30, 2007, for the discretely presented component units are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 147,218	\$ 2,651	\$ (3,387)	\$ 146,482
Construction in progress	341,290	257,806	(124,143)	474,953
Total capital assets, not being depreciated	<u>488,508</u>	<u>260,457</u>	<u>(127,530)</u>	<u>621,435</u>
Capital assets, being depreciated:				
Infrastructure	224,922	17,375	(9,040)	233,257
Structures and improvements	2,683,029	134,727	(8,963)	2,808,793
Machinery and equipment	746,546	92,702	(46,393)	792,855
Total capital assets being depreciated	<u>3,654,497</u>	<u>244,804</u>	<u>(64,396)</u>	<u>3,834,905</u>
Less accumulated depreciation for:				
Infrastructure	(120,931)	(9,407)	1,104	(129,234)
Structures and improvements	(1,182,196)	(74,261)	9,813	(1,246,644)
Machinery and equipment	(448,458)	(62,548)	39,248	(471,758)
Total accumulated depreciation	<u>(1,751,585)</u>	<u>(146,216)</u>	<u>50,165</u>	<u>(1,847,636)</u>
Total capital assets, being depreciated, net	<u>1,902,912</u>	<u>98,588</u>	<u>(14,231)</u>	<u>1,987,269</u>
Total capital assets, net	<u>\$ 2,391,420</u>	<u>\$ 359,045</u>	<u>\$ (141,761)</u>	<u>\$ 2,608,704</u>

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2007, balances are available as follows (expressed in thousands):

	<u>Ending Balance</u>
Capital assets, not being depreciated:	
Land	\$ 15,657
Total capital assets, not being depreciated	<u>15,657</u>
Capital assets, being depreciated:	
Infrastructure	778
Structures and improvements	142,817
Machinery and equipment	4,961
Total capital assets being depreciated	<u>148,556</u>
Less: Total accumulated depreciation	<u>(22,338)</u>
Total capital assets, being depreciated, net	<u>126,218</u>
Total capital assets, net	<u>\$ 141,875</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**D. Interfund balances**

1. Interfund balances at June 30, 2007, consisted of the following (expressed in thousands):

		<b>DUE FROM</b>											
		<u>General</u>		<u>Employment</u>	<u>Nonmajor</u>	<u>Nonmajor</u>	<u>Internal</u>	<u>Agency</u>					
		<u>Fund</u>	<u>Education</u>	<u>Security</u>	<u>Governmental</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Total</u>				
General Fund		\$	83	\$	9,911	\$	2	\$	205	\$	8,007	\$	18,208
<b>D</b> Education	\$	353											353
<b>U</b> Employment													470
<b>E</b> Security		470											470
Nonmajor													928
<b>T</b> Governmental		928											928
<b>O</b> Internal Service													3,414
Funds		3,414											3,414
Fiduciary Funds		<u>16,083</u>	<u>549</u>	<u>9,911</u>	<u>2,236</u>	<u>\$ 8</u>	<u>488</u>	<u>8,007</u>	<u>\$ 19,364</u>				<u>19,364</u>
<b>Total</b>		<u>\$ 21,248</u>	<u>\$ 632</u>	<u>\$ 9,911</u>	<u>\$ 2,238</u>	<u>\$ 8</u>	<u>\$ 693</u>	<u>\$ 8,007</u>	<u>\$ 42,737</u>				<u>\$ 42,737</u>

The \$9.911 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2007, consisted of the following (expressed in thousands):

		<b>PAYABLE FROM</b>						
		<b>COMPONENT UNITS</b>						
		<u>Tennessee</u>	<u>Tennessee</u>	<u>Tennessee</u>	<u>University</u>	<u>Nonmajor</u>		
		<u>Housing</u>	<u>Education</u>	<u>Board of</u>	<u>of</u>	<u>Component</u>		
		<u>Development</u>	<u>Lottery</u>	<u>Regents</u>	<u>Tennessee</u>	<u>Units</u>	<u>Total</u>	
		<u>Agency</u>						
<b>P</b> PRIMARY GOVERNMENT:								
<b>A</b> General Fund	\$	68	\$	1	\$	68	\$	
<b>Y</b> Education Fund			76,644		186	\$	4,832	
<b>A</b> Nonmajor Governmental Funds				322	698		1,020	
<b>B</b> Nonmajor Enterprise Funds					8	7	15	
<b>L</b> Internal Service Funds				352	85	65	502	
<b>E</b> Fiduciary Funds		<u>109</u>	<u>76,645</u>	<u>3,950</u>	<u>3,617</u>	<u>45</u>	<u>7,721</u>	
<b>T</b>								
<b>O</b> Total	\$	<u>177</u>	<u>\$ 76,645</u>	<u>\$ 4,692</u>	<u>\$ 4,594</u>	<u>\$ 4,949</u>	<u>\$ 91,057</u>	

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2007, consisted of the following (expressed in thousands):

<b>RECEIVABLE FROM PRIMARY GOVERNMENT</b>		Nonmajor		
<b>R E C E I V A B L E</b>	<u>General Fund</u>	<u>Education</u>	<u>Governmental Funds</u>	<u>Total</u>
<b>C COMPONENT UNITS:</b>				
<b>E</b>				
<b>I Tennessee Housing</b>				
<b>V Development Agency</b>	\$ 1			\$ 1
<b>A Tennessee Board of Regents</b>		\$ 130	\$ 870	1,000
<b>B University of Tennessee</b>		314	992	1,306
<b>L Nonmajor Component</b>				
<b>E Units</b>	<u>3,649</u>			<u>3,649</u>
<b>T</b>				
<b>O Total</b>	<u>\$ 3,650</u>	<u>\$ 444</u>	<u>\$ 1,862</u>	<u>\$ 5,956</u>

The Certified Cotton Growers' fiscal year end of December 31 caused a timing difference between its receivable and the General Fund payable in the amount of \$2.208 million.

**E. Transfers**

Transfers between the various primary government funds for fiscal year ended June 30, 2007, are as follows (expressed in thousands):

<b>Transfers Out</b>	<b>Transfers In</b>							
	<u>General</u>	<u>Education</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Treatment</u>	<u>Nonmajor Enterprise Funds</u>	<u>Internal Service Funds</u>	<u>Private- Purpose Trust Funds</u>	<u>Total</u>
General		\$ 544,319	\$ 108,250	\$ 3,304	\$ 1,724	\$ 53,873	\$ 25,950	\$ 737,420
Education	\$ 8,772		9,453			29		18,254
Nonmajor Governmental Funds	134,133		93,317			294		227,744
<b>Totals</b>	<u>\$142,905</u>	<u>\$ 544,319</u>	<u>\$ 211,020</u>	<u>\$ 3,304</u>	<u>\$ 1,724</u>	<u>\$ 54,196</u>	<u>\$ 25,950</u>	<u>\$ 983,418</u>

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, 2007, the general fund transferred \$737.4 million to other funds in accordance with statute or budgetary authorizations for the following purposes: \$543.9 million to subsidize the activities of the education fund, \$99.9 million for capital outlay expenditures, \$89 million to provide appropriations to



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**JUNE 30, 2007**

finance various programs in other funds, \$3.7 million to provide for debt service payments that were due, and \$867 thousand for payments for interfund services used.

**F. Lease obligations**

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

For the Year(s) Ended June 30	Noncancelable Operating Leases
2008	\$ 29,698
2009	28,125
2010	21,498
2011	14,681
2012	9,732
2013-2017	19,498
2018-2022	14,019
Total Minimum Payments Required	\$ 137,251

Expenditures for rent under leases for the years ended June 30, 2007 and 2006, amounted to \$50.8 million and \$44.7 million, respectively.

Capital Lease Obligations – The State leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 10 years and the office equipment leases expire over the next 3 years. The effective interest rates for these leases range from 4.76% to 5.14%. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

	Governmental Activities
Assets:	
Land	\$ 327
Buildings	\$ 3,290
Less: Accumulated Depreciation	487 2,803
Equipment	682
Less: Accumulated Depreciation	593 89
	\$ 3,219

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

At June 30, 2007, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Governmental Activities Lease Obligation Payable
2008	\$ 657
2009	544
2010	357
2011	330
2012	330
2013-2016	1,081
Total	3,299
Less - Interest	525
Less - Executory Costs	213
Present value of net minimum lease payments	\$ 2,561

**G. Lease receivables**

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

The following is a schedule by years of minimum future rentals on noncancelable leases as of June 30, 2007 (expressed in thousands):

Year ending June 30	
2008	\$ 402
2009	446
2010	487
2011	526
2012	516
2013-2017	2,324
2018-2022	2,121
2023-2024	441
Total minimum future rentals	\$ 7,263

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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Minimum future lease payments to be received as of June 30, 2007 (expressed in thousands):

<u>Year Ended June 30</u>	<u>Total</u>
2008	\$ 457
2009	458
2010	459
2011	459
2012	458
2013-2017	1,783
2018-2021	<u>805</u>
Total minimum future lease payments	\$ <u>4,879</u>
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	\$ 4,879
Plus: deferred charges	<u>538</u>
Net investment in direct financing lease	\$ <u><u>5,417</u></u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**H. Long term debt**

1. General Obligation Bonds – Bonds Payable at June 30, 2007, are shown below (expressed in thousands):

	<u>Amount</u>
<b>Business-type Activities:</b>	
<hr/>	
General obligation refunding bonds, 1996 Series C, 4.7% to 4.9%, principal and interest due in amounts from \$990 thousand in 2008 to \$776 thousand in 2010	\$ 2,587
Less: Unamortized bond refunding costs	(53)
Total Business-type Activities	\$ 2,534
<b>Governmental Activities:</b>	
<hr/>	
General obligation bonds, 3% to 6.5%, due in generally decreasing amounts of principal and interest from \$84.021 million in 2008 to \$5.617 thousand in 2027	\$ 560,247
General obligation refunding bonds, 1996 Series B, 4.7% to 4.875%, principal and interest due in amounts from \$7.545 million in 2008 to \$3.911 million in 2011	20,545
General obligation refunding bonds, 1999 Series A, 4% to 5%, principal and interest due in amounts from \$26.64 million in 2008 to \$5.398 million in 2015	137,451
General obligation refunding bonds, 2004 Series A, 4.06% to 5.1%, principal and interest due in amounts from \$1.875 million in 2008 to \$1.629 in 2012	7,335
General obligation refunding bonds, 2004 Series B, 4.82% from 2008 to 2010 and variable interest rates from 2011 to 2029, principal and interest due in amounts from \$2.07 million in 2008 to \$3.737 million in 2029	42,950
General obligation refunding bonds, 2004 Series C, 3% to 5.25%, principal and interest due in amounts from \$16.094 million in 2008 to \$11.388 million in 2018	233,641
General obligation refunding bonds, 2005 Series A, 3.5% to 5.25%, principal and interest due in amounts from \$6.485 million in 2008 to \$7.628 million in 2020	139,527
	1,141,696
Less: Unamortized bond refunding costs	(26,208)
Total Governmental Activities	\$ 1,115,488

General obligation bonds issued during the year ended June 30, 2007:

November 2006 Bond Series 2006A in the amount of \$110 million

The \$110 million general obligation bond issue represents tax-exempt bonds maturing serially through 2027 at interest rates ranging from 4 percent to 5 percent. The bonds were sold at a premium of \$2.345 million. Proceeds of the bond issue and premium were used to redeem commercial paper previously issued as a means of short-term financing for capital assets.

Prior-Year Defeasance of Debt

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2007, \$250.275 million of bonds outstanding are considered defeased.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2007, is shown below (expressed in thousands).

	<u>Commercial Paper</u>
General obligation commercial paper, interest rates ranging from 3.48% to 3.74% for tax exempt and 5.3% to 5.4% for taxable, varying maturities	\$ 130,824

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

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

The State has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on April 1, 2010. At June 30, 2007, \$130.824 million of commercial paper was outstanding (\$117.434 million tax exempt and \$13.390 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2007, are as follows (expressed in thousands):

For the Year(s) Ended June 30	<u>General Obligation Bonds</u>		Total
	Principal	Interest	Requirements
2008	\$ 96,580	\$ 49,141	\$ 145,721
2009	95,825	44,816	140,641
2010	92,820	40,337	133,157
2011	91,876	35,477	127,353
2012	88,066	31,193	119,259
2013-2017	375,742	96,123	471,865
2018-2022	205,804	37,984	243,788
2023-2027	90,605	8,785	99,390
2028-2029	6,965	508	7,473
	\$ 1,144,283	\$ 344,364	\$ 1,488,647

The above principal for bonds does not reflect a \$26.261 million deduction from bonds payable for the deferred amount on refunding.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2007, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 2006	Authorized	Canceled	Unissued June 30, 2007
Highway	\$ 883,500	\$ 83,800	\$ 84,500	\$ 882,800
Higher Education	66,548	10,700	3,173	74,075
Environment and Conservation	11,012			11,012
General Government	1,285,438	200,500	212,328	1,273,610
Local Development Authority	13,400		1,600	11,800
Totals	<u>\$ 2,259,898</u>	<u>\$ 295,000</u>	<u>\$ 301,601</u>	<u>\$ 2,253,297</u>

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2007, follows (expressed in thousands).

<b>Changes In Long-Term Obligations</b>					
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Bonds and Commercial Paper Payable:					
General Obligation Debt	\$ 1,269,968	\$ 222,345	\$ (219,793)	\$ 1,272,520	\$ 92,030
Less Deferred Amount on Refundings	(28,578)		2,370	(26,208)	
Total Bonds and Commercial Paper Payable	1,241,390	222,345	(217,423)	1,246,312	92,030
Capital Leases	3,619	155	(1,213)	2,561	479
Compensated Absences	208,836	180,249	(154,736)	234,349	105,669
Claims and Judgments	238,223	73,855	(70,421)	241,657	28,934
Governmental Activities Long-Term Obligations	<u>\$ 1,692,068</u>	<u>\$ 476,604</u>	<u>\$ (443,793)</u>	<u>\$ 1,724,879</u>	<u>\$ 227,112</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Bonds Payable	\$ 3,451		\$ (864)	\$ 2,587	\$ 870
Less Deferred Amount on Refundings	(73)		20	(53)	
Total Bonds Payable	3,378		(844)	2,534	870
Deposits Payable	1,539	3,453		4,992	
Compensated Absences	79	70	(58)	91	41
Business-Type Activities Long-Term Obligations	<u>\$ 4,996</u>	<u>\$ 3,523</u>	<u>\$ (902)</u>	<u>\$ 7,617</u>	<u>\$ 911</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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

**I. Payables**

Payables as of June 30, 2007, were as follows (expressed in thousands):

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Accrued Interest</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General	\$ 818,899	\$ 74,375		\$ 76,291	\$ 969,565
Education	170,289	3,525		8,493	182,307
Nonmajor governmental	122,181	9,970	\$ 15,282	544	147,977
Internal Service	<u>71,920</u>	<u>2,175</u>			<u>74,095</u>
 Total— governmental activities	 <u>\$ 1,183,289</u>	 <u>\$ 90,045</u>	 <u>\$ 15,282</u>	 <u>\$ 85,328</u>	 <u>\$ 1,373,944</u>
Business-Type Activities:					
Employment Security	\$ 34			\$ 15,091	\$ 15,125
Sewer Treatment Loan	55				55
Nonmajor enterprise	<u>32,675</u>	<u>\$ 34</u>		<u>67</u>	<u>32,776</u>
 Total—business-type activities	 <u>\$ 32,764</u>	 <u>\$ 34</u>		 <u>\$ 15,158</u>	 <u>\$ 47,956</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

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

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2007 (expressed in thousands):

Condensed Statement of Net Assets Component Units						
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
<b>Assets</b>						
Cash, Investments, and Other Assets	\$ 2,387,869	\$ 114,252	\$ 1,100,504	\$ 1,774,694	\$ 269,604	\$ 5,646,923
Due from						
Primary Government	1		1,000	1,306	5,857	8,164
Due from						
Other Component Units					701,339	701,339
Restricted Assets	192,672	2,588			33,790	229,050
Capital Assets, Net	65	1,828	1,471,320	1,247,821	29,545	2,750,579
Total Assets	2,580,607	118,668	2,572,824	3,023,821	1,040,135	9,336,055
<b>Liabilities</b>						
Accounts Payable and Other Current Liabilities	47,427	38,043	162,493	220,216	24,979	493,158
Due to Primary Government	177	76,645	4,692	4,594	4,947	91,055
Due to Other Component Units			347,324	354,015		701,339
Long-Term Liabilities	2,075,611	3,849	77,967	278,850	910,399	3,346,676
Total Liabilities	2,123,215	118,537	592,476	857,675	940,325	4,632,228
<b>Net Assets</b>						
Invested in Capital Assets, Net of Related Debt	65	1,828	1,122,777	773,979	23,555	1,922,204
Restricted	455,765	131	444,621	1,092,027	2,100	1,994,644
Unrestricted	1,562	(1,828)	412,950	300,140	74,155	786,979
Total Net Assets	\$ 457,392	\$ 131	\$ 1,980,348	\$ 2,166,146	\$ 99,810	\$ 4,703,827



**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

Condensed Statement of Activities  
Component Units

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units:				
Housing Development Agency	\$ 289,483	\$ 107,905	\$ 205,629	
Tennessee Education Lottery	991,507	989,151	61	
Board of Regents	1,902,463	650,260	552,827	\$ 95,087
University of Tennessee	1,544,700	467,961	767,592	55,709
Nonmajor Component Units	144,349	82,847	19,504	4,157
Total	\$ 4,872,502	\$ 2,298,124	\$ 1,545,613	\$ 154,953

General Revenues:

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

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

State appropriations from the Education Fund in the amount of \$725.7 million were made to the TBR and \$490.4 million to the UT.

Capital project expenditures in the amount of \$111 million were made for the TBR and \$32.8 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government \$26.1 million to reimburse the state for projects that were not a part of the capital appropriations.

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
\$ 24,051					\$ 24,051
	\$ (2,295)				(2,295)
		\$ (604,289)			(604,289)
			\$ (253,438)		(253,438)
				\$ (37,841)	(37,841)
24,051	(2,295)	(604,289)	(253,438)	(37,841)	(873,812)
		727,225	488,061	99,058	1,314,344
		24,304	1,577	145	26,026
(10)	2,095	24,745	31,367	438	58,635
		7,506		152	7,658
(10)	2,095	783,780	521,005	99,793	1,406,663
		11,497	24,083		35,580
24,041	(200)	190,988	291,650	61,952	568,431
433,351	331	1,789,360	1,874,496	37,858	4,135,396
\$ 457,392	\$ 131	\$ 1,980,348	\$ 2,166,146	\$ 99,810	\$ 4,703,827

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2007, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	\$ 14,252	\$ 330,291
University of Tennessee	15,248	336,333
Total	\$ 29,500	\$ 666,624

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**K. Major component units – long term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2007, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, various Series, 1.1% to 7.935%, due in amounts of principal and interest ranging from \$189.332 million in 2008 to \$78.917 million in 2039	\$ 1,820,597
Less: Unamortized bond refunding costs	(8,330)
Net Bonds Payable	<u>\$ 1,812,267</u>
Single Family Mortgage Convertible Notes, interest rates ranging from 4.983% to 5.150% due August 9, 2007	<u>\$ 247,675</u>

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

Bond sales during the year ended June 30, 2007, included the following issues:

- July 2006—Program bonds of \$100 million
- October 2006—Program bonds of \$100 million
- March 2007—Program bonds of \$100 million
- June 2007—Program bonds of \$120 million

On July 27, 2006, the agency issued \$100 million in Homeownership Program Bonds, Issue 2006-2. The agency used \$46.6 million of these bonds to redeem notes.

On October 31, 2006, the agency issued \$100 million in Homeownership Program Bonds, Issue 2006-3. The agency used \$51.475 million to redeem notes.

On March 13, 2007, the agency issued \$100 million in Homeownership Bonds, Issue 2007-1. The agency used \$51.715 million to redeem notes.

On June 6, 2007, the agency issued \$120 million in Homeownership Bonds, Issue 2007-2. The agency will use \$14.725 million to redeem bonds previously issued and the agency will use \$55.96 million to redeem notes in the subsequent fiscal year.

Current Refundings

During the year ended June 30, 2007, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of \$9.260 million and in the Homeownership Program in the amount of \$50.70 million. The respective carrying values of the bonds were \$9.17 million and \$50.786 million. This resulted in an expense to the Mortgage Finance Program of \$90 thousand and in income to the Homeownership Program of \$86 thousand.

On July 3, 2006, \$51.24 million of Single Family Mortgage Program Notes, 2004CN-1, were drawn to refund bonds previously issued in the Mortgage Finance Program and the Homeownership Program (this amount consists of \$33.505 million early redemption and \$17.735 million current maturities). The carrying amount of these bonds was \$51.287 million. The refunding resulted in a difference of \$47 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

On July 27, 2006, the agency issued \$100 million in Homeownership Program Bonds, Issue 2006-2. On September 14, 2006, the agency used \$46.605 million of these bonds to partially refund the convertible drawdown notes, 2004 CN-1 which were used January 3, 2005, and July 1, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by \$3.285 million over the next 25 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$910 thousand.

On October 31, 2006, the agency issued \$100 million in Homeownership Bonds, Issue 2006-3. On November 9, 2006, the agency used \$51.475 million of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used January 3, 2005, and December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by \$784 thousand over the next 24.75 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$984 thousand.

On December 14, 2006, \$52.3 million of Series 2004 CN-1 notes were drawn. These proceeds were used on January 2, 2007, to refund bonds previously issued in the Mortgage Finance and Homeownership programs (\$39.385 million early redemption and \$12.915 million current maturities). The carrying amount of these bonds was \$52.44 million. The refunding resulted in a difference of \$140 thousand between the reacquisition price and the net carrying amount of the old debt. Because notes were used to refund long-term bonds, neither the change in debt service nor the economic gain or loss disclosures are appropriate.

On March 13, 2007, the agency issued \$100 million in Homeownership Program Bonds, Issue 2007-1. On April 12, 2007, the agency used \$51.715 million of these bonds to partially refund the convertible drawdown notes, 2004 CN-1, which were used December 8, 2005 to refund certain bonds previously issued in the Mortgage Finance and Homeownership programs. The refunding increased the agency's debt service by \$21.735 million over the next 23 years and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of \$12.715 million.

On June 6, 2007, the agency issued \$120 million in Homeownership Program Bonds, Issue 2007-2, to refund bonds and notes in the subsequent fiscal year.

On June 14, 2007, \$31.535 million of Series 2004 CN-1 notes were drawn to refund bonds in the subsequent fiscal year.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2007, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total Requirements
	Principal	Interest	
2008	\$ 101,586	\$ 87,746	\$ 189,332
2009	52,738	84,433	137,171
2010	52,742	81,093	133,835
2011	53,532	78,734	132,266
2012	49,927	76,301	126,228
2013-2017	195,591	350,983	546,574
2018-2022	126,371	313,177	439,548
2023-2027	241,431	266,199	507,630
2028-2032	203,136	214,696	417,832
2033-2037	533,568	135,988	669,556
2038-2039	204,238	10,934	215,172
	<u>\$ 1,814,860</u>	<u>\$ 1,700,284</u>	<u>\$ 3,515,144</u>

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

The debt principal in the preceding table is \$2.593 million more than that presented in the accompanying financial statements. Of this amount, \$5.737 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported as bond principal in the financial statements; it has been reported above as interest in those years (2008-2009) in which the bonds mature. Also, \$8.33 million, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

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

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

The following table is a summary of the note activity for the year ended June 30, 2007 (expressed in thousands).

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$ 262,395	\$ 135,075	\$ 149,795	\$ 247,675

The \$247.675 million of notes outstanding at year end consist of Series 2004 CN-1, which mature on August 9, 2007 with interest rates ranging from 4.983% to 5.15%.

**L. Nonmajor component units – long term debt**

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2007, are shown below (expressed in thousands):

Revenue bonds, 2.4% to 5.125%, due in generally decreasing amounts of principal and interest from \$5.91 million in 2008 to \$54 thousand in 2034	\$ 60,453
Less: Unamortized bond refunding costs	(1,647)
Net Bonds Payable	<u>\$ 58,806</u>
Revenue bond anticipation notes, \$57.77 million at 5% due June 30, 2008	 <u>\$ 57,773</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2007, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds		Total Requirements
	Principal	Interest	
2008	\$ 3,532	\$ 2,377	\$ 5,909
2009	3,657	2,251	5,908
2010	3,783	2,123	5,906
2011	3,592	1,988	5,580
2012	3,367	1,865	5,232
2013-2017	16,605	7,296	23,901
2018-2022	8,891	4,473	13,364
2023-2027	9,084	2,937	12,021
2028-2032	7,904	934	8,838
2033-2034	38	16	54
	<u>\$ 60,453</u>	<u>\$ 26,260</u>	<u>\$ 86,713</u>

The above principal for revenue bonds does not reflect a \$1.647 million deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2007, are shown below (expressed in thousands):

Revenue bonds, various Series, 2.25% to 7.15%, due in decreasing amounts of principal and interest from \$54.634 million in 2008 to \$13.201 million in 2036	\$ 626,268
Less: Unamortized bond refunding costs	<u>(21,521)</u>
Net Bonds Payable	<u>\$ 604,747</u>
Commercial paper, interest rates ranging from 3.2% to 5.42%, varying maturities	<u>\$ 164,195</u>

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

On January 23, 2007, the Authority issued two new series of tax-exempt and one new series of taxable revenue bonds, 2007A, B and C in the amount of \$33.73 million, \$14.04 million and \$89.94 million respectively. The proceeds from the 2007A and B issues were used for new construction projects and to redeem \$26.736 million of commercial paper.

On January 23, 2007, the Authority issued refunding bonds, 2007 Series C. The 2007 Series C tax exempt bond proceeds in the amount of \$89.94 million were issued to current refund \$4.94 million of the 1996 Series B bonds and \$4.045 million of the 1996 Series C bonds and to advance refund \$19.97 million aggregate principal amount of the 1998 Series A bonds and \$62.06 million aggregate principal amount of the 2002 Series A bonds. The 2007 Series C refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$4.292 million. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2032. The 2007 Series C refunding resulted in a reduction of total debt service payments of \$5.679 million over the next 26 years and an economic gain (difference between present values of the old and new debt service payments) of \$3.747 million. The funds provided by the advance refundings were placed in an irrevocable refunding trust fund to provide for all future debt service

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

payments on the refunded bonds. As a result, these bonds are considered defeased and the liability for those bonds have been removed from the government-wide statement of net assets.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2007, \$146.255 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2007, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2008	\$ 28,669	\$ 25,965	\$ 54,634
2009	29,842	24,964	54,806
2010	31,024	23,859	54,883
2011	26,332	20,470	46,802
2012	25,677	19,438	45,115
2013-2017	138,457	81,173	219,630
2018-2022	137,291	53,588	190,879
2023-2027	115,413	27,226	142,639
2028-2032	76,442	8,564	85,006
2033-2036	12,025	1,176	13,201
	<u>\$ 621,172</u>	<u>\$ 286,423</u>	<u>\$ 907,595</u>

The above principal for revenue bonds is more than that presented on the accompanying financial statements by \$16.424 million. Of this amount, \$5.096 million represents accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds. This accretion has been reported above as interest in the years on which the bonds mature (2008-2010). In addition, \$21.52 million, which is a deduction from bonds payable for the deferred amount on refunding, is not reflected in above presentation.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed \$250 million. At June 30, 2007, \$150.607 million of tax-exempt and \$13.588 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from 3.2% to 5.42% during the fiscal year. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under a Credit Agreement, is State Street Bank and Trust Company with a termination date of March 30, 2014, subject to extension and earlier termination. The total available commitment is \$253.828 million. The obligation of State Street Bank and Trust Company is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
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**M. Component units – changes in long term obligations**

A summary of changes in long-term obligations for the year ended June 30, 2007, follows (expressed in thousands).

**Changes In Long-Term Obligations**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee (UT)					
Loans and Notes Payable	\$ 278,257	\$ 113,839	\$ (40,470)	\$ 351,626	\$ 15,395
Tennessee Board of Regents (TBR)					
Loans and Notes Payable	306,406	92,322	(50,185)	348,543	15,431
Tennessee Housing Development Agency (THDA) Bonds Payable	1,577,730	433,629	(190,762)	1,820,597	108,104
Less Deferred Amount on Refunding	(9,258)		928	(8,330)	
THDA Notes Payable	262,395	135,075	(149,795)	247,675	247,675
Nonmajor Component Units Bonds, Notes, and Loans Payable	857,609	338,669	(263,411)	932,867	93,387
Less Deferred Amount on Refunding	<u>(20,542)</u>	<u>(4,292)</u>	<u>1,297</u>	<u>(23,537)</u>	
Total Revenue Bonds, Notes and Loans Payable	\$ 3,252,597	\$ 1,109,242	\$ (692,398)	\$ 3,669,441	\$ 479,992
UT Compensated Absences	70,813	41,736	(38,705)	73,844	38,705
UT Due to Grantors, Deferred Revenue and Annuities Payable	59,131	1,554	(2,434)	58,251	
TBR Compensated Absences	51,718	27,610	(25,805)	53,523	13,088
TBR Due to Grantors and Deferred Revenue	21,447	955	(1,958)	20,444	
THDA Escrow Deposits, Arbitrage Rebate Payable, and Deferred Revenue	16,391	4,923	(6,483)	14,831	859
THDA Compensated Absences	582	743	(487)	838	401
Tennessee Education Lottery Corporation (TELC) Prizes Annuities Payable	2,573	196	(208)	2,561	104
TELC Due to After School Programs	9,265		(9,265)		
TELC Compensated Absences	400	372	(374)	398	253
TELC Deferred Lease	951	7	(68)	890	68
Nonmajor Component Units Compensated Absences	891	1,302	(1,125)	1,068	662
Component Units Long-Term Obligations	<u>\$ 3,486,759</u>	<u>\$ 1,188,640</u>	<u>\$ (779,310)</u>	<u>\$ 3,896,089</u>	<u>\$ 534,132</u>



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The Tennessee State School Bond Authority, a nonmajor component unit, issues revenue bonds to make loans to higher education institutions in the State. The nonmajor component units' bonds payable includes the indebtedness on which the University of Tennessee and the Tennessee Board of Regents' loans payable are based.

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to \$146.710 million (\$2.158 million due within one year).

**N. Endowments – component units**

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2007, net appreciation of \$290.576 million is available to be spent, of which \$284.642 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2007, net appreciation of \$46.254 million is available to be spent, of which \$42.761 million is restricted to specific purposes.

**NOTE 6 – Other information**

**A. Risk management**

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2007, included 123 local education agencies and two education cooperatives, with 47,096 teachers and support personnel enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State does not retain any risk for losses by this fund.

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

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elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2007, the Local Education Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Teacher Group Insurance Fund considers investment income in determining if a premium deficiency exists.

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

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

	2007	2006
Unpaid Claims at Beginning of Year	\$ 27,355	\$ 22,125
Incurred Claims:		
Provision for insured events of the current year	321,829	322,189
Increase (decrease) in provision for insured events of prior years	(3,045)	631
Total Incurred Claims Expenses	318,784	322,820
Payments:		
Claims attributable to insured events of the current year	296,742	294,834
Claims attributable to insured events of prior years	24,310	22,756
Total Payments	321,052	317,590
Total Unpaid Claims at End of the Year	\$ 25,087	\$ 27,355

Note that 2006 includes retiree data that is excluded in 2007 as a result of a change in accounting principle.

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2007, included 34 counties, 81 municipalities and 254 quasi-governmental organizations, with 12,824 employees maintaining coverage through one of four

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options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

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

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2007, the Local Government Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund considers investment income in determining if a premium deficiency exists.

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

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

	2007	2006
Unpaid Claims at Beginning of Year	\$ 6,819	\$ 6,865
Incurred Claims:		
Provision for insured events of the current year	90,585	89,549
Increase (decrease) in provision for insured events of prior years	(279)	(176)
Total Incurred Claims Expenses	90,306	89,373
Payments:		
Claims attributable to insured events of the current year	83,350	82,730
Claims attributable to insured events of prior years	6,540	6,689
Total Payments	89,890	89,419
Total Unpaid Claims at End of the Year	\$ 7,235	\$ 6,819

Note that 2006 includes retiree data that is excluded in 2007 as a result of a change in accounting principle.

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

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RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, such as salvage or subrogation, are another component of the claims liability estimate. At June 30, 2007, the present value of the casualty liability as actuarially determined was \$83.836 million (discounted at 3.5%). Changes in the balances of claims liabilities during fiscal years 2006 and 2007 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability		Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2006-2007 \$	83,466	\$	36,822	\$ (31,829)	\$ 88,459
2005-2006 \$	91,090	\$	20,541	\$ (28,165)	\$ 83,466

At June 30, 2007, RMF held \$116.7 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees, retirees, and former employees with work related injuries are eligible to participate. Fund members at June 30, 2007, included 68,825 employees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

The Employee Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. At June 30, 2007, the State Insurance Committee had established a reserve requirement, based upon claims payments for the prior 12 months, of 8% for the PPO, POS and HMO options. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Employee Group Insurance Fund considers investment income in determining if a premium deficiency exists.

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

	2007	2006
Unpaid Claims at Beginning of Year	\$ 46,775	\$ 40,172
Incurred Claims:		
Provision for insured events of the current year	580,070	578,232
Increase (decrease) in provision for insured events of prior years	(5,541)	(1,124)
Total Incurred Claims Expenses	574,529	577,108
Payments:		
Claims attributable to insured events of the current year	538,980	531,457
Claims attributable to insured events of prior years	41,234	39,048
Total Payments	580,214	570,505
Total Unpaid Claims at End of the Year	\$ 41,090	\$ 46,775

Note that 2006 includes retiree data that is excluded in 2007 as a result of a change in accounting principle.

5. Component Unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state’s uninsured. In accordance with Tennessee Code Annotated 56-7-2901, the target population is those Tennessee residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2007, the plan had 1,379 participants. Three plans were authorized for the first year of coverage, with deductibles of \$1,000, \$2,500, and \$5,000. The benefit plans are based on PPO plans with an 80% in-network benefit and 60% out-of-network benefit and modeled after the state employee plans. The State does not retain any risk for losses by this fund.

This insurance fund provides health care financing based in part upon member premiums, and uses traditional insurance components, including deductibles, co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. The State’s enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The initial assessment for AccessTN is projected following the end of fiscal year 2008, approximately November 1, 2008. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

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The following represents changes in those aggregate liabilities during the current year:

	<u>2007</u>
Unpaid Claims at Beginning of Year	
Incurred Claims:	
Provision for insured events of the current year	\$ 788,619
Increase (decrease) in provision for insured events of prior years	_____
Total Incurred Claims Expenses	<u>788,619</u>
Payments:	
Claims attributable to insured events of the current year	396,419
Claims attributable to insured events of prior years	_____
Total Payments	<u>396,419</u>
Total Unpaid Claims at End of the Year	<u>\$ 392,200</u>

**B. Related organizations**

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

**C. Jointly governed organizations**

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

The State in conjunction with 12 other states are members of the Southern Growth Policies Board. Tennessee paid \$42,463 in fiscal year 2007 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid \$28,000 in fiscal year 2007 for membership dues.

The Compact for Education was entered into with 48 other states, plus Puerto Rico, the Virgin Islands, American Samoa and District of Columbia. Tennessee paid \$74,300 in fiscal year 2007 for membership dues.

The Interstate Mining Compact has 18 member states, including Tennessee. Tennessee paid \$14,677 in fiscal year 2007 for membership dues.

The Southern States Energy Board is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid \$34,267 in fiscal year 2007 for membership dues.

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

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

The Interstate Insurance Product Regulation Commission was entered into on June 2, 2007, with 29 other 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):

	<u>2006</u>	<u>2005</u>
Current Assets	\$ 196	\$ 169
Capital Assets	<u>33</u>	<u>33</u>
Total Assets	<u>229</u>	<u>202</u>
Invested in General Fixed Assets	33	33
Fund Balance	<u>196</u>	<u>169</u>
Total Liabilities and Fund Balance	<u><u>229</u></u>	<u><u>202</u></u>
Revenues	306	195
Expenditures	<u>279</u>	<u>228</u>
Excess of Revenues over (under)		
Expenditures	27	(33)
Beginning Fund Balance	<u>169</u>	<u>202</u>
Ending Fund Balance	<u><u>\$ 196</u></u>	<u><u>\$ 169</u></u>

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

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

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer’s annual OPEB cost and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used.



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1. Retiree Health Plan—State Plan

- a. Plan description—State and higher education retired employees participate in the State Employee Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the State Employee Group Insurance Plan internal service fund and reported in an agency fund. The Employee Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Approximately 38 employers contribute to the plan.

All retired employees and employees with work-related injuries of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disabled plan members prior to the age of 65 participate in this plan. At June 30, 2007, there were 7,038 retirees and disabled members enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The State insurance committee establishes premiums annually.

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

2. Retiree Health Plan—LEA Plan

- a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Approximately 123 local education agencies and two education cooperatives participate in the plan.

All retired teachers and teachers with work-related injuries of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disabled plan members prior to the age of 65 participate in this plan. At June 30, 2007, there were 12,824 retirees and disabled members enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting.
- c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-302, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. In accordance with the TCA, employers are required to contribute a minimum of 45 percent of the total premium for each retiree. Some employers fund in excess of the minimum. This plan is funded on a pay-as-you-go basis.

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3. Retiree Health Plan—Local Plan

- a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Approximately 34 counties, 81 municipalities, and 254 quasi-governmental organizations participate in the plan.

All retired employees and employees with work-related injuries of the local governments, who are eligible and choose coverage, are included in this plan. Retirees and disabled plan members prior to the age of 65 participate in this plan. At June 30, 2007, there were 171 retirees and disabled members enrolled in one of three options: preferred provider organizations plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting.
- c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-207, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retiree's healthcare premiums. Those employers who do contribute to the retiree's premiums primarily do so based on years of service. On the average, employers fund 71 percent and employees pay 29 percent. This plan is funded on a pay-as-you-go basis.

4. Retiree Health Plan—Medicare Supplement

- a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees and employees with work-related injuries, who are eligible and choose coverage, are included in this plan. At June 30, 2007, there were 24,829 retirees and disabled members enrolled. The State insurance committee establishes premiums annually.

- b. Summary of significant accounting policies—Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting.

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

5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay as you go basis. Insurance coverage is not

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mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 300 former employees during fiscal year 2006-2007, and the State Plan paid approximately \$4.7 million in benefits to this group.

**F. Pension plans**

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

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

Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 13.66% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2007, 2006, and 2005, were \$562.729 million, \$474.879 million, and \$448.154 million respectively, equal to the required contributions for each year.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 444 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service. Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

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**JUNE 30, 2007**

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

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were \$83.6 million for the year ended June 30, 2007.

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

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

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2007, contributions totaling \$107.2 million were made by employees participating in the plans. Another \$14.4 million was contributed by the State as matching contributions up to \$40 per employee per month for the 401(k) plan match.

## **G. Investment pool**

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

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

## **H. Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans up to 100% of their principal amounts. At June 30, 2007, TSAC was guarantor of \$4.399 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**I. Nashville correctional facilities revenue bonds**

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville that were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2007, of \$9.005 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

**J. Contingencies**

1. Litigation

Three cases have been previously brought against the State asserting mistreatment and violation of the civil rights of individuals with mental retardation and other developmental disabilities. Settlement agreements have been approved by the courts in all three cases.

The State is also party to numerous other legal proceedings, many of which normally recur in governmental operations. Some of these lawsuits, including the ones enumerated above, may have a future budgetary programmatic impact. They will be addressed in future budgets. Other non-programmatic costs resulting from these legal proceedings are estimated to cost the State approximately \$15 million.

2. 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.

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

3. Tobacco settlement

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

**STATE OF TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
**JUNE 30, 2007**

**K. Subsequent events**

Primary Government

Subsequent to June 30, the State issued \$110 million in general obligation commercial paper. Also, in November 2007, the State issued 2007 Series A tax-exempt general obligation bonds in the amount of \$150 million at a premium of \$3.32 million to redeem commercial paper.

Also, on August 16, 2007, Moody's Investors Service upgraded the State's general obligation bond rating to Aa1 from Aa2 and the outlook has been revised from positive to stable.

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) issued \$150 million of revenue bonds (2007-3) in August and \$150 million of revenue bonds (2007-4) in October 2007. The bond proceeds were used to redeem \$85.295 million of Series 2004 CN-1 Notes and \$55.275 million of Series 2007 CN-1 Notes. Also in August, the Agency drew \$91.695 million of Series 2007 CN-1 Notes to refund Series 2004 CN-1 Notes, at maturity. In July 2007, the Agency used mortgage prepayments, foreclosure proceeds, bond proceeds, and note proceeds to redeem \$46.805 million of outstanding bonds and to redeem \$55.96 of Series 2004 CN-1 Notes. In October, \$61.25 million of the Series 2007 CN-1 Notes were drawn. In November, note proceeds were used to redeem \$8 million of Mortgage Finance Program bonds and \$53.3 million of Homeownership Program bonds.

Subsequent to June 30, the Tennessee State School Bond Authority issued \$88.376 million in commercial paper.

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# REQUIRED SUPPLEMENTARY INFORMATION

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

**ROADWAYS**

Measurement Scale

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

Established Condition Level

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

Assessed Conditions

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

<u>For the Period Ended</u>	<u>Maintenance Rating Index</u>
June 30, 2007	89.70
June 30, 2006	90.39
June 30, 2005	90.08

**BRIDGES**

Measurement Scale

The state maintains information on its 8,136 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as “structurally deficient.” A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as “functionally obsolete.” A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

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

Assessed Conditions

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

<u>For the Two-Year Period Ended</u>	<u>Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete</u>
June 30, 2006	85.80%
June 30, 2004	80.00%
June 30, 2002	79.86%

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

**ESTIMATED AND ACTUAL COSTS TO MAINTAIN**

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

For the Period Ended <u>June 30</u>	<u>Roadways</u>		<u>Bridges</u>	
	<u>Estimated</u>	<u>Actual</u>	<u>Estimated</u>	<u>Actual</u>
2007	\$236,556	\$286,663	\$35,624	\$28,183
2006	224,472	277,442	33,052	38,327
2005	261,846	229,414	35,372	23,054
2004	290,027	260,066	29,247	36,514
2003	289,516	285,459	28,787	39,557

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

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, 2007

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	\$ 2,021,790	\$ 2,021,790	\$ 2,021,790	\$
Add:				
Prior year encumbrances reappropriated	8,642	8,642	8,642	
Adjusted fund balances (budgetary basis), July 1	2,030,432	2,030,432	2,030,432	
Revenues:				
Taxes	5,640,991	5,640,991	6,079,138	438,147
Licenses, fines, fees, and permits	189,989	189,989	194,229	4,240
Interest on investments	76,000	76,000	128,292	52,292
Federal	7,038,513	7,252,884	7,046,587	(206,297)
Departmental services	2,107,152	2,152,938	2,008,804	(144,134)
Other	204,149	204,149	222,447	18,298
Other financing sources:				
Transfers in	34,066	142,905	142,905	
Insurance recoveries		233	233	
Total sources of financial resources	17,321,292	17,690,521	17,853,067	162,546
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	61,120	61,143	34,813	26,330
Secretary of State	46,893	48,032	38,590	9,442
Comptroller	90,482	90,282	77,735	12,547
Treasurer	53,872	53,872	44,766	9,106
Governor	10,925	10,925	8,084	2,841
Commissions	71,718	74,337	66,399	7,938
Finance and Administration	184,156	124,601	82,715	41,886
Personnel	12,133	15,505	13,424	2,081
General Services	25,709	25,996	20,532	5,464
Revenue	116,245	112,936	103,256	9,680
Miscellaneous Appropriations	101,886	89,937	30,071	59,866
Education				
Health and social services				
Veterans Affairs	4,337	4,316	4,052	264
Labor and Workforce Development	224,527	224,767	192,026	32,741
TennCare	8,037,240	8,054,558	7,124,846	929,712
Mental Health	273,476	276,462	253,456	23,006
Mental Retardation	846,416	868,862	841,038	27,824
Health	566,980	588,012	557,289	30,723
Human Services	1,936,559	2,004,250	1,954,809	49,441
Cover Tennessee	125,841	175,926	78,835	97,091
Children's Services	658,515	687,970	660,744	27,226
Law, justice and public safety				
Judicial	257,753	263,022	251,568	11,454
Correction	649,655	674,205	647,412	26,793
Probation and Parole	76,639	76,639	71,719	4,920
Military	114,106	134,729	99,936	34,793
Bureau of Criminal Investigation	60,027	62,358	59,844	2,514
Safety	158,190	158,853	143,098	15,755
Recreation and resource development				
Agriculture	76,259	73,568	66,655	6,913
Tourist Development	18,447	18,447	16,903	1,544
Environment and Conservation	249,663	256,333	207,568	48,765
Economic and Community Development	155,105	174,436	75,639	98,797
Regulation of business and professions				
Commerce and Insurance	81,236	81,643	71,908	9,735
Financial Institutions	15,488	15,488	12,662	2,826
Intergovernmental revenue sharing	521,171	521,171	521,171	
Other financing uses:				
Transfers out	695,345	737,420	737,420	
Total uses of financial resources	16,578,114	16,841,001	15,170,983	1,670,018
Fund balances (budgetary basis), June 30	\$ 743,178	\$ 849,520	\$ 2,682,084	\$ 1,832,564

Education Fund

Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final		
\$ 428,436	\$ 428,436	\$ 428,436	
<u>796</u>	<u>796</u>	<u>796</u>	
429,232	429,232	429,232	
4,161,000	4,161,000	4,091,135	\$ (69,865)
2,000	2,000	1,765	(235)
		5	5
877,859	912,859	843,591	(69,268)
36,085	66,386	58,899	(7,487)
292,700	292,700	305,890	13,190
543,875	544,319	544,319	
<u>6,342,751</u>	<u>6,408,496</u>	<u>6,274,836</u>	<u>(133,660)</u>

5,867,369	5,919,623	5,769,372	150,251
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<u>402</u>	<u>18,254</u>	<u>18,254</u>	
<u>5,867,771</u>	<u>5,937,877</u>	<u>5,787,626</u>	<u>150,251</u>
<u>\$ 474,980</u>	<u>\$ 470,619</u>	<u>\$ 487,210</u>	<u>\$ 16,591</u>

State of Tennessee  
 Required Supplementary Information  
 Reconciliation of Budget to GAAP  
 Note to RSI  
 For the Fiscal Year Ended June 30, 2007

(Expressed in thousands)

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

	General Fund	Education Fund
<b>Sources of financial resources</b>		
Actual amounts (budgetary basis)	\$ 17,853,067	\$ 6,274,836
Differences - budget to GAAP:		
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(2,030,432)	(429,232)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(143,138)	(544,319)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 15,679,497	\$ 5,301,285
<b>Uses of financial resources</b>		
Actual amounts (budgetary basis)	\$ 15,170,983	\$ 5,787,626
Differences - budget to GAAP:		
Encumbrances for supplies, equipment, and construction are reported in the year the order is placed for budgetary purposes, but in the year the goods or services are received for financial reporting purposes.	(10,478)	(1,243)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(737,420)	(18,254)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	\$ 14,423,085	\$ 5,768,129

2. Budgetary process

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

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

Unencumbered appropriations generally lapse at the end of each fiscal year, with the encumbered appropriations being carried forward to the next year. In order to provide sufficient funding for several programs during the year, supplemental appropriations of \$28.813 million were required.

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

Encumbrance accounting is utilized for budgetary control purposes in governmental fund types. Encumbrances and contract obligations outstanding at year-end are typically reported as reservations of fund balance for subsequent year expenditure. Certain budgetary commitments outstanding at year-end in the highway fund are not reported as reservations of fund balance. However, it is the State's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment and these funds do not lapse at year-end, but are carried forward for subsequent year expenditure.

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# SUPPLEMENTARY INFORMATION

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**Knoxville, Tennessee** was founded in 1786 by James White. Originally named White's Fort, James White later renamed the city Knoxville in 1791, in honor of the American Revolutionary War general and Washington's Secretary of War, Henry Knox. Knoxville is the third largest city in Tennessee and is located on the Tennessee River in the northeastern area of the state. The city is known as the gateway to the Great Smoky Mountains National Park which is one of the most-frequented national parks in the United States. The city hosted the 1982 World's Fair. As a result of the activities in Oak Ridge, the National Transportation Research Center, and the Tennessee Valley Authority, Knoxville is currently considered the heart of the high tech Tennessee Valley Corridor, which extends from Blacksburg, Virginia to Huntsville, Alabama.

### **Knoxville Facts**

**Population:** 173,890 (2000)

**Incorporated:** 1791

**Famous Knoxvillians:** Kenny Chesney, Nikki Giovanni, Quentin Tarantino, Alex Haley.

**Colleges and Universities:** University of Tennessee, Johnson Bible College, Knoxville College.

**County:** Knox

**Professional Sports:** Knoxville Noise (ABA), Tennessee Smokies (AA-MLB).

**Annual Festivals:** Dogwood Arts Festival, Rossini Festival, Kuumba Festival, Autumn on the Square, Greekfest.

**Points of Interests:** Great Smoky Mountains, Gatlinburg, Dollywood, Haley Heritage Square, James White's Fort, Knoxville Police Museum, Blount Mansion, Knoxville Museum of Art, World's Fair Park, Women's Basketball Hall of Fame, Knoxville Zoo.

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# NONMAJOR GOVERNMENTAL FUNDS

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

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

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

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



State of Tennessee  
Combining Balance Sheet  
Nonmajor Governmental Funds - By Fund Type  
June 30, 2007

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 551,422	\$ 1,282	\$ 282,178	\$ 39,640	\$ 874,522
Investments				249,965	249,965
Receivables:					
Taxes	80,993	5,440		18	86,451
Due from other governments	220,412		25,327		245,739
Interest		22		1,998	2,020
Other	1,046			4	1,050
Due from other funds	927				927
Due from component units			322	698	1,020
Inventories, at cost	7,325				7,325
Prepayments		6			6
Loans receivable	9,470	6,334			15,804
Restricted assets:					
Cash and cash equivalents			2,479		2,479
<b>Total assets</b>	<b>\$ 871,595</b>	<b>\$ 13,084</b>	<b>\$ 310,306</b>	<b>\$ 292,323</b>	<b>\$ 1,487,308</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities:</b>					
Accounts payable and accruals	\$ 85,772	\$ 222	\$ 44,582	\$ 17	\$ 130,593
Due to other funds	2,238				2,238
Due to component units				1,862	1,862
Unearned revenue	51,881	7,359	2,479		61,719
Deposits payable	1,913				1,913
Other	16	105			121
<b>Total liabilities</b>	<b>141,820</b>	<b>7,686</b>	<b>47,061</b>	<b>1,879</b>	<b>198,446</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Related assets	7,325				7,325
Encumbrances and contracts	150,924		140,040		290,964
<b>Specific purposes:</b>					
Other specific purposes	2,726				2,726
<b>Permanent funds:</b>					
Expendable				154,691	154,691
Nonexpendable				135,753	135,753
<b>Unreserved, undesignated reported in:</b>					
Special revenue funds	568,800				568,800
Debt service fund		5,398			5,398
Capital projects fund			123,205		123,205
<b>Total fund balances</b>	<b>729,775</b>	<b>5,398</b>	<b>263,245</b>	<b>290,444</b>	<b>1,288,862</b>
<b>Total liabilities and fund balances</b>	<b>\$ 871,595</b>	<b>\$ 13,084</b>	<b>\$ 310,306</b>	<b>\$ 292,323</b>	<b>\$ 1,487,308</b>

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, 2007

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
<b>Revenues</b>					
Taxes:					
Sales	\$ 48,685	\$ 48,532			\$ 97,217
Fuel	765,965	84,500			850,465
Business	6,565	174,868			181,433
Other	35,252				35,252
Licenses, fines, fees, and permits	374,873	2,700		\$ 2,454	380,027
Interest on investments	14,878			34,905	49,783
Federal	849,461		\$ 23,663		873,124
Departmental services	58,386	2,381	104,980		165,747
Other	6,665	980	1,826	8	9,479
	<u>2,160,730</u>	<u>313,961</u>	<u>130,469</u>	<u>37,367</u>	<u>2,642,527</u>
<b>Expenditures</b>					
Current:					
General government	36,143				36,143
Education				7,235	7,235
Law, justice and public safety	5,342				5,342
Recreation and resources development	159,644			835	160,479
Regulation of business and professions	50,385				50,385
Transportation	1,541,850				1,541,850
Intergovernmental revenue sharing	294,661				294,661
Debt service:					
Bond principal retirement		78,712			78,712
Commercial paper retirement		1,600	1,478		3,078
Bond interest		46,025			46,025
Commercial paper interest		4,338			4,338
Debt issuance costs		1,173			1,173
Capital outlay			343,712		343,712
	<u>2,088,025</u>	<u>131,848</u>	<u>345,190</u>	<u>8,070</u>	<u>2,573,133</u>
Excess (deficiency) of revenues over (under) expenditures	<u>72,705</u>	<u>182,113</u>	<u>(214,721)</u>	<u>29,297</u>	<u>69,394</u>
<b>Other financing sources (uses)</b>					
Bond and commercial paper issued			196,290		196,290
Commercial paper redeemed			(103,498)		(103,498)
Bond premium		2,049			2,049
Insurance claims recoveries	108		3,672		3,780
Transfers in	89,813	9,177	111,628	402	211,020
Transfers out	(34,359)	(193,318)	(67)		(227,744)
	<u>55,562</u>	<u>(182,092)</u>	<u>208,025</u>	<u>402</u>	<u>81,897</u>
Net changes in fund balances	128,267	21	(6,696)	29,699	151,291
Fund balances, July 1	<u>601,508</u>	<u>5,377</u>	<u>269,941</u>	<u>260,745</u>	<u>1,137,571</u>
Fund balances, June 30	<u>\$ 729,775</u>	<u>\$ 5,398</u>	<u>\$ 263,245</u>	<u>\$ 290,444</u>	<u>\$ 1,288,862</u>

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# NONMAJOR SPECIAL REVENUE FUNDS

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State of Tennessee  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2007

(Expressed in Thousands)

	Highway	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote
<b>Assets</b>						
Cash and cash equivalents	\$ 254,116	\$ 45,326	\$ 8,266	\$ 13,887	\$ 20,669	\$ 36,967
Receivables:						
Taxes	77,457	64	450	1,324		
Due from other governments	218,495	1,743				
Other	638	4		1		
Due from other funds	920	5				
Inventories, at cost	7,325					
Loans receivable	506					
	<u>559,457</u>	<u>47,142</u>	<u>8,716</u>	<u>15,212</u>	<u>20,669</u>	<u>36,967</u>
<b>Total assets</b>	<u>\$ 559,457</u>	<u>\$ 47,142</u>	<u>\$ 8,716</u>	<u>\$ 15,212</u>	<u>\$ 20,669</u>	<u>\$ 36,967</u>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 63,152	\$ 3,797	\$ 6,854	\$ 1,777	\$ 29	
Due to other funds	1,758	334		10	2	
Unearned revenue	13,984					\$ 35,320
Deposits payable	1,912					
Other	16					
	<u>80,822</u>	<u>4,131</u>	<u>6,854</u>	<u>1,787</u>	<u>31</u>	<u>35,320</u>
<b>Total liabilities</b>	<u>80,822</u>	<u>4,131</u>	<u>6,854</u>	<u>1,787</u>	<u>31</u>	<u>35,320</u>
Fund balances:						
Reserved for:						
Related assets	7,325					
Encumbrances and contracts	147,990	2,901		6		
Other specific purposes	2,726					
Unreserved	320,594	40,110	1,862	13,419	20,638	1,647
	<u>478,635</u>	<u>43,011</u>	<u>1,862</u>	<u>13,425</u>	<u>20,638</u>	<u>1,647</u>
<b>Total fund balances</b>	<u>478,635</u>	<u>43,011</u>	<u>1,862</u>	<u>13,425</u>	<u>20,638</u>	<u>1,647</u>
<b>Total liabilities and fund balances</b>	<u>\$ 559,457</u>	<u>\$ 47,142</u>	<u>\$ 8,716</u>	<u>\$ 15,212</u>	<u>\$ 20,669</u>	<u>\$ 36,967</u>

(continued on next page)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Community Development
\$ 13,985	\$ 8,873	\$ 29,066	\$ 2,928	\$ 25,017	\$ 54,393	\$ 2,522
	16		349	1,627 9 1		
						8,964
<u>\$ 13,985</u>	<u>\$ 8,889</u>	<u>\$ 29,066</u>	<u>\$ 3,277</u>	<u>\$ 26,654</u>	<u>\$ 54,393</u>	<u>\$ 11,486</u>
\$ 4	\$ 208 26 1,384	\$ 2,061	\$ 92	\$ 957 40 1,175	\$ 4,689 6	
<u>4</u>	<u>1,618</u>	<u>2,061</u>	<u>110</u>	<u>2,172</u>	<u>4,695</u>	
<u>13,981</u>	<u>7,271</u>	<u>27,005</u>	<u>3,167</u>	<u>24,482</u>	<u>49,698</u>	<u>\$ 11,486</u>
<u>13,981</u>	<u>7,271</u>	<u>27,005</u>	<u>3,167</u>	<u>24,482</u>	<u>49,698</u>	<u>11,486</u>
<u>\$ 13,985</u>	<u>\$ 8,889</u>	<u>\$ 29,066</u>	<u>\$ 3,277</u>	<u>\$ 26,654</u>	<u>\$ 54,393</u>	<u>\$ 11,486</u>

State of Tennessee  
Combining Balance Sheet  
Nonmajor Special Revenue Funds (continued)  
June 30, 2007

(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
<b>Assets</b>						
Cash and cash equivalents	\$ 1,625	\$ 856	\$ 2,484	\$ 4,451	\$ 2,041	\$ 2
Receivables:						
Taxes	62					
Due from other governments						
Other						45
Due from other funds						
Inventories						
Loans receivable						
Total assets	\$ 1,687	\$ 856	\$ 2,484	\$ 4,451	\$ 2,041	\$ 47
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable and accruals	\$ 61	\$ 5	\$ 1,790		\$ 22	\$ 42
Due to other funds	2				6	
Unearned revenue						
Deposits payable						
Other						
Total liabilities	63	5	1,790		28	42
Fund balances:						
Reserved for:						
Related assets						
Encumbrances and contracts	15				4	
Other specific purposes						
Unreserved	1,609	851	694	\$ 4,451	2,009	5
Total fund balances	1,624	851	694	4,451	2,013	5
Total liabilities and fund balances	\$ 1,687	\$ 856	\$ 2,484	\$ 4,451	\$ 2,041	\$ 47

Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
\$ 3,201	\$ 3,496	\$ 3,000	\$ 12,117	\$ 220	\$ 1,914	\$ 551,422
		149		9		80,993
	1	8				220,412
		1				1,046
						927
						7,325
						9,470
<u>\$ 3,201</u>	<u>\$ 3,497</u>	<u>\$ 3,158</u>	<u>\$ 12,117</u>	<u>\$ 229</u>	<u>\$ 1,914</u>	<u>\$ 871,595</u>
\$ 19 2		\$ 203 52		\$ 10		\$ 85,772
		1				2,238
						51,881
						1,913
						16
<u>21</u>		<u>256</u>		<u>10</u>		<u>141,820</u>
		8				7,325
						150,924
						2,726
<u>3,180</u>	<u>\$ 3,497</u>	<u>2,894</u>	<u>\$ 12,117</u>	<u>219</u>	<u>\$ 1,914</u>	<u>568,800</u>
<u>3,180</u>	<u>3,497</u>	<u>2,902</u>	<u>12,117</u>	<u>219</u>	<u>1,914</u>	<u>729,775</u>
<u>\$ 3,201</u>	<u>\$ 3,497</u>	<u>\$ 3,158</u>	<u>\$ 12,117</u>	<u>\$ 229</u>	<u>\$ 1,914</u>	<u>\$ 871,595</u>



State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<u>Highway</u>	<u>Wildlife Resources Agency</u>	<u>Criminal Injuries Compensation</u>	<u>Solid Waste</u>	<u>Job Skills</u>	<u>Help America Vote</u>
<b>Revenues</b>						
Taxes:						
Sales	\$ 48,685					
Fuel	747,204	\$ 527				
Business	6,563				\$ 2	
Other		9,751	\$ 4,718	\$ 5,382		
Licenses, fines, fees, and permits	219,187	39,371	3,017	5,454		
Interest on investments	51	1,928	332	730	1,093	\$ 2,043
Federal	809,978	19,283	3,411	6		10,782
Departmental services	46,084	8,347		100		
Other	6,127		538			
<b>Total revenues</b>	<u>1,883,879</u>	<u>79,207</u>	<u>12,016</u>	<u>11,672</u>	<u>1,095</u>	<u>12,825</u>
<b>Expenditures</b>						
General government			13,892			13,364
Law, justice and public safety						
Recreation and resources development		72,062		9,048	83	
Regulation of business and professions						
Transportation	1,541,850					
Intergovernmental revenue sharing	294,661					
<b>Total expenditures</b>	<u>1,836,511</u>	<u>72,062</u>	<u>13,892</u>	<u>9,048</u>	<u>83</u>	<u>13,364</u>
Excess (deficiency) of revenues over (under) expenditures	<u>47,368</u>	<u>7,145</u>	<u>(1,876)</u>	<u>2,624</u>	<u>1,012</u>	<u>(539)</u>
<b>Other financing sources (uses)</b>						
Insurance claims recoveries	108					
Transfers in	87,000	1,085	602			
Transfers out	(34,066)	(293)				
<b>Total other financing   sources (uses)</b>	<u>53,042</u>	<u>792</u>	<u>602</u>			
<b>Net change in fund balances</b>	<u>100,410</u>	<u>7,937</u>	<u>(1,274)</u>	<u>2,624</u>	<u>1,012</u>	<u>(539)</u>
Fund balances, July 1	<u>378,225</u>	<u>35,074</u>	<u>3,136</u>	<u>10,801</u>	<u>19,626</u>	<u>2,186</u>
Fund balances, June 30	<u>\$ 478,635</u>	<u>\$ 43,011</u>	<u>\$ 1,862</u>	<u>\$ 13,425</u>	<u>\$ 20,638</u>	<u>\$ 1,647</u>

(continued on next page)

<u>Environmental Protection</u>	<u>Hazardous Waste</u>	<u>Parks Acquisition</u>	<u>Supreme Court Boards</u>	<u>Underground Storage Tanks</u>	<u>Enhanced Emergency 911 Service</u>	<u>Community Development</u>
				\$ 18,234		
\$ 37,988		\$ 9,749	\$ 3,025	5,211	\$ 47,595	
731	\$ 425	1,357	149	981	3,086	\$ 447
	1,760	2,169		1,655		4
	3,097	16	243	51		
<u>38,719</u>	<u>5,282</u>	<u>13,291</u>	<u>3,417</u>	<u>26,132</u>	<u>50,681</u>	<u>451</u>
			3,487			
38,675	5,009	5,419		14,743		1,712
					50,235	
<u>38,675</u>	<u>5,009</u>	<u>5,419</u>	<u>3,487</u>	<u>14,743</u>	<u>50,235</u>	<u>1,712</u>
44	273	7,872	(70)	11,389	446	(1,261)
	1,076					
	<u>1,076</u>					
44	1,349	7,872	(70)	11,389	446	(1,261)
<u>13,937</u>	<u>5,922</u>	<u>19,133</u>	<u>3,237</u>	<u>13,093</u>	<u>49,252</u>	<u>12,747</u>
<u>\$ 13,981</u>	<u>\$ 7,271</u>	<u>\$ 27,005</u>	<u>\$ 3,167</u>	<u>\$ 24,482</u>	<u>\$ 49,698</u>	<u>\$ 11,486</u>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board
<b>Revenues</b>						
Taxes:						
Sales						
Fuel						
Business						
Other			\$ 4,500			\$ 1,045
Licenses, fines, fees, and permits	\$ 715	\$ 29		\$ 307	\$ 1,593	
Interest on investments		42	156	224		
Federal						
Departmental services		346		16	2	2
Other						
<b>Total revenues</b>	<u>715</u>	<u>417</u>	<u>4,656</u>	<u>547</u>	<u>1,595</u>	<u>1,047</u>
<b>Expenditures</b>						
General government					665	
Law, justice and public safety	468					
Recreation and resources development		417	6,289			1,047
Regulation of business and professions				150		
Transportation						
Intergovernmental revenue sharing						
<b>Total expenditures</b>	<u>468</u>	<u>417</u>	<u>6,289</u>	<u>150</u>	<u>665</u>	<u>1,047</u>
Excess (deficiency) of revenues over (under) expenditures	<u>247</u>	<u>-</u>	<u>(1,633)</u>	<u>397</u>	<u>930</u>	<u>-</u>
<b>Other financing sources (uses)</b>						
Insurance claims recoveries						
Transfers in						
Transfers out						
<b>Total other financing sources (uses)</b>						
<b>Net change in fund balances</b>	247		(1,633)	397	930	
Fund balances, July 1	<u>1,377</u>	<u>851</u>	<u>2,327</u>	<u>4,054</u>	<u>1,083</u>	<u>5</u>
Fund balances, June 30	<u>\$ 1,624</u>	<u>\$ 851</u>	<u>\$ 694</u>	<u>\$ 4,451</u>	<u>\$ 2,013</u>	<u>\$ 5</u>

<u>Drycleaner's Environmental Response</u>	<u>Agricultural Regulatory Fund</u>	<u>Tennessee Regulatory Authority</u>	<u>Small and Minority Owned Business Assistance</u>	<u>Sex Offender Treatment Program</u>	<u>Fraud and Economic Crime</u>	<u>Total Nonmajor Special Revenue Funds</u>
						\$ 48,685
						765,965
						6,565
				\$ 107		35,252
\$ 940	\$ 2,811	\$ 6,271			\$ 1,359	374,873
215	252		\$ 630		6	14,878
		413				849,461
26		1		55		58,386
<u>1,181</u>	<u>3,063</u>	<u>6,685</u>	<u>630</u>	<u>162</u>	<u>1,365</u>	<u>2,160,730</u>
		7,914	308			36,143
				156	1,231	5,342
1,991	3,149					159,644
						50,385
						1,541,850
<u>1,991</u>	<u>3,149</u>	<u>7,914</u>	<u>308</u>	<u>156</u>	<u>1,231</u>	<u>294,661</u>
						2,088,025
(810)	(86)	(1,229)	322	6	134	72,705
						108
				50		89,813
						(34,359)
				<u>50</u>		<u>55,562</u>
(810)	(86)	(1,229)	322	56	134	128,267
<u>3,990</u>	<u>3,583</u>	<u>4,131</u>	<u>11,795</u>	<u>163</u>	<u>1,780</u>	<u>601,508</u>
\$ <u>3,180</u>	\$ <u>3,497</u>	\$ <u>2,902</u>	\$ <u>12,117</u>	\$ <u>219</u>	\$ <u>1,914</u>	\$ <u>729,775</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Budget	Highway Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
<b>Sources of financial resources:</b>			
Fund balances (budgetary basis), July 1	\$ 7,049	\$ 7,049	
Add:			
Prior year encumbrances liquidated	117	117	
Contract reserves reappropriated	364,465	364,465	
Adjusted fund balances (budgetary basis), July 1	371,631	371,631	
<b>Revenues:</b>			
Taxes	766,000	802,452	\$ 36,452
Licenses, fines, fees, and permits	216,820	219,187	2,367
Interest on investments		51	51
Federal	3,125,590	809,978	(2,315,612)
Departmental services	58,603	46,084	(12,519)
Other	13,980	6,127	(7,853)
Other financing sources - transfers in	87,000	87,000	
Other financing sources - insurance recoveries	108	108	
<b>Total sources of financial resources</b>	<b>4,639,732</b>	<b>2,342,618</b>	<b>(2,297,114)</b>
<b>Uses of financial resources:</b>			
<b>Expenditures and encumbrances:</b>			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation	4,361,162	2,006,516	2,354,646
Revenue			
Intergovernmental revenue sharing	288,200	294,661	(6,461)
Other financing uses - transfers out	34,066	34,066	
<b>Total uses of financial resources</b>	<b>4,683,428</b>	<b>2,335,243</b>	<b>2,348,185</b>
Fund balances (budgetary basis), June 30	\$ (43,696)	\$ 7,375	\$ 51,071

(continued on next page)

Wildlife Resources Agency			Criminal Injuries Compensation		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 32,748	\$ 32,748		\$ 3,136	\$ 3,136	
670	670				
<u>33,418</u>	<u>33,418</u>		<u>3,136</u>	<u>3,136</u>	
10,251	10,278	\$ 27	5,900	4,718	\$ (1,182)
40,673	39,371	(1,302)	3,407	3,017	(390)
	1,928	1,928		332	332
20,359	19,283	(1,076)	3,415	3,411	(4)
8,513	8,347	(166)			
			603	538	(65)
1,085	1,085		602	602	
<u>114,299</u>	<u>113,710</u>	<u>(589)</u>	<u>17,063</u>	<u>15,754</u>	<u>(1,309)</u>
			14,527	13,892	635
85,126	73,307	11,819			
<u>293</u>	<u>293</u>				
<u>85,419</u>	<u>73,600</u>	<u>11,819</u>	<u>14,527</u>	<u>13,892</u>	<u>635</u>
<u>\$ 28,880</u>	<u>\$ 40,110</u>	<u>\$ 11,230</u>	<u>\$ 2,536</u>	<u>\$ 1,862</u>	<u>\$ (674)</u>

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Budget	Solid Waste Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 10,801	\$ 10,801	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	10,801	10,801	
Revenues:			
Taxes	5,703	5,382	\$ (321)
Licenses, fines, fees, and permits	5,019	5,454	435
Interest on investments		730	730
Federal		6	6
Departmental services	234	100	(134)
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>21,757</u>	<u>22,473</u>	<u>716</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	10,956	9,054	1,902
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	<u>10,956</u>	<u>9,054</u>	<u>1,902</u>
Fund balances (budgetary basis), June 30	<u>\$ 10,801</u>	<u>\$ 13,419</u>	<u>\$ 2,618</u>

(continued on next page)

Job Skills			Help America Vote		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 19,626	\$ 19,626		\$ 2,186	\$ 2,186	
19,626	19,626		2,186	2,186	
	2	\$ 2			
528	1,093	565	19,500	2,043 10,782	\$ 2,043 (8,718)
20,154	20,721	567	21,686	15,011	(6,675)
			20,039	13,364	6,675
9,528	83	9,445			
9,528	83	9,445	20,039	13,364	6,675
\$ <u>10,626</u>	\$ <u>20,638</u>	\$ <u>10,012</u>	\$ <u>1,647</u>	\$ <u>1,647</u>	\$ <u>-</u>



State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Environmental Protection		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 13,937	\$ 13,937	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	13,937	13,937	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	44,094	37,988	\$ (6,106)
Interest on investments		731	731
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	58,031	52,656	(5,375)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	43,766	38,675	5,091
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	43,766	38,675	5,091
Fund balances (budgetary basis), June 30	\$ 14,265	\$ 13,981	\$ (284)

(continued on next page)

Hazardous Waste			Parks Acquisition		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 5,922	\$ 5,922		\$ 19,133	\$ 19,133	
5,922	5,922		19,133	19,133	
			9,749	9,749	
2,007	425	\$ 425		1,357	\$ 1,357
4,227	1,760	(247)		2,169	2,169
	3,097	(1,130)		16	16
1,076	1,076				
13,232	12,280	(952)	28,882	32,424	3,542
11,665	5,009	6,656	9,881	5,419	4,462
11,665	5,009	6,656	9,881	5,419	4,462
\$ 1,567	\$ 7,271	\$ 5,704	\$ 19,001	\$ 27,005	\$ 8,004

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Supreme Court Boards		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 3,237	\$ 3,237	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,237	3,237	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	3,274	3,025	\$ (249)
Interest on investments		149	149
Federal			
Departmental services		243	243
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	6,511	6,654	143
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial	3,530	3,487	43
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	3,530	3,487	43
Fund balances (budgetary basis), June 30	\$ 2,981	\$ 3,167	\$ 186

(continued on next page)

Underground Storage Tanks			Enhanced Emergency 911 Service		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 13,093	\$ 13,093		\$ 49,252	\$ 49,252	
13,093	13,093		49,252	49,252	
18,100	18,234	\$ 134			
4,039	5,211	1,172	45,917	47,595	\$ 1,678
	981	981		3,086	3,086
2,088	1,655	(433)			
	51	51			
37,320	39,225	1,905	95,169	99,933	4,764
24,227	14,743	9,484	59,917	50,235	9,682
24,227	14,743	9,484	59,917	50,235	9,682
\$ 13,093	\$ 24,482	\$ 11,389	\$ 35,252	\$ 49,698	\$ 14,446

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Driver Education		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 1,371	\$ 1,371	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	1,371	1,371	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	461	715	\$ 254
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	1,832	2,086	254
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety	805	477	328
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	805	477	328
Fund balances (budgetary basis), June 30	\$ 1,027	\$ 1,609	\$ 582

(continued on next page)

Abandoned Land Program			Agricultural Non-Point Water Pollution		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 851	\$ 851		\$ 2,327	\$ 2,327	
851	851		2,327	2,327	
500	29	\$ (471)	4,500	4,500	
	42	42		156	\$ 156
	346	346			
1,351	1,268	(83)	6,827	6,983	156
500	417	83	6,289	6,289	
500	417	83	6,289	6,289	
\$ 851	\$ 851	\$ -	\$ 538	\$ 694	\$ 156

State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Regulatory Boards		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 4,019	\$ 4,019	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	4,019	4,019	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	363	307	\$ (56)
Interest on investments		224	224
Federal			
Departmental services		16	16
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	4,382	4,566	184
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	363	115	248
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	363	115	248
Fund balances (budgetary basis), June 30	\$ 4,019	\$ 4,451	\$ 432

(continued on next page)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 1,083	\$ 1,083		\$ 3,990	\$ 3,990	
<u>1,083</u>	<u>1,083</u>		<u>3,990</u>	<u>3,990</u>	
1,046	1,593	\$ 547	2,497	940	\$ (1,557)
	2	2		215	215
				26	26
<u>2,129</u>	<u>2,678</u>	<u>549</u>	<u>6,487</u>	<u>5,171</u>	<u>(1,316)</u>
			2,497	1,991	506
1,046	669	377			
<u>1,046</u>	<u>669</u>	<u>377</u>	<u>2,497</u>	<u>1,991</u>	<u>506</u>
\$ <u><u>1,083</u></u>	\$ <u><u>2,009</u></u>	\$ <u><u>926</u></u>	\$ <u><u>3,990</u></u>	\$ <u><u>3,180</u></u>	\$ <u><u>(810)</u></u>



State of Tennessee  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
All Nonmajor Budgeted Special Revenue Funds (continued)  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 3,583	\$ 3,583	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	3,583	3,583	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	2,354	2,811	\$ 457
Interest on investments	120	252	132
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Other financing sources - insurance recoveries			
Total sources of financial resources	6,057	6,646	589
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture	3,149	3,149	
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	3,149	3,149	
Fund balances (budgetary basis), June 30	\$ 2,908	\$ 3,497	\$ 589

(continued on next page)

Tennessee Regulatory Authority			Small and Minority Owned Business Assistance		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 4,107	\$ 4,107		\$ 11,795	\$ 11,795	
<u>4,107</u>	<u>4,107</u>		<u>11,795</u>	<u>11,795</u>	
8,001	6,271	\$ (1,730)	140	630	\$ 490
350	413	63			
3	1	(2)			
<u>12,461</u>	<u>10,792</u>	<u>(1,669)</u>	<u>11,935</u>	<u>12,425</u>	<u>490</u>
8,355	7,898	457	2,140	308	1,832
<u>8,355</u>	<u>7,898</u>	<u>457</u>	<u>2,140</u>	<u>308</u>	<u>1,832</u>
\$ <u><u>4,106</u></u>	\$ <u><u>2,894</u></u>	\$ <u><u>(1,212)</u></u>	\$ <u><u>9,795</u></u>	\$ <u><u>12,117</u></u>	\$ <u><u>2,322</u></u>

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances  
 Budget and Actual (Budgetary Basis)  
 All Nonmajor Budgeted Special Revenue Funds (continued)  
 For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Sex Offender Treatment Program		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 163	\$ 163	
Add:			
Prior year encumbrances liquidated			
Contract reserves reappropriated			
Adjusted fund balances (budgetary basis), July 1	163	163	
Revenues:			
Taxes	128	107	\$ (21)
Licenses, fines, fees, and permits			
Interest on investments			
Federal			
Departmental services		55	55
Other			
Other financing sources - transfers in	50	50	
Other financing sources - insurance recoveries			
Total sources of financial resources	<u>341</u>	<u>375</u>	<u>34</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction	178	156	22
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Transportation			
Revenue			
Intergovernmental revenue sharing			
Other financing uses - transfers out			
Total uses of financial resources	<u>178</u>	<u>156</u>	<u>22</u>
Fund balances (budgetary basis), June 30	<u>\$ 163</u>	<u>\$ 219</u>	<u>\$ 56</u>

Total Nonmajor Special Revenue Funds

Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
\$ 213,409	\$ 213,409	
787	787	
364,465	364,465	
578,661	578,661	
820,331	855,422	\$ 35,091
378,465	373,514	(4,951)
788	14,425	13,637
3,173,309	849,457	(2,323,852)
71,580	58,384	(13,196)
14,583	6,665	(7,918)
89,813	89,813	
108	108	
5,127,638	2,826,449	(2,301,189)
3,530	3,487	43
20,039	13,364	6,675
16,667	14,200	2,467
8,355	7,898	457
178	156	22
805	477	328
9,438	9,438	
103,492	75,308	28,184
85,126	73,307	11,819
9,528	83	9,445
60,280	50,350	9,930
4,361,162	2,006,516	2,354,646
1,046	669	377
288,200	294,661	(6,461)
34,359	34,359	
5,002,205	2,584,273	2,417,932
\$ 125,433	\$ 242,176	\$ 116,743

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# DEBT SERVICE FUND

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

State of Tennessee  
Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual (Budgetary Basis)  
Debt Service Fund  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	\$ 5,377	\$ 5,377	
Revenues:			
Taxes	307,900	307,900	\$
Licenses, fines, fees, and permits	2,700	2,700	
Other		3,361	3,361
Other financing sources			
Transfers in	9,177	9,177	
Bond premium	2,049	2,049	
Total sources of financial resources	<u>327,203</u>	<u>330,564</u>	<u>3,361</u>
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	326,813	131,848	194,965
Other financing uses - transfers out	<u>193,318</u>	<u>193,318</u>	
Total uses of financial resources	<u>520,131</u>	<u>325,166</u>	<u>194,965</u>
Fund balances (budgetary basis), June 30	<u>\$ (192,928)</u>	<u>\$ 5,398</u>	<u>\$ 198,326</u>

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# PERMANENT FUNDS

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

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

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



State of Tennessee  
Combining Balance Sheet  
Permanent Funds  
June 30, 2007

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 4,892	\$ 7	\$ 34,741	\$ 39,640
Investments	246,738	3,227		249,965
Receivables:				
Taxes			18	18
Interest	1,998			1,998
Other			4	4
Due from component units	698			698
 Total assets	\$ 254,326	\$ 3,234	\$ 34,763	\$ 292,323
 <b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable and accruals	\$ 17			\$ 17
Due to component units	1,862			1,862
 Total liabilities	1,879			1,879
 Fund balances:				
Reserved for:				
Expendable	152,517	\$ 529	\$ 1,645	154,691
Nonexpendable	99,930	2,705	33,118	135,753
 Total fund balances	252,447	3,234	34,763	290,444
 Total liabilities and fund balances	\$ 254,326	\$ 3,234	\$ 34,763	\$ 292,323

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Permanent Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
<b>Revenues</b>				
Licenses, fines, fees and permits			\$ 2,454	\$ 2,454
Interest on investments	\$ 32,998	\$ 165	1,742	34,905
Other			8	8
	<u>32,998</u>	<u>165</u>	<u>4,204</u>	<u>37,367</u>
Total revenues				
	<u>32,998</u>	<u>165</u>	<u>4,204</u>	<u>37,367</u>
<b>Expenditures</b>				
Education	6,711	524		7,235
Recreation and resources development			835	835
	<u>6,711</u>	<u>524</u>	<u>835</u>	<u>8,070</u>
Total expenditures				
	<u>6,711</u>	<u>524</u>	<u>835</u>	<u>8,070</u>
Excess (deficiency) of revenues over (under) expenditures	<u>26,287</u>	<u>(359)</u>	<u>3,369</u>	<u>29,297</u>
<b>Other financing sources (uses)</b>				
Transfers in		402		402
		<u>402</u>		<u>402</u>
Total other financing sources (uses)				
		<u>402</u>		<u>402</u>
Net change in fund balances	26,287	43	3,369	29,699
Fund balances, July 1	<u>226,160</u>	<u>3,191</u>	<u>31,394</u>	<u>260,745</u>
Fund balances, June 30	<u>\$ 252,447</u>	<u>\$ 3,234</u>	<u>\$ 34,763</u>	<u>\$ 290,444</u>

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# NONMAJOR ENTERPRISE FUNDS

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

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

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

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

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

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 Assets  
Nonmajor Enterprise Funds  
June 30, 2007

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 2,632	\$ 20,782	\$ 142,198	\$ 17,651
Receivables:				
Accounts receivable			4,665	1,175
Loans receivable	821	2,135		
Due from component units				7
Inventory				
Total current assets	3,453	22,917	146,863	18,833
Noncurrent assets:				
Deferred charges	28			
Loans receivable	1,917	6,816		
Total noncurrent assets	1,945	6,816		
Total assets	5,398	29,733	146,863	18,833
<b>Liabilities</b>				
Current liabilities:				
Accounts payable and accruals	163		25,096	7,241
Due to other funds				
Bonds payable	870			
Unearned revenue			561	277
Total current liabilities	1,033		25,657	7,518
Noncurrent liabilities:				
Bonds payable, net	1,664			
Other noncurrent liabilities				
Total noncurrent liabilities	1,664			
Total liabilities	2,697		25,657	7,518
<b>Net assets</b>				
Unrestricted	2,701	29,733	121,206	11,315
Total net assets	\$ 2,701	\$ 29,733	\$ 121,206	\$ 11,315

<u>Drinking Water</u>	<u>Grain Indemnity</u>	<u>Property Utilization</u>	<u>Client Protection</u>	<u>Total Nonmajor Enterprise Funds</u>
\$ 25,196	\$ 3,522	\$ 421	\$ 2,378	\$ 214,780
		57		5,897
2,462		8		5,418
		142		15
<u>27,658</u>	<u>3,522</u>	<u>628</u>	<u>2,378</u>	<u>226,252</u>
				28
<u>57,774</u>				<u>66,507</u>
<u>57,774</u>				<u>66,535</u>
<u>85,432</u>	<u>3,522</u>	<u>628</u>	<u>2,378</u>	<u>292,787</u>
				32,809
67		242		8
		8		870
				<u>838</u>
<u>67</u>		<u>250</u>		<u>34,525</u>
				1,664
<u>1,509</u>		<u>50</u>		<u>1,559</u>
<u>1,509</u>		<u>50</u>		<u>3,223</u>
<u>1,576</u>		<u>300</u>		<u>37,748</u>
<u>83,856</u>	<u>3,522</u>	<u>328</u>	<u>2,378</u>	<u>255,039</u>
<u>\$ 83,856</u>	<u>\$ 3,522</u>	<u>\$ 328</u>	<u>\$ 2,378</u>	<u>\$ 255,039</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<u>State Loan Program</u>	<u>Energy Loan Program</u>	<u>Teacher Group Insurance</u>	<u>Local Government Group Insurance</u>
<b>Operating revenues</b>				
Charges for services	\$ 13	\$ 108		
Investment income	150	1,155		
Premiums			\$ 349,995	\$ 88,280
<b>Total operating revenues</b>	<u>163</u>	<u>1,263</u>	<u>349,995</u>	<u>88,280</u>
<b>Operating expenses</b>				
Personal services				
Contractual services	31		15,906	3,049
Materials and supplies				
Rentals and insurance				
Interest	137			
Depreciation and amortization	10			
Benefits			305,757	87,054
Other	32		1,246	346
<b>Total operating expenses</b>	<u>210</u>		<u>322,909</u>	<u>90,449</u>
Operating income (loss)	<u>(47)</u>	<u>1,263</u>	<u>27,086</u>	<u>(2,169)</u>
<b>Nonoperating revenues (expenses)</b>				
Operating grants	(25)	399		
Interest income			6,333	960
<b>Total nonoperating revenues (expenses)</b>	<u>(25)</u>	<u>399</u>	<u>6,333</u>	<u>960</u>
Income (loss) before transfers	(72)	1,662	33,419	(1,209)
Transfers in				
Change in net assets	(72)	1,662	33,419	(1,209)
Net assets, July 1	<u>2,773</u>	<u>28,071</u>	<u>87,787</u>	<u>12,524</u>
Net assets, June 30	<u>\$ 2,701</u>	<u>\$ 29,733</u>	<u>\$ 121,206</u>	<u>\$ 11,315</u>

	Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
\$	1,164		\$ 2,457	\$ 187	\$ 3,929
	1,124				2,429
					438,275
	<u>2,288</u>		<u>2,457</u>	<u>187</u>	<u>444,633</u>
			981		981
	412		671	89	20,158
			663		663
			120		120
					137
					10
					392,811
		\$ 125	69	2	1,820
	<u>412</u>	<u>125</u>	<u>2,504</u>	<u>91</u>	<u>416,700</u>
	<u>1,876</u>	<u>(125)</u>	<u>(47)</u>	<u>96</u>	<u>27,933</u>
	7,594				7,968
		184		119	7,596
	<u>7,594</u>	<u>184</u>		<u>119</u>	<u>15,564</u>
	9,470	59	(47)	215	43,497
	<u>1,724</u>				<u>1,724</u>
	11,194	59	(47)	215	45,221
	<u>72,662</u>	<u>3,463</u>	<u>375</u>	<u>2,163</u>	<u>209,818</u>
\$	<u><u>83,856</u></u>	<u><u>3,522</u></u>	<u><u>328</u></u>	<u><u>2,378</u></u>	<u><u>255,039</u></u>



State of Tennessee  
Combining Statement of Cash Flows  
Nonmajor Enterprise Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
<b>Cash flows from operating activities</b>				
Receipts from customers and users			\$ 345,756	\$ 88,244
Receipts from interfund services provided				
Payments to suppliers			(323,939)	(90,236)
Payments to employees				
Payments for interfund services used	\$ (31)		(1,243)	(346)
Net cash from (used for) operating activities	(31)		20,574	(2,338)
<b>Cash flows from noncapital financing activities</b>				
Operating grants received		\$ 399		
Transfers in				
Payments to component units	(25)			
Principal payments	(835)			
Interest paid	(159)			
Subsidy to borrowers	(173)			
Net cash from (used for) noncapital financing activities	(1,192)	399		
<b>Cash flows from investing activities</b>				
Loans issued		(4,190)		
Collection of loan principal	970	1,613		
Interest received	163	1,262	6,333	960
Net cash from (used for) investing activities	1,133	(1,315)	6,333	960
Net increase (decrease) in cash and cash equivalents	(90)	(916)	26,907	(1,378)
Cash and cash equivalents, July 1	2,722	21,698	115,291	19,029
Cash and cash equivalents, June 30	\$ 2,632	\$ 20,782	\$ 142,198	\$ 17,651
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ (47)	\$ 1,263	\$ 27,086	\$ (2,169)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	11			
Investment income	(150)	(1,155)		
Charges for services	(13)	(108)		
Interest expense	137			
Subsidy to borrowers	31			
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			(2,951)	(597)
(Increase) decrease in due from component units				(6)
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			(2,273)	406
Increase (decrease) in unearned revenue			(1,288)	28
Total adjustments	16	(1,263)	(6,512)	(169)
Net cash provided by (used for) operating activities	\$ (31)	\$ -	\$ 20,574	\$ (2,338)

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
		\$ 2,044	\$ 187	\$ 436,231
		453		453
\$ (61)	\$ (125)	(871)	(89)	(415,321)
(351)		(979)	(2)	(981)
		(588)		(2,559)
(412)	(125)	59	96	17,823
7,594				7,993
1,724				1,724
				(25)
				(835)
				(159)
				(173)
9,318				8,525
(8,680)				(12,870)
2,657				5,240
2,290	184		119	11,311
(3,733)	184		119	3,681
5,173	59	59	215	30,029
20,023	3,463	362	2,163	184,751
\$ 25,196	\$ 3,522	\$ 421	\$ 2,378	\$ 214,780
\$ 1,876	\$ (125)	\$ (47)	\$ 96	\$ 27,933
(2,288)				11
				(3,593)
				(121)
				137
				31
		49		(3,499)
		(8)		(14)
		(101)		(101)
		166		(1,701)
				(1,260)
(2,288)		106		(10,110)
\$ (412)	\$ (125)	\$ 59	\$ 96	\$ 17,823

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# INTERNAL SERVICE FUNDS

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

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

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

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

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

Facilities Revolving Fund—Created in 1989, this fund provides the maintenance, repair and total housing needs of state government. This fund was phased in. The first year it included only downtown Nashville office space. In fiscal year 90-91, the fund expanded to include all office and warehouse space in Davidson, Knox, Madison, Shelby, Washington, Hamilton, and Sullivan counties. In fiscal year 91-92, the fund encompassed all office and warehouse space in the state, except institutional space.

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

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

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

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

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

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

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

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

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

State of Tennessee  
Combining Statement of Net Assets  
Internal Service Funds  
June 30, 2007

(Expressed in Thousands)

<b>Assets</b>	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
<b>Current assets:</b>						
Cash and cash equivalents	\$ 76,069	\$ 116,769	\$ 16,081	\$ 132	\$ 39,350	\$ 233,752
Accounts receivable	170	3,333	68		206	8,094
Due from other funds	2,249				139	
Due from component units	282	12	5		121	
Inventories, at cost	1,182		8	81		
Prepaid expenses						
<b>Total current assets</b>	<b>79,952</b>	<b>120,114</b>	<b>16,162</b>	<b>213</b>	<b>39,816</b>	<b>241,846</b>
<b>Noncurrent assets:</b>						
Due from other funds	1,024					
Deferred charges					365	
Lease receivable					2,618	
<b>Capital assets:</b>						
Land, at cost					57,354	
Structures and improvements, at cost					451,949	
Machinery and equipment, at cost	84,825		151,167	1,482	361	
Less-accumulated depreciation	(63,833)		(78,694)	(1,027)	(201,286)	
Construction in progress					7,718	
<b>Total capital assets, net of accumulated depreciation</b>	<b>20,992</b>		<b>72,473</b>	<b>455</b>	<b>316,096</b>	
<b>Total noncurrent assets</b>	<b>22,016</b>		<b>72,473</b>	<b>455</b>	<b>319,079</b>	
<b>Total assets</b>	<b>101,968</b>	<b>120,114</b>	<b>88,635</b>	<b>668</b>	<b>358,895</b>	<b>241,846</b>
<b>Liabilities</b>						
<b>Current liabilities:</b>						
Accounts payable	13,416	679	5,685	49	7,045	41,850
Accrued payroll and related deductions	2,172		92	134		
Due to other funds	298	6	10	16		
Lease obligations payable				124	199	
Bonds payable					13,573	
Unearned revenue		6	1,763	1		37,541
Other		28,934				
<b>Total current liabilities</b>	<b>15,886</b>	<b>29,625</b>	<b>7,550</b>	<b>324</b>	<b>20,817</b>	<b>79,391</b>
<b>Noncurrent liabilities:</b>						
Lease obligations payable				149	1,827	
Commercial paper payable			9,209		6,332	
Bonds payable, net					138,618	
Other noncurrent liabilities	1,285	59,526	65	91		
<b>Total noncurrent liabilities</b>	<b>1,285</b>	<b>59,526</b>	<b>9,274</b>	<b>240</b>	<b>146,777</b>	
<b>Total liabilities</b>	<b>17,171</b>	<b>89,151</b>	<b>16,824</b>	<b>564</b>	<b>167,594</b>	<b>79,391</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	20,992		63,264	183	155,667	
Unrestricted (deficit)	63,805	30,963	8,547	(79)	35,634	162,455
<b>Total net assets</b>	<b>\$ 84,797</b>	<b>\$ 30,963</b>	<b>\$ 71,811</b>	<b>\$ 104</b>	<b>\$ 191,301</b>	<b>\$ 162,455</b>

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 1,799	\$ 535	\$ 258	\$ 363		\$ 102	\$ 4,002	\$ 3,148	\$ 492,360
38	1			\$ 1		68	726	12,705
						1	1	2,390
	441	17		620			82	502
	54	15					6,080	8,429
<u>1,837</u>	<u>1,031</u>	<u>290</u>	<u>363</u>	<u>621</u>	<u>102</u>	<u>4,071</u>	<u>10,037</u>	<u>516,455</u>
								1,024
								365
								<u>2,618</u>
215								57,569
15,752								467,701
3,247	2,147	323			207	46	9,270	253,075
(7,240)	(1,397)	(311)			(193)	(46)	(4,757)	(358,784)
<u>11,974</u>	<u>750</u>	<u>12</u>			<u>14</u>	<u>-</u>	<u>4,513</u>	<u>427,279</u>
<u>11,974</u>	<u>750</u>	<u>12</u>			<u>14</u>		<u>4,513</u>	<u>431,286</u>
<u>13,811</u>	<u>1,781</u>	<u>302</u>	<u>363</u>	<u>621</u>	<u>116</u>	<u>4,071</u>	<u>14,550</u>	<u>947,741</u>
1,244	425	8	1	300	1	8	1,208	71,919
20	125	20	131	44	47	305	647	3,737
2	15		18	205	7	42	74	693
					10			333
								13,573
								39,311
								<u>28,934</u>
<u>1,266</u>	<u>565</u>	<u>28</u>	<u>150</u>	<u>549</u>	<u>65</u>	<u>355</u>	<u>1,929</u>	<u>158,500</u>
					6			1,982
								15,541
								138,618
16	78	19	83	21	27	185	462	61,858
16	78	19	83	21	33	185	462	217,999
<u>1,282</u>	<u>643</u>	<u>47</u>	<u>233</u>	<u>570</u>	<u>98</u>	<u>540</u>	<u>2,391</u>	<u>376,499</u>
11,974	750	12			(2)		4,513	257,353
555	388	243	130	51	20	3,531	7,646	313,889
<u>\$ 12,529</u>	<u>\$ 1,138</u>	<u>\$ 255</u>	<u>\$ 130</u>	<u>\$ 51</u>	<u>\$ 18</u>	<u>\$ 3,531</u>	<u>\$ 12,159</u>	<u>\$ 571,242</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
<b>Operating revenues</b>						
Charges for services	\$ 141,764	\$ 20,468	\$ 33,779	\$ 3,672	\$ 121,564	
Premiums						\$ 610,502
Other				6		
Total operating revenues	<u>141,764</u>	<u>20,468</u>	<u>33,779</u>	<u>3,678</u>	<u>121,564</u>	<u>610,502</u>
<b>Operating expenses</b>						
Personal services	32,414		1,497	2,020		
Contractual services	124,350	9,134	1,533	694	67,828	26,588
Materials and supplies	31,777		18,645	810	7,542	
Rentals and insurance	2,189	2,482	259	203	36,720	8,793
Depreciation and amortization	8,803		14,322	133	10,827	
Benefits		36,823				557,079
Other	5,094		289	15	144	2,553
Total operating expenses	<u>204,627</u>	<u>48,439</u>	<u>36,545</u>	<u>3,875</u>	<u>123,061</u>	<u>595,013</u>
Operating income (loss)	<u>(62,863)</u>	<u>(27,971)</u>	<u>(2,766)</u>	<u>(197)</u>	<u>(1,497)</u>	<u>15,489</u>
<b>Nonoperating revenues (expenses)</b>						
Taxes		2				
Operating grants		3,333				
Interest income		6,352			2,571	11,064
Interest expense			(355)	(14)	(7,742)	
Total nonoperating revenues (expenses)		<u>9,687</u>	<u>(355)</u>	<u>(14)</u>	<u>(5,171)</u>	<u>11,064</u>
Income (loss) before contributions and transfers	(62,863)	(18,284)	(3,121)	(211)	(6,668)	26,553
Capital contributions	229		5		2,154	
Transfers in	<u>37,364</u>		<u>5,761</u>	<u>314</u>	<u>9,987</u>	<u>548</u>
Change in net assets	(25,270)	(18,284)	2,645	103	5,473	27,101
Net assets, July 1	<u>110,067</u>	<u>49,247</u>	<u>69,166</u>	<u>1</u>	<u>185,828</u>	<u>135,354</u>
Net assets, June 30	<u>\$ 84,797</u>	<u>\$ 30,963</u>	<u>\$ 71,811</u>	<u>\$ 104</u>	<u>\$ 191,301</u>	<u>\$ 162,455</u>

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 5,420	\$ 18,189	\$ 749	\$ 4,640	\$ 6,362	\$ 1,444	\$ 10,283	\$ 25,416	\$ 393,750
								610,502
								6
<u>5,420</u>	<u>18,189</u>	<u>749</u>	<u>4,640</u>	<u>6,362</u>	<u>1,444</u>	<u>10,283</u>	<u>25,416</u>	<u>1,004,258</u>
218	2,121	494	2,133	902	850	4,458	8,964	56,071
5,088	913	323	2,070	920	312	5,536	4,261	249,550
10	13,662	86	45	4,300	7	39	12,803	89,726
22	663	25	219	185	293	300	1,446	53,799
622	134	19			10	2	749	35,621
								593,902
<u>44</u>	<u>43</u>		<u>16</u>	<u>21</u>	<u>12</u>	<u>22</u>	<u>614</u>	<u>8,867</u>
<u>6,004</u>	<u>17,536</u>	<u>947</u>	<u>4,483</u>	<u>6,328</u>	<u>1,484</u>	<u>10,357</u>	<u>28,837</u>	<u>1,087,536</u>
<u>(584)</u>	<u>653</u>	<u>(198)</u>	<u>157</u>	<u>34</u>	<u>(40)</u>	<u>(74)</u>	<u>(3,421)</u>	<u>(83,278)</u>
								2
								3,333
								19,987
								(8,113)
								15,209
(584)	653	(198)	157	34	(42)	(74)	(3,421)	(68,069)
								2,388
		<u>200</u>	<u>22</u>					<u>54,196</u>
(584)	653	2	179	34	(42)	(74)	(3,421)	(11,485)
<u>13,113</u>	<u>485</u>	<u>253</u>	<u>(49)</u>	<u>17</u>	<u>60</u>	<u>3,605</u>	<u>15,580</u>	<u>582,727</u>
<u>\$ 12,529</u>	<u>\$ 1,138</u>	<u>\$ 255</u>	<u>\$ 130</u>	<u>\$ 51</u>	<u>\$ 18</u>	<u>\$ 3,531</u>	<u>\$ 12,159</u>	<u>\$ 571,242</u>



State of Tennessee  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
<b>Cash flows from operating activities</b>						
Receipts from customers and users	\$ 3,648	\$ 5,552	\$ 691	\$ 58	\$ 2,762	\$ 181,413
Receipts from interfund services provided	138,448	14,904	32,680	3,618	118,558	444,168
Payments to suppliers	(133,612)	(36,506)	(11,703)	(1,193)	(85,341)	(616,993)
Payments to employees	(32,709)		(1,518)	(2,008)		
Payments for interfund services used	(23,508)	(6,790)	(6,159)	(532)	(26,111)	(2,553)
Net cash from (used for) operating activities	<u>(47,733)</u>	<u>(22,840)</u>	<u>13,991</u>	<u>(57)</u>	<u>9,868</u>	<u>6,035</u>
<b>Cash flows from noncapital financing activities</b>						
Negative cash balance implicitly repaid						
Transfers in	37,364		5,761	314	9,987	548
Tax revenues received		2				
Net cash from (used for) noncapital financing activities	<u>37,364</u>	<u>2</u>	<u>5,761</u>	<u>314</u>	<u>9,987</u>	<u>548</u>
<b>Cash flows from capital and related financing activities</b>						
<b>financing activities</b>						
Purchase of capital assets	(14,513)		(16,530)	(63)	(10,348)	
Bond and commercial paper proceeds					24,005	
Proceeds from sale of capital assets			2,053		252	
Bond issuance cost					(44)	
Principal payments			(3,112)	(96)	(28,008)	
Interest paid			(355)	(14)	(7,756)	
Net cash from (used for) capital and related financing activities	<u>(14,513)</u>		<u>(17,944)</u>	<u>(173)</u>	<u>(21,899)</u>	
<b>Cash flows from investing activities</b>						
Interest received		6,352			2,571	11,064
Net cash from (used for) investing activities		<u>6,352</u>			<u>2,571</u>	<u>11,064</u>
Net increase (decrease) in cash and cash equivalents	(24,882)	(16,486)	1,808	84	527	17,647
Cash and cash equivalents, July 1	100,951	133,255	14,273	48	38,823	216,105
Cash and cash equivalents, June 30	<u>\$ 76,069</u>	<u>\$ 116,769</u>	<u>\$ 16,081</u>	<u>\$ 132</u>	<u>\$ 39,350</u>	<u>\$ 233,752</u>
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>						
Operating income (loss)	\$ (62,863)	\$ (27,971)	\$ (2,766)	\$ (197)	\$ (1,497)	\$ 15,489
Adjustments to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	8,803		14,321	133	10,827	
Loss on disposal of capital assets	4,889		92	(6)	78	
Bond issuance cost					59	
Capital lease executory costs paid					28	
Changes in assets and liabilities:						
(Increase) decrease in accounts receivable	221		122	3	(2)	(5,144)
(Increase) decrease in due from other funds	138				(139)	
(Increase) decrease in due from component units	48	(12)		1	(104)	
(Increase) decrease in inventories	(20)		1	1		
(Increase) decrease in prepaid expenses						
Increase (decrease) in accounts payable	1,028	5,143	2,752	5	618	(5,598)
Increase (decrease) in due to other funds	23		(1)	3		
Increase (decrease) in unearned revenue			(530)			1,288
Total adjustments	<u>15,130</u>	<u>5,131</u>	<u>16,757</u>	<u>140</u>	<u>11,365</u>	<u>(9,454)</u>
Net cash provided by (used for) operating activities	<u>\$ (47,733)</u>	<u>\$ (22,840)</u>	<u>\$ 13,991</u>	<u>\$ (57)</u>	<u>\$ 9,868</u>	<u>\$ 6,035</u>
<b>Noncash investing, capital and financing activities</b>						
Contributed capital assets					\$ 2,154	
Capital asset acquired by capital lease				\$ 146		
Total noncash investing, capital and financing activities				<u>\$ 146</u>	<u>\$ 2,154</u>	

Food Services	Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Total Internal Service Funds
\$ 526	\$ 340	\$ 8	\$ 10	\$ 38	\$ 21	\$ 438	\$ 5,546	\$ 201,051
4,856	18,068	741	4,630	6,325	1,422	9,776	19,441	817,635
(4,303)	(13,813)	(403)	(219)	(4,588)	(82)	(1,561)	(17,732)	(928,049)
(214)	(2,101)	(498)	(2,113)	(889)	(849)	(4,474)	(9,131)	(56,504)
(247)	(1,009)	(30)	(2,126)	(675)	(551)	(4,330)	(1,517)	(76,138)
<u>618</u>	<u>1,485</u>	<u>(182)</u>	<u>182</u>	<u>211</u>	<u>(39)</u>	<u>(151)</u>	<u>(3,393)</u>	<u>(42,005)</u>
	(363)			(211)				(574)
		200	22					54,196
								2
	(363)	200	22	(211)				53,624
(109)	(587)						(1,090)	(43,240)
								24,005
								2,305
								(44)
					(10)			(31,226)
					(2)			(8,127)
<u>(109)</u>	<u>(587)</u>				<u>(12)</u>		<u>(1,090)</u>	<u>(56,327)</u>
								19,987
								19,987
509	535	18	204		(51)	(151)	(4,483)	(24,721)
1,290		240	159	-	153	4,153	7,631	517,081
<u>\$ 1,799</u>	<u>\$ 535</u>	<u>\$ 258</u>	<u>\$ 363</u>	<u>\$ -</u>	<u>\$ 102</u>	<u>\$ 4,002</u>	<u>\$ 3,148</u>	<u>\$ 492,360</u>
<u>\$ (584)</u>	<u>\$ 653</u>	<u>\$ (198)</u>	<u>\$ 157</u>	<u>\$ 34</u>	<u>\$ (40)</u>	<u>\$ (74)</u>	<u>\$ (3,421)</u>	<u>\$ (83,278)</u>
622	134	19			10	2	749	35,620
42	2							5,097
								59
								28
(38)	219					(68)	(387)	(5,074)
								(1)
				1			(43)	(109)
	(171)			46			656	513
	206	6				5		217
576	440	(9)	23	129	(10)	(22)	(957)	4,118
	2		2	1	1	6	10	47
								758
<u>1,202</u>	<u>832</u>	<u>16</u>	<u>25</u>	<u>177</u>	<u>1</u>	<u>(77)</u>	<u>28</u>	<u>41,273</u>
<u>\$ 618</u>	<u>\$ 1,485</u>	<u>\$ (182)</u>	<u>\$ 182</u>	<u>\$ 211</u>	<u>\$ (39)</u>	<u>\$ (151)</u>	<u>\$ (3,393)</u>	<u>\$ (42,005)</u>
								\$ 2,154
								146
								\$ 2,300

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# FIDUCIARY FUNDS

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

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2005. As of that date there were 204,735 active members and 87,772 retired members representing a 2.9% and 5.6% increase, respectively, since the previous actuarial valuation in 2003.

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

Private-Purpose Trust Funds:

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

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

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

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

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

Agency Funds:

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

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

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

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
June 30, 2007

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 479,656	\$ 89,379	\$ 569,035	\$ 775	\$ 569,810
Receivables:					
Member contributions	20,405	5,023	25,428		25,428
Employer contributions	24,181	20,111	44,292		44,292
Accrued interest	122,664	22,857	145,521		145,521
Accrued dividends	19,480	3,630	23,110		23,110
Foreign currency	4,886	911	5,797		5,797
Real estate income	1,131	211	1,342		1,342
Investments sold	13,703	2,553	16,256		16,256
Total receivables	206,450	55,296	261,746		261,746
Due from other funds	8,986		8,986	260	9,246
Due from component units	7,647		7,647	6	7,653
Investments, at fair value:					
Short term securities	444,725	82,870	527,595		527,595
Government bonds	7,643,081	1,424,212	9,067,293		9,067,293
Corporate bonds	4,476,732	834,195	5,310,927		5,310,927
Corporate stocks	13,110,008	2,442,919	15,552,927		15,552,927
Real estate	913,303	170,185	1,083,488		1,083,488
Total investments	26,587,849	4,954,381	31,542,230		31,542,230
Total assets	27,290,588	5,099,056	32,389,644	1,041	32,390,685
<b>Liabilities</b>					
Accounts payable and accruals	14,439	3,439	17,878	118	17,996
Foreign currency payable	4,886	911	5,797		5,797
Total liabilities	19,325	4,350	23,675	118	23,793
<b>Net assets</b>					
Held in trust for:					
Pension benefits	27,271,263	5,094,706	32,365,969		32,365,969
Employees' flexible benefits				923	923
Total net assets	\$ 27,271,263	\$ 5,094,706	\$ 32,365,969	\$ 923	\$ 32,366,892

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Pension and Other Employee Benefit Trust Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
<b>Additions</b>					
Contributions:					
Members	\$ 175,743	\$ 57,003	\$ 232,746	\$ 7,678	\$ 240,424
Employers	562,729		562,729		562,729
Political subdivisions		231,699	231,699		231,699
<b>Total contributions</b>	<b>738,472</b>	<b>288,702</b>	<b>1,027,174</b>	<b>7,678</b>	<b>1,034,852</b>
Investment income:					
Net increase in fair value of investments	2,295,671	421,974	2,717,645		2,717,645
Interest	618,196	113,632	731,828		731,828
Dividends	258,926	47,594	306,520		306,520
Real estate income	49,976	9,186	59,162		59,162
<b>Total investment income</b>	<b>3,222,769</b>	<b>592,386</b>	<b>3,815,155</b>		<b>3,815,155</b>
Less: Investment expenses	20,064	3,688	23,752		23,752
<b>Net investment income</b>	<b>3,202,705</b>	<b>588,698</b>	<b>3,791,403</b>		<b>3,791,403</b>
<b>Total additions</b>	<b>3,941,177</b>	<b>877,400</b>	<b>4,818,577</b>	<b>7,678</b>	<b>4,826,255</b>
<b>Deductions</b>					
Annuity benefits:					
Retirement benefits	862,606	140,858	1,003,464		1,003,464
Cost of living	196,439	25,025	221,464		221,464
Death benefits	3,719	1,784	5,503		5,503
Other benefits				7,413	7,413
Refunds	19,231	17,112	36,343		36,343
Administrative expenses	3,385	3,084	6,469		6,469
<b>Total deductions</b>	<b>1,085,380</b>	<b>187,863</b>	<b>1,273,243</b>	<b>7,413</b>	<b>1,280,656</b>
Change in net assets held in trust for:					
Pension benefits	2,855,797	689,537	3,545,334		3,545,334
Employees' flexible benefits				265	265
<b>Net assets, July 1</b>	<b>24,415,466</b>	<b>4,405,169</b>	<b>28,820,635</b>	<b>658</b>	<b>28,821,293</b>
<b>Net assets, June 30</b>	<b>\$ 27,271,263</b>	<b>\$ 5,094,706</b>	<b>\$ 32,365,969</b>	<b>\$ 923</b>	<b>\$ 32,366,892</b>

State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Private-Purpose Trust Funds  
June 30, 2007

(Expressed in Thousands)

	<u>Baccalaureate Education</u>	<u>Children in State Custody</u>	<u>Oak Ridge Monitoring</u>	<u>Other</u>	<u>Total Private-Purpose Trust Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 27,313	\$ 2,980	\$ 7,924	\$ 1,545	\$ 39,762
Receivables:					
Taxes				43	43
Interest and dividends	5				5
Total receivables	5			43	48
Due from other funds	8				8
Investments, at fair value:					
Mutual funds	68,233				68,233
Total investments	68,233				68,233
Total assets	95,559	2,980	7,924	1,588	108,051
<b>Liabilities</b>					
Accounts payable and accruals	8	220			228
Total liabilities	8	220			228
<b>Net assets</b>					
Held in trust for:					
Individuals, organizations and other governments	\$ 95,551	\$ 2,760	\$ 7,924	\$ 1,588	\$ 107,823

State of Tennessee  
Combining Statement of Changes in Fiduciary Net Assets  
Private-Purpose Trust Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	<u>Baccalaureate Education</u>	<u>Children in State Custody</u>	<u>Oak Ridge Monitoring</u>	<u>Duck River Water Supply</u>	<u>Other</u>	<u>Total Private-Purpose Trust Funds</u>
<b>Additions</b>						
Contributions:						
Federal		\$ 7,015	\$ 1,000			\$ 8,015
Private	\$ 5,930				\$ 511	6,441
State	25,950					25,950
Other		2,611			163	2,774
Total contributions	<u>31,880</u>	<u>9,626</u>	<u>1,000</u>		<u>674</u>	<u>43,180</u>
Investment income:						
Net increase in fair value of investments	6,559					6,559
Interest	2,371	355	396	\$ 227	73	3,422
Total investment income	8,930	355	396	227	73	9,981
Total additions	<u>40,810</u>	<u>9,981</u>	<u>1,396</u>	<u>227</u>	<u>747</u>	<u>53,161</u>
<b>Deductions</b>						
Payments made under trust agreements	4,940	9,814		10,521	588	25,863
Refunds	731	2,685				3,416
Administrative expenses	372					372
Total deductions	<u>6,043</u>	<u>12,499</u>		<u>10,521</u>	<u>588</u>	<u>29,651</u>
Change in net assets held in trust for:						
Individuals, organizations and other governments	34,767	(2,518)	1,396	(10,294)	159	23,510
Net assets, July 1	<u>60,784</u>	<u>5,278</u>	<u>6,528</u>	<u>10,294</u>	<u>1,429</u>	<u>84,313</u>
Net assets, June 30	<u>\$ 95,551</u>	<u>\$ 2,760</u>	<u>\$ 7,924</u>	<u>\$ -</u>	<u>\$ 1,588</u>	<u>\$ 107,823</u>



State of Tennessee  
Combining Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2007

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 297,646	\$ 110,364	\$ 27,737	\$ 435,747
Receivables:				
Accounts			67	67
Taxes	353,308			353,308
Due from other funds		10,110		10,110
Due from component units		68		68
 Total assets	 650,954	 120,542	 27,804	 799,300
<b>Liabilities</b>				
Accounts payable and accruals	642,947	23,165	4,748	670,860
Amounts held in custody for others		97,377	23,056	120,433
Due to other funds	8,007			8,007
 Total liabilities	 650,954	 120,542	 27,804	 799,300

State of Tennessee  
Combining Statement of Changes in Assets and Liabilities  
All Agency Funds  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

<u>Local Government Fund</u>	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Assets</u>				
Cash and cash equivalents	\$ 255,611	\$ 3,442,013	\$ 3,399,978	\$ 297,646
Accounts receivable	317,149	393,171	357,012	353,308
 Total assets	 572,760	 3,835,184	 3,756,990	 650,954
<u>Liabilities</u>				
Accounts payable and accruals	572,760	2,992,093	2,921,906	642,947
Due to other funds	8,007	8,007	8,007	8,007
 Total liabilities	 \$ 572,760	 \$ 3,000,100	 \$ 2,921,906	 \$ 650,954
 <u>Contingent Revenue Fund</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 94,244	\$ 1,254,396	\$ 1,238,276	\$ 110,364
Due from other funds	9,257	10,237	9,384	10,110
Due from component units	60	68	60	68
 Total assets	 103,561	 1,264,701	 1,247,720	 120,542
<u>Liabilities</u>				
Accounts payable and accruals	20,749	356,649	354,233	23,165
Amount held in custody for others	82,812	810,532	795,967	97,377
 Total liabilities	 \$ 103,561	 \$ 1,167,181	 \$ 1,150,200	 \$ 120,542
 <u>Retiree Health Plans</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 24,964	\$ 225,338	\$ 222,565	\$ 27,737
Accounts receivable	344	1,044	1,321	67
 Total assets	 25,308	 226,382	 223,886	 27,804
<u>Liabilities</u>				
Accounts payable	6,664	46,829	48,745	4,748
Amount held in custody for others	18,644	129,555	125,143	23,056
 Total liabilities	 \$ 25,308	 \$ 176,384	 \$ 173,888	 \$ 27,804
 <u>Totals- All Agency Funds</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 374,819	\$ 4,921,747	\$ 4,860,819	\$ 435,747
Accounts receivable	317,493	394,215	358,333	353,375
Due from other funds	9,257	10,237	9,384	10,110
Due from component units	60	68	60	68
 Total assets	 701,629	 5,326,267	 5,228,596	 799,300
<u>Liabilities</u>				
Accounts payable and accruals	600,173	3,395,571	3,324,884	670,860
Amount held in custody for others	101,456	940,087	921,110	120,433
Due to other funds	8,007	8,007	8,007	8,007
 Total liabilities	 \$ 701,629	 \$ 4,343,665	 \$ 4,245,994	 \$ 799,300

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# COMPONENT UNITS

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

Community Services Agencies—In 1989, the Legislature created twelve Community Services Agencies which are to provide a mechanism to coordinate health care for indigents. In 1996, the title and focus of these agencies changed to that of facilitating the providing of services to children and other citizens from state agencies. The State has significant oversight responsibilities for these agencies, therefore, they have been incorporated into the Comprehensive Annual Financial Report. In 2006, three CSAs ceased operations. The nine remaining Community Services Agencies (CSAs) are:

- Northeast CSA
- East Tennessee CSA
- Upper Cumberland CSA
- Southeast CSA
- Mid-Cumberland CSA
- South Central CSA
- Northwest CSA
- Southwest CSA
- Memphis and Shelby County CSA

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

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

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

## UNIVERSITIES

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

## COMMUNITY COLLEGES

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

## TECHNOLOGY CENTERS

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

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

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

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

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

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

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

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

State of Tennessee  
Combining Statement of Net Assets  
Component Units  
June 30, 2007

(Expressed in Thousands)

	Governmental Fund Types				
	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast
<b>Assets</b>					
Cash and cash equivalents	\$ 4,346	\$ 348	\$ 1,278	\$ 298	\$ 1,203
Investments					
Investments with fiscal agent					
Receivables, net	6,936	9	9	77	17
Due from primary government		329	370	255	462
Inventories, at cost					
Prepayments			4	1	2
Loans receivable					
Deferred charges and other					
Restricted assets:					
Cash and cash equivalents					
Investments					
Receivables, net					
Capital assets:					
Land, at cost					
Infrastructure					
Structures and improvements, at cost					
Machinery and equipment, at cost		42	168	31	48
Less accumulated depreciation		(28)	(168)	(27)	(39)
Construction in progress					
<b>Total assets</b>	<u>11,282</u>	<u>700</u>	<u>1,661</u>	<u>635</u>	<u>1,693</u>
<b>Liabilities</b>					
Accounts payable and accruals	4,256	35	198	68	294
Due to primary government	24	551	566	341	613
Unearned revenue	117				
Advance from federal government	51				
Other					
Noncurrent liabilities:					
Due within one year	85	15	36	33	21
Due in more than one year	99	2	14	6	25
<b>Total liabilities</b>	<u>4,632</u>	<u>603</u>	<u>814</u>	<u>448</u>	<u>953</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt		14		4	9
Restricted for:					
Debt service					
Capital projects					
Single family bond programs					
Other					
Permanent and endowment:					
Expendable					
Nonexpendable					
Unrestricted	<u>6,650</u>	<u>83</u>	<u>847</u>	<u>183</u>	<u>731</u>
<b>Total net assets</b>	<u>\$ 6,650</u>	<u>\$ 97</u>	<u>\$ 847</u>	<u>\$ 187</u>	<u>\$ 740</u>

(continued on next page)

Governmental Fund Types					Memphis and Shelby County
Mid- Cumberland	South Central	Northwest	Southwest		
\$ 75	\$ 609	\$ 705	\$ 718	\$	1,626
93	11	3	15		31
321	282	432	99		37
1		1	3		10
230	26	36	23		97
(225)	(24)	(31)	(14)		(55)
<u>495</u>	<u>904</u>	<u>1,146</u>	<u>844</u>		<u>1,746</u>
150	15	61	43		204
374	498	588	273		37
56	7	15	19		72
	8	10	21		2
<u>580</u>	<u>528</u>	<u>674</u>	<u>356</u>		<u>315</u>
5	2	5	9		42
<u>(90)</u>	<u>374</u>	<u>467</u>	<u>479</u>		<u>1,389</u>
<u>\$ (85)</u>	<u>\$ 376</u>	<u>\$ 472</u>	<u>\$ 488</u>	<u>\$</u>	<u>1,431</u>

(continued from previous page)

State of Tennessee  
Combining Statement of Net Assets  
Component Units  
June 30, 2007

(Expressed in Thousands)

	Proprietary Fund Types				
	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
<b>Assets</b>					
Cash and cash equivalents	\$ 464,872	\$ 62,689	\$ 509,749	\$ 591,568	\$ 31,116
Investments	182,728		402,581	905,179	
Investments with fiscal agent					
Receivables, net	25,239	44,302	178,432	261,587	35
Due from primary government	1		1,000	1,306	
Inventories, at cost			4,966	7,792	
Prepayments		7,261	3,575	373	
Loans receivable	1,703,995				93,049
Deferred charges and other	11,035		1,201	8,195	498
Restricted assets:					
Cash and cash equivalents	561	131			5,071
Investments	189,423	2,457			864
Receivables, net	2,688				
Capital assets:					
Land, at cost			99,907	61,888	
Infrastructure			167,800	65,501	
Structures and improvements, at cost		307	1,568,802	1,372,055	
Machinery and equipment, at cost	201	3,899	413,078	377,156	
Less accumulated depreciation	(136)	(2,378)	(1,008,409)	(853,117)	
Construction in progress			230,142	224,338	
Total assets	<u>2,580,607</u>	<u>118,668</u>	<u>2,572,824</u>	<u>3,023,821</u>	<u>130,633</u>
<b>Liabilities</b>					
Accounts payable and accruals	45,862	37,325	109,518	120,502	1,456
Due to primary government	177	76,645	4,692	4,594	
Unearned revenue	1,565	718	41,517	86,390	
Advance from federal government					
Other			14,239	15,758	
Noncurrent liabilities:					
Due within one year	357,039	425	28,519	56,258	61,243
Due in more than one year	1,718,572	3,424	393,991	574,173	56,137
Total liabilities	<u>2,123,215</u>	<u>118,537</u>	<u>592,476</u>	<u>857,675</u>	<u>118,836</u>
<b>Net assets</b>					
Invested in capital assets, net of related debt	65	1,828	1,122,777	773,979	
Restricted for:					
Debt service			12,837	354	
Capital projects			18,339	92,544	
Single family bond programs	450,445				
Other	5,320	131	113,030	268,816	205
Permanent and endowment:					
Expendable			46,254	290,576	
Nonexpendable			254,161	439,737	
Unrestricted	<u>1,562</u>	<u>(1,828)</u>	<u>412,950</u>	<u>300,140</u>	<u>11,592</u>
Total net assets	<u>\$ 457,392</u>	<u>\$ 131</u>	<u>\$ 1,980,348</u>	<u>\$ 2,166,146</u>	<u>\$ 11,797</u>

Proprietary Fund Types

Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
\$ 2,612	\$ 30,494	\$ 3,876	\$ 48,971	\$ 1,757,153
				1,490,488
	32			32
2,118	5,242	28	652	524,836
1,063		2,207		8,164
235				12,993
31				11,262
	723,674			2,520,718
473	6,755	2,623		30,780
1,764	15,566			23,093
	10,525			203,269
				2,688
344				162,139
734				234,035
10,446				2,951,610
2,781				797,816
(5,323)				(1,869,974)
20,473				474,953
<u>37,751</u>	<u>792,288</u>	<u>8,734</u>	<u>49,623</u>	<u>9,336,055</u>
1,893	4,983	63	154	327,080
1,082				91,055
	10,806			141,113
				51
133				30,130
543	29,501	2,403		536,290
<u>6,262</u>	<u>739,441</u>	<u>14,322</u>		<u>3,506,509</u>
<u>9,913</u>	<u>784,731</u>	<u>16,788</u>	<u>154</u>	<u>4,632,228</u>
23,465				1,922,204
241				13,432
				110,883
				450,445
1,654				389,156
				336,830
				693,898
<u>2,478</u>	<u>7,557</u>	<u>(8,054)</u>	<u>49,469</u>	<u>786,979</u>
<u>\$ 27,838</u>	<u>\$ 7,557</u>	<u>\$ (8,054)</u>	<u>\$ 49,469</u>	<u>\$ 4,703,827</u>



State of Tennessee  
Combining Statement of Activities  
Component Units  
For the Year Ended June 30, 2007

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Expenses	\$ 289,483	\$ 991,507	\$ 1,902,463	\$ 1,544,700
Program revenues:				
Charges for services	107,905	989,151	650,260	467,961
Operating grants and contributions	205,629	61	552,827	767,592
Capital grants and contributions			95,087	55,709
Total program revenues	313,534	989,212	1,298,174	1,291,262
Net (expense) revenue and changes in net assets	24,051	(2,295)	(604,289)	(253,438)
General revenues:				
Payments from primary government			727,225	488,061
Unrestricted grants and contributions			24,304	1,577
Unrestricted investment earnings	(10)	2,095	24,745	31,367
Miscellaneous			7,506	
Contributions to permanent funds			11,497	24,083
Total general revenues	(10)	2,095	795,277	545,088
Change in net assets	24,041	(200)	190,988	291,650
Net assets, July 1	433,351	331	1,789,360	1,874,496
Net assets, June 30	\$ 457,392	\$ 131	\$ 1,980,348	\$ 2,166,146

Nonmajor Component Units	Total Component Units
\$ <u>144,349</u>	\$ <u>4,872,502</u>
82,847	2,298,124
19,504	1,545,613
<u>4,157</u>	<u>154,953</u>
<u>106,508</u>	<u>3,998,690</u>
<u>(37,841)</u>	<u>(873,812)</u>
99,058	1,314,344
145	26,026
438	58,635
152	7,658
<u>99,793</u>	<u>1,442,243</u>
<u>61,952</u>	<u>568,431</u>
<u>37,858</u>	<u>4,135,396</u>
\$ <u><u>99,810</u></u>	\$ <u><u>4,703,827</u></u>

State of Tennessee  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Fund Type Component Units  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Northeast	East Tennessee	Upper Cumberland	Southeast
<b>Revenues</b>					
Interest on investments	\$ (41)	\$ 22	\$ 70	\$ 8	\$ 57
Federal	5,149			727	38
Departmental services	58,585	701	910	692	1,189
Other			26	92	
	<u>63,693</u>	<u>723</u>	<u>1,006</u>	<u>1,519</u>	<u>1,284</u>
<b>Expenditures</b>					
Education	64,066				
Health and social services		898	1,306	1,530	1,382
	<u>64,066</u>	<u>898</u>	<u>1,306</u>	<u>1,530</u>	<u>1,382</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(373)</u>	<u>(175)</u>	<u>(300)</u>	<u>(11)</u>	<u>(98)</u>
Fund balances, July 1	<u>7,207</u>	<u>275</u>	<u>1,197</u>	<u>233</u>	<u>875</u>
Fund balances, June 30	<u>\$ 6,834</u>	<u>\$ 100</u>	<u>\$ 897</u>	<u>\$ 222</u>	<u>\$ 777</u>
Reconciliation to net assets:					
Fund balances per above	\$ 6,834	\$ 100	\$ 897	\$ 222	\$ 777
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14		4	9
Long-term liabilities are not due and payable in the current period and therefore are not reported in in the fund.	<u>(184)</u>	<u>(17)</u>	<u>(50)</u>	<u>(39)</u>	<u>(46)</u>
Net assets on Statement of Net Assets	<u>\$ 6,650</u>	<u>\$ 97</u>	<u>\$ 847</u>	<u>\$ 187</u>	<u>\$ 740</u>

Mid-Cumberland	South Central	Northwest	Southwest	Memphis and Shelby County	Total Governmental Fund Type Component Units
\$ 4	\$ 31	\$ 40	\$ 44	\$ 79	\$ 314
892					6,806
975	549	714	972	1,494	66,781
<u>392</u>				<u>148</u>	<u>658</u>
<u>2,263</u>	<u>580</u>	<u>754</u>	<u>1,016</u>	<u>1,721</u>	<u>74,559</u>
					64,066
<u>2,461</u>	<u>620</u>	<u>624</u>	<u>1,074</u>	<u>1,891</u>	<u>11,786</u>
<u>2,461</u>	<u>620</u>	<u>624</u>	<u>1,074</u>	<u>1,891</u>	<u>75,852</u>
<u>(198)</u>	<u>(40)</u>	<u>130</u>	<u>(58)</u>	<u>(170)</u>	<u>(1,293)</u>
<u>164</u>	<u>429</u>	<u>362</u>	<u>577</u>	<u>1,633</u>	<u>12,952</u>
\$ <u>(34)</u>	\$ <u>389</u>	\$ <u>492</u>	\$ <u>519</u>	\$ <u>1,463</u>	\$ <u>11,659</u>
\$ (34)	\$ 389	\$ 492	\$ 519	\$ 1,463	\$ 11,659
5	2	5	9	42	90
<u>(56)</u>	<u>(15)</u>	<u>(25)</u>	<u>(40)</u>	<u>(74)</u>	<u>(546)</u>
\$ <u>(85)</u>	\$ <u>376</u>	\$ <u>472</u>	\$ <u>488</u>	\$ <u>1,431</u>	\$ <u>11,203</u>

State of Tennessee  
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund Type Component Units  
For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
<b>Operating revenues</b>					
Charges for services	\$ 107,905	\$ 988,148	\$ 830,033	\$ 845,748	\$ 3,728
Investment income	43,643		5,768	4,317	1,790
Other		1,003	55,682	48,343	
Total operating revenues	<u>151,548</u>	<u>989,151</u>	<u>891,483</u>	<u>898,408</u>	<u>5,518</u>
<b>Operating expenses</b>					
Personal services	12,194	10,946	1,183,535	1,075,782	
Contractual services	1,858	94,870			310
Mortgage service fees	5,697				
Materials and supplies	630		453,191	343,566	
Rentals and insurance	1,093	1,809			
Interest	96,887				4,065
Depreciation and amortization	611	706	75,495	73,560	36
Lottery prizes		584,921			
Nursing home services					
Scholarships and fellowships			172,667	30,400	
Benefits					
Other	3,866	13,715			308
Total operating expenses	<u>122,836</u>	<u>706,967</u>	<u>1,884,888</u>	<u>1,523,308</u>	<u>4,719</u>
Operating income (loss)	<u>28,712</u>	<u>282,184</u>	<u>(993,405)</u>	<u>(624,900)</u>	<u>799</u>
<b>Nonoperating revenues (expenses)</b>					
Grant income	160,976		282,333	111,131	
Grant expense	(166,647)				
Interest expense			(14,298)	(19,180)	
Interest income		2,095	71,145	193,174	
Payments from primary government	1,000		726,015	488,061	25
Grants and contributions				4,749	
Gifts			10,719	61,035	
Payments to primary government		(284,279)			
Other		(200)	3,405	1,793	
Total nonoperating revenues (expenses)	<u>(4,671)</u>	<u>(282,384)</u>	<u>1,079,319</u>	<u>840,763</u>	<u>25</u>
Income (loss) before capital grants and contributions	24,041	(200)	85,914	215,863	824
Capital payments from primary government			77,590	32,834	
Capital grants and gifts			14,458	22,875	
Additions to permanent endowments			11,497	24,083	
Other			1,529	(4,005)	
Change in net assets	24,041	(200)	190,988	291,650	824
Net assets, July 1	<u>433,351</u>	<u>331</u>	<u>1,789,360</u>	<u>1,874,496</u>	<u>10,973</u>
Net assets, June 30	<u>\$ 457,392</u>	<u>\$ 131</u>	<u>\$ 1,980,348</u>	<u>\$ 2,166,146</u>	<u>\$ 11,797</u>

Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
\$ 16,965	\$ 30,159	\$ 6,726	\$ 874	\$ 2,830,286
	1,973			57,491
<u>22</u>			<u>652</u>	<u>105,702</u>
<u>16,987</u>	<u>32,132</u>	<u>6,726</u>	<u>1,526</u>	<u>2,993,479</u>
12,979				2,295,436
	663	6,176	2,819	106,696
				5,697
				797,387
				2,902
	28,497			129,449
548	434			151,390
				584,921
7,922				7,922
				203,067
			390	390
<u>72</u>	<u>1,578</u>	<u>5</u>	<u>700</u>	<u>20,244</u>
<u>21,521</u>	<u>31,172</u>	<u>6,181</u>	<u>3,909</u>	<u>4,305,501</u>
<u>(4,534)</u>	<u>960</u>	<u>545</u>	<u>(2,383)</u>	<u>(1,312,022)</u>
4,391				558,831
				(166,647)
(196)		(759)		(34,433)
203		78	3	266,698
		3,890	51,849	1,270,840
		2,168		6,917
888				72,642
				(284,279)
<u>38</u>		<u>1,942</u>		<u>6,978</u>
<u>5,324</u>		<u>7,319</u>	<u>51,852</u>	<u>1,697,547</u>
790	960	7,864	49,469	385,525
				110,424
3,414				40,747
				35,580
				(2,476)
<u>4,204</u>	<u>960</u>	<u>7,864</u>	<u>49,469</u>	<u>569,800</u>
<u>23,634</u>	<u>6,597</u>	<u>(15,918)</u>		<u>4,122,824</u>
<u>\$ 27,838</u>	<u>\$ 7,557</u>	<u>\$ (8,054)</u>	<u>\$ 49,469</u>	<u>\$ 4,692,624</u>

State of Tennessee  
Statement of Fiduciary Net Assets  
Component Units  
Tennessee Student Assistance Corporation  
Federal Family Education Loan Trust  
June 30, 2007

(Expressed in Thousands)

<b>Assets</b>	
Cash and cash equivalents	\$ <u>81,923</u>
Receivables:	
Due from other governments	4,888
Loans	<u>9,112</u>
Total receivables	<u>14,000</u>
Total assets	\$ <u>95,923</u>
<b>Liabilities</b>	
Accounts payable and accruals	\$ <u>1,322</u>
Total liabilities	<u>1,322</u>
<b>Net assets</b>	
Held in trust for student loans	\$ <u><u>94,601</u></u>

State of Tennessee  
 Statement of Changes in Fiduciary Net Assets  
 Component Units  
 Tennessee Student Assistance Corporation  
 Federal Family Education Loan Trust  
 For the Fiscal Year Ended June 30, 2007

(Expressed in Thousands)

<b>Additions</b>	
Federal revenue	\$ 33,399
Interest income	3,818
Contribution from primary government	1,986
Other	<u>1</u>
Total additions	<u>39,204</u>
<b>Deductions</b>	
Collection costs	7,294
Administrative expenses	<u>15,248</u>
Total deductions	<u>22,542</u>
Change in net assets held in trust	16,662
Net assets, July 1	<u>77,939</u>
Net assets, June 30	<u><u>\$ 94,601</u></u>



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# SUPPLEMENTARY SCHEDULES

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State of Tennessee  
Debt Service Requirements to Maturity  
General Obligation Bonds  
June 30, 2007

Schedule 1

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1)			State Loan Program Fund Debt (Note 2)			Facilities Revolving Fund Debt (Note 3)		
	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments	Principal	Interest	Total Require- ments
2008	\$ 81,545	\$ 42,478	\$ 124,023	\$ 899	\$ 91	\$ 990	\$ 14,135	\$ 6,572	\$ 20,707
2009	80,673	38,837	119,510	929	50	979	14,223	5,929	20,152
2010	78,115	35,047	113,162	759	17	776	13,946	5,273	19,219
2011	78,376	30,930	109,306				13,500	4,547	18,047
2012	74,612	27,277	101,889				13,454	3,916	17,370
2013	74,428	23,551	97,979				13,663	3,251	16,914
2014	68,697	20,109	88,806				13,133	2,619	15,752
2015	64,272	16,727	80,999				9,559	1,999	11,558
2016	60,206	13,716	73,922				8,391	1,667	10,058
2017	56,007	11,156	67,163				7,386	1,328	8,714
2018	47,871	9,710	57,581				6,330	1,186	7,516
2019	39,799	8,106	47,905				4,961	1,002	5,963
2020	36,261	6,469	42,730				4,543	806	5,349
2021	29,283	5,390	34,673				3,718	675	4,393
2022	29,329	4,121	33,450				3,709	520	4,229
2023	21,922	2,881	24,803				2,910	369	3,279
2024	21,677	2,171	23,848				2,898	255	3,153
2025	13,594	1,438	15,032				2,579	139	2,718
2026	13,677	917	14,594				2,555	53	2,608
2027	8,096	552	8,648				698	9	707
2028	3,400	336	3,736						
2029	3,565	172	3,737						
2030									
TOTALS	\$ 985,405	\$ 302,091	\$ 1,287,496	\$ 2,587	\$ 158	\$ 2,745	\$ 156,291	\$ 42,115	\$ 198,406

Note 1: General obligation bonds principal is more than that presented in the accompanying financial statements by \$22.108 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Tennessee State Loan Program principal is more than that presented in the accompanying financial statements by \$53 thousand, which is a deduction from bonds payable for the deferred amount on refunding.

Note 3: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by \$4.1 million, which is a deduction from bonds payable for the deferred amount on refunding.

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

Schedule 2

(Expressed in Thousands)

	June 30				
	2003	2004	2005	2006	2007
<b>Enterprise Funds:</b>					
State Loan Program General Obligation Bonds	\$ 11,070	\$ 8,071	\$ 5,232	\$ 3,378	\$ 2,534
<b>Internal Service Funds:</b>					
General Obligation Commercial Paper	7,936	12,684	51,650	22,899	15,541
Facilities Revolving Fund General Obligation Bonds	147,197	140,875	127,717	151,829	152,191
	<u>155,133</u>	<u>153,559</u>	<u>179,367</u>	<u>174,728</u>	<u>167,732</u>
<b>General Long-Term Debt:</b>					
General Obligation Bonds	900,334	1,000,151	917,112	944,936	963,297
General Obligation Commercial Paper	193,864	70,091	116,925	121,726	115,283
	<u>1,094,198</u>	<u>1,070,242</u>	<u>1,034,037</u>	<u>1,066,662</u>	<u>1,078,580</u>
Totals for Primary Government	<u>\$ 1,260,401</u>	<u>\$ 1,231,872</u>	<u>\$ 1,218,636</u>	<u>\$ 1,244,768</u>	<u>\$ 1,248,846</u>

State of Tennessee  
Schedule of General Obligation  
Commercial Paper Outstanding- By Purpose  
All Fund Types  
June 30, 2007

Schedule 3

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	\$ 117,434
Purpose: To finance the construction, improvements, repairs, and replacements of buildings and facilities and the acquisition of land, equipment and other property of the state.	
General Obligation Commercial Paper - Taxable	
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	<u>13,390</u>
Total Outstanding	<u>\$ 130,824</u>

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

Schedule 4

(Expressed in Thousands)

	June 30				
	2003	2004	2005	2006	2007
Component units:					
Mid-Cumberland Community Services Agency notes		\$ 23	\$ 19	\$ 13	
Certified Cotton Growers' notes	\$ 29,386	24,853	21,540	19,073	\$ 16,725
Local Development Authority notes	48,950	48,134	45,970	35,401	57,773
Local Development Authority bonds	43,644	32,774	29,966	62,053	58,806
Tennessee Housing Development Agency bonds	1,769,506	1,489,299	1,433,430	1,568,472	1,812,267
Tennessee Housing Development Agency notes	51,070	273,240	311,900	262,395	247,675
Veterans' Homes Board loan		4,053	4,197	6,265	6,283
Veterans' Homes Board bonds	4,400				
Tennessee State School Bond Authority bonds	449,809	527,385	520,087	582,815	604,747
Tennessee State School Bond Authority commercial paper	46,747	32,156	74,242	129,046	164,195
University of Tennessee notes		75	66	307	284
University of Tennessee bonds		147,561	148,995	148,333	146,471
Board of Regents notes	688	746	350	300	250
Board of Regents bonds	236	80			
	<u>\$ 2,444,436</u>	<u>\$ 2,580,379</u>	<u>\$ 2,590,762</u>	<u>\$ 2,814,473</u>	<u>\$ 3,115,476</u>

State of Tennessee  
 Comparative Schedules of Revenues by Source  
 General Fund  
 For the Fiscal Years Ended June 30, 2007 and 2006

Schedule 5

(Expressed in Thousands)

<u>Revenues by Source</u>	For the Year Ended	
	June 30, 2007	June 30, 2006
Taxes:		
Sales and use	\$ 2,790,970	\$ 2,664,727
Gasoline	9,291	9,339
Motor fuel	3,524	3,425
Gasoline inspection	701	689
Total fuel taxes	13,516	13,453
Franchise	618,972	557,203
Excise	972,239	787,913
Gross receipts	273,315	238,919
Beer	15,718	15,566
Alcoholic beverage	40,998	39,208
Mixed drink	26,828	24,528
Tobacco	1,040	658
Business	133,773	121,663
Insurance companies premium	359,548	359,555
Retaliatory	5,763	5,244
Workers compensation premium	47,759	48,156
Medicaid provider	100,937	100,394
Other	1,890	2,059
Total business taxes	2,598,780	2,301,066
Income	247,567	194,368
Privilege	313,660	304,754
Inheritance and estate	112,392	76,288
Other	2,253	1,420
Total other taxes	675,872	576,830
Total taxes	6,079,138	5,556,076
Licenses, fines, fees and permits:		
Motor vehicle registration	51,337	47,480
Motor vehicle title registration fees	8,405	8,364
Drivers licenses	24,953	23,673
Arrests, fines and fees	9,483	9,852
Regulatory board fees	35,149	32,327
Other	64,902	62,893
Total licenses, fines, fees and permits	194,229	184,589
Interest on investments	128,292	77,411
Federal - earned by state departments	7,046,587	6,922,657
Departmental services:		
Charges to the public	363,717	340,927
Interdepartmental charges	1,389,265	1,308,106
Charges to cities, counties, etc.	255,822	447,587
Total departmental services	2,008,804	2,096,620
Other	222,447	190,977
Total revenues by source	\$ 15,679,497	\$ 15,028,330

State of Tennessee  
 Comparative Schedules of Expenditures by Function and Department  
 General Fund  
 For the Fiscal Years Ended June 30, 2007 and 2006

Schedule 6

(Expressed in Thousands)

<u>Expenditures by function and department</u>	For the Year Ended	
	June 30, 2007	June 30, 2006
General government:		
Legislative	\$ 34,812	\$ 34,021
Secretary of State	38,555	35,564
Comptroller	77,521	72,155
Treasurer	44,715	44,968
Governor	8,084	5,782
Commissions	66,385	64,655
Finance and Administration	82,715	132,039
Personnel	13,424	11,974
General Services	20,530	17,701
Revenue	102,600	66,111
Miscellaneous Appropriations	30,061	14,379
Total general government	519,402	499,349
Health and social services:		
Veterans Affairs	4,052	3,685
Labor and Workforce Development	191,944	183,637
TennCare	7,124,847	7,027,723
Mental Health	252,900	250,808
Mental Retardation	839,844	776,029
Health	555,612	503,348
Human Services	1,954,689	1,929,102
Cover Tennessee	78,835	
Children's Services	659,753	599,467
Total health and social services	11,662,476	11,273,799
Law, justice and public safety:		
Judicial	251,568	225,649
Correction	646,573	558,208
Probation and Paroles	71,697	63,592
Military	99,835	137,799
Bureau of Criminal Investigation	59,836	55,743
Safety	140,551	170,161
Total law, justice and public safety	1,270,060	1,211,152
Recreation and resources development:		
Agriculture	66,041	68,549
Tourist Development	16,902	16,175
Environment and Conservation	206,836	210,247
Economic and Community Development	75,627	82,116
Total recreation and resources development	365,406	377,087
Regulation of business and professions:		
Commerce and Insurance	71,908	54,822
Financial Institutions	12,662	11,932
Total regulation of business and professions	84,570	66,754
Intergovernmental revenue sharing	521,171	447,840
Total expenditures by function and department	\$ 14,423,085	\$ 13,875,981

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# STATISTICAL SECTION

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**Chattanooga, Tennessee** was founded as Ross's Landing in 1816 by John Ross. In 1838, the name was changed to Chattanooga, a modification of “Chatanuga”, the Indian term for Lookout Mountain. Chattanooga is the 4th largest city in the state and is located in the south east part of the state on the Chickamauga and Nickajack Lake, both of which are part of the Tennessee River. The city is known as the gateway to the deep south because of the various rail lines that come through the area and is also known as the Scenic City due to area nature attractions and the general setting of the city on two lakes in the mountains. The local economy includes a diversified mix of manufacturing and service industries and the city serves as a major freight hub for Norfolk Southern and CSX rail lines.

## Chattanooga Facts

**Population:** 155,190 (2006)

**Incorporated:** 1816

**Fortune 500 Companies:** UnumProvident.

**Famous Chattanoogaians:** Reggie White, Benjamin Franklin Thomas, Samuel L. Jackson, Usher Raymond.

**Colleges and Universities:** University of Tennessee at Chattanooga, Tennessee Temple University.

**County:** Hamilton

**Professional Sports:** Chattanooga Lookouts (AA-MLB).

**Annual Festivals:** Riverbend Festival, Southern Brewers Festival, River Roast, Oktoberfest.

**Points of Interests:** Tennessee Aquarium, Creative Discovery Museum, Hunter Museum of American Art, Chattanooga Zoo.

## 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.

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the State’s financial performance and well-being have changed over time.	194
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the State’s most significant local revenue sources, the sales tax.	198
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the State’s current levels of outstanding debt and the State’s ability to issue additional debt in the future.	200
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the State’s financial activities take place.	202
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the State’s financial report relates to the services the State provides and the activities it performs.	203
<b>Component Units</b> These schedules contain debt information related to the University of Tennessee and the Tennessee Board of Regent’s institutions – component units of the State. The schedules assist in understanding the resources available to pay debt service.	205
<b>Index</b> Page references for Securities and Exchange Commission disclosures contained in this report.	210

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



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

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,					
	2002	2003	2004	2005	2006	2007
<b>Expenses</b>						
Governmental activities:						
General government	\$ 514,419	\$ 510,674	\$ 546,996	\$ 596,016	\$ 705,897	\$ 730,663
Education	4,326,480	4,520,624	4,692,605	5,158,369	5,449,613	5,879,087
Health and social services	8,499,713	9,507,209	10,583,726	11,522,061	10,170,957	10,415,284
Law, justice, and public safety	918,970	968,859	1,032,302	1,090,779	1,214,957	1,207,070
Recreation and resources development	362,068	376,734	479,251	423,342	466,689	481,166
Regulation of business and professions	59,493	64,109	81,940	113,902	86,945	122,150
Transportation	683,229	726,476	787,646	698,450	671,641	834,212
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925	738,349	815,832
Interest on long-term debt	55,114	50,610	51,819	42,902	49,460	50,003
Payments to fiduciary fund						25,950
Total governmental activities expenses	<u>16,106,001</u>	<u>17,366,566</u>	<u>18,903,939</u>	<u>20,329,746</u>	<u>19,554,508</u>	<u>20,561,417</u>
Business-type activities:						
Employment security	739,008	767,202	639,993	476,646	452,043	467,327
Insurance programs	353,534	379,661	416,871	430,568	471,032	413,483
Loan programs	2,585	2,273	1,737	1,909	1,487	1,473
Other	1,410	1,802	2,037	2,498	2,496	2,595
Total business-type activities expenses	<u>1,096,537</u>	<u>1,150,938</u>	<u>1,060,638</u>	<u>911,621</u>	<u>927,058</u>	<u>884,878</u>
Total primary government expenses	<u>\$ 17,202,538</u>	<u>\$ 18,517,504</u>	<u>\$ 19,964,577</u>	<u>\$ 21,241,367</u>	<u>\$ 20,481,566</u>	<u>\$ 21,446,295</u>
<b>Program Revenues</b>						
Governmental activities:						
Charges for services:						
General government	\$ 281,379	\$ 273,503	\$ 342,154	\$ 380,679	\$ 375,640	\$ 516,072
Education	10,155	15,922	16,966	13,568	26,785	29,052
Health and social services (1)	195,421	190,570	857,951	942,909	607,601	403,352
Law, justice, and public safety	341,615	336,115	313,386	316,337	374,715	116,780
Recreation and resources development	110,033	114,618	124,105	140,227	138,970	143,705
Regulation of business and professions	86,468	95,953	107,355	115,556	124,435	135,848
Transportation	13,045	13,339	13,636	15,494	15,118	16,958
Operating grants and contributions	6,454,927	7,452,665	8,095,087	8,777,283	8,314,981	8,481,473
Capital grants and contributions	560,074	568,221	503,539	520,090	615,584	708,384
Total governmental activities program revenues	<u>8,053,117</u>	<u>9,060,906</u>	<u>10,374,179</u>	<u>11,222,143</u>	<u>10,593,829</u>	<u>10,551,624</u>
Business-type activities:						
Charges for services:						
Employment security	335,723	437,378	523,372	463,385	381,600	356,064
Insurance programs	338,085	385,384	422,584	462,441	479,515	438,275
Loan programs	13,449	12,590	12,733	12,878	12,970	13,803
Other	1,368	1,998	2,111	2,593	2,803	2,644
Operating grants and contributions	342,469	256,444	208,296	100,536	131,043	116,569
Total business-type activities program revenues	<u>1,031,094</u>	<u>1,093,794</u>	<u>1,169,096</u>	<u>1,041,833</u>	<u>1,007,931</u>	<u>927,355</u>
Total primary government program revenues	<u>\$ 9,084,211</u>	<u>\$ 10,154,700</u>	<u>\$ 11,543,275</u>	<u>\$ 12,263,976</u>	<u>\$ 11,601,760</u>	<u>\$ 11,478,979</u>
<b>Net (Expense)/Revenue</b>						
Governmental activities	\$ (8,052,884)	\$ (8,305,660)	\$ (8,529,760)	\$ (9,107,603)	\$ (8,960,679)	\$ (10,009,793)
Business-type activities	(65,443)	(57,144)	108,458	130,212	80,873	42,477
Total primary government net expense	<u>\$ (8,118,327)</u>	<u>\$ (8,362,804)</u>	<u>\$ (8,421,302)</u>	<u>\$ (8,977,391)</u>	<u>\$ (8,879,806)</u>	<u>\$ (9,967,316)</u>

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

(continued from previous page)

	FOR THE FISCAL YEAR ENDED JUNE 30,					
	2002	2003	2004	2005	2006	2007
<b>General Revenues and Other Changes in Net Assets</b>						
Governmental activities:						
Taxes						
Sales and use	\$ 4,656,105	\$ 5,478,642	\$ 5,806,268	\$ 6,099,159	\$ 6,540,224	\$ 6,819,570
Fuel	787,132	813,554	829,372	846,826	851,362	867,520
Business	1,783,486	2,067,713	2,184,170	2,396,141	2,592,238	2,884,618
Other	490,958	425,099	526,573	514,938	598,827	734,026
Grants and contributions not restricted to specific programs	159,511	149,746	152,676	46,807		
Unrestricted investment earnings	37,802	11,582	12,079	30,361	81,287	113,940
Miscellaneous	281,952	230,770	207,653	209,226	185,466	250,344
Contributions to permanent funds	354	381	351	468	369	270
Transfers	(16,819)	(18,881)	(18,829)	(21,062)	(22,783)	(5,028)
Total governmental activities	<u>8,180,481</u>	<u>9,158,606</u>	<u>9,700,313</u>	<u>10,122,864</u>	<u>10,826,990</u>	<u>11,665,260</u>
Business-type activities:						
Transfers	16,819	18,881	18,829	21,062	22,783	5,028
Total business-type activities	<u>16,819</u>	<u>18,881</u>	<u>18,829</u>	<u>21,062</u>	<u>22,783</u>	<u>5,028</u>
Total primary government general revenues and other changes in net assets	<u>\$ 8,197,300</u>	<u>\$ 9,177,487</u>	<u>\$ 9,719,142</u>	<u>\$ 10,143,926</u>	<u>\$ 10,849,773</u>	<u>\$ 11,670,288</u>
<b>Changes in Net Assets</b>						
Governmental activities	\$ 127,597	\$ 852,946	\$ 1,170,553	\$ 1,015,261	\$ 1,866,311	\$ 1,655,467
Business-type activities	(48,624)	(38,263)	127,287	151,274	103,656	47,505
Total primary government	<u>\$ 78,973</u>	<u>\$ 814,683</u>	<u>\$ 1,297,840</u>	<u>\$ 1,166,535</u>	<u>\$ 1,969,967</u>	<u>\$ 1,702,972</u>

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

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

	FOR THE FISCAL YEAR ENDED JUNE 30,					
	2002	2003	2004	2005	2006	2007
Governmental activities						
Invested in capital assets, net of related debt	\$ 17,457,541	\$ 18,119,735	\$ 18,691,308	\$ 19,406,978	\$ 20,204,007	\$ 21,030,511
Restricted	665,673	703,010	843,889	580,840	725,209	782,302
Unrestricted (1), (2)	69,056	288,523	743,586	1,306,226	2,204,315	3,014,252
Total governmental activities net assets	<u>18,192,270</u>	<u>19,111,268</u>	<u>20,278,783</u>	<u>21,294,044</u>	<u>23,133,531</u>	<u>24,827,065</u>
Business-type activities						
Invested in capital assets, net of related debt						
Restricted	1,239,236	1,181,636	1,288,353	1,389,261	1,459,045	1,472,523
Unrestricted	31,655	50,992	71,562	121,928	155,800	171,183
Total business-type activities net assets	<u>1,270,891</u>	<u>1,232,628</u>	<u>1,359,915</u>	<u>1,511,189</u>	<u>1,614,845</u>	<u>1,643,706</u>
Primary Government						
Invested in capital assets, net of related debt	17,457,541	18,119,735	18,691,308	19,406,978	20,204,007	21,030,511
Restricted	1,904,909	1,884,646	2,132,242	1,970,101	2,184,254	2,254,825
Unrestricted	100,711	339,515	815,148	1,428,154	2,360,115	3,185,435
Total primary government net assets	<u>\$ 19,463,161</u>	<u>\$ 20,343,896</u>	<u>\$ 21,638,698</u>	<u>\$ 22,805,233</u>	<u>\$ 24,748,376</u>	<u>\$ 26,470,771</u>

- (1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004 fewer funds were restricted for lottery scholarships when compared to fiscal year 2005.
- (2) The increase in unrestricted net assets between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net assets resulting from governmental activities, specifically those activities associated with the General Fund, which had a \$698 million and a \$662 million increase in fund balance for 2006 and 2007, respectively.

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,									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>General Fund</b>										
Reserved	\$ 223,735	\$ 322,562	\$ 571,236	\$ 534,116	\$ 435,600	\$ 486,319	\$ 693,371	\$ 594,405	\$ 960,229	\$ 1,143,163
Unreserved	354,105	224,923	371,477	461,964	195,941	202,603	658,055	737,779	1,070,124	1,549,399
Total general fund(1), (2)	\$ 577,840	\$ 547,285	\$ 942,713	\$ 996,080	\$ 631,541	\$ 688,922	\$ 1,351,426	\$ 1,332,184	\$ 2,030,353	\$ 2,692,562
<b>All Other Governmental Funds</b>										
Reserved	\$ 599,000	\$ 647,182	\$ 617,191	\$ 659,095	\$ 876,919	\$ 922,258	\$ 1,061,453	\$ 1,307,412	\$ 1,166,534	\$ 1,079,672
Unreserved, reported in:										
Special revenue funds	1,889	367	58	103	50	50	50	50	345,143	569,041
Debt service fund	4,356	1,335	2,750	3,407					5,377	5,398
Capital projects fund	(33,106)	48,221	62,243	131,833					49,749	123,205
Total all other governmental funds	\$ 572,139	\$ 697,105	\$ 682,242	\$ 794,438	\$ 876,969	\$ 922,308	\$ 1,061,503	\$ 1,307,462	\$ 1,566,803	\$ 1,777,316

(1) The increase in the fund balance of the general fund between fiscal years 2003 and 2004 resulted from higher revenue collections.

A favorable economy caused increases in sales, excise, franchise, business, and income tax collections. However, expenditures in fiscal year 2004 did not increase at the same rate. The result was an increase of \$625 million in the General Fund total fund balance.

A majority of the increase in the reserved component was from the Reserve for Unencumbered Balance and the Reserve for Federal Tax Relief. The largest part of the increase in the unreserved component resulted in the Reserve for Supplemental Appropriations and the Reserve for Future Requirements.

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

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
FOR THE FISCAL YEAR ENDED JUNE 30.										
<b>Revenues</b>										
Taxes	\$ 6,556,385	\$ 6,783,904	\$ 7,343,069	\$ 8,112,402	\$ 7,718,442	\$ 8,695,598	\$ 9,357,356	\$ 9,903,848	\$ 10,573,235	\$ 11,334,640
Licenses, fines, fees, and permits	174,754	191,095	205,031	224,294	460,920	480,629	506,538	540,001	552,937	576,021
Interest on investments	35,977	47,683	53,819	92,127	36,618	28,429	34,102	46,222	102,075	178,080
Federal	4,831,199	5,124,273	5,537,353	6,184,126	6,694,648	7,646,384	8,417,534	8,988,687	8,568,732	8,763,302
Departmental services	1,129,859	1,282,634	1,512,483	1,748,165	1,607,251	1,716,159	2,071,252	2,360,891	2,238,968	2,233,450
Other	47,537	40,155	352,183	356,029	444,450	384,536	488,769	502,074	491,064	537,816
Total revenues	12,775,711	13,469,744	15,003,938	16,717,143	16,962,329	18,951,735	20,874,551	22,341,723	22,527,011	23,623,309
<b>Expenditures</b>										
Current:										
General government	289,194	345,746	330,255	349,278	358,523	392,747	400,069	425,243	530,637	555,545
Education (1)	2,731,599	2,859,303	2,947,577	3,059,538	4,218,637	4,432,071	4,630,294	5,100,147	5,353,167	5,775,363
Health and social services	6,094,595	6,596,034	7,446,923	8,641,777	9,250,026	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476
Law, justice, and public safety	742,714	825,010	872,353	897,805	914,307	970,042	1,042,510	1,109,819	1,216,756	1,275,402
Recreation and resources development	372,119	382,614	429,389	419,423	446,137	442,915	479,243	491,681	544,744	525,885
Regulation of business and professions	41,402	46,346	49,325	57,988	65,040	71,109	88,580	119,620	92,888	134,955
Transportation	1,145,536	1,164,776	1,271,170	1,269,773	1,311,654	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850
Intergovernmental revenue sharing				681,151	686,515	641,271	647,654	683,925	738,349	815,832
Debt service:										
Principal	100,556	111,530	123,783	122,221	68,304	78,108	80,243	89,474	86,532	81,790
Interest					54,121	47,964	49,956	43,455	49,319	50,363
Debt issuance costs					1,282	650	1,945	2,159	1,082	1,173
Capital outlay	121,651	105,889	70,866	55,679	145,590	132,949	128,167	119,730	253,229	343,712
Total expenditures	11,639,566	12,437,248	13,541,641	15,554,633	17,520,136	18,910,449	20,176,445	22,115,456	21,617,892	22,764,346
Revenues over (under) expenditures	1,136,345	1,032,496	1,462,297	1,162,510	(557,807)	41,286	698,106	226,267	909,119	858,963
<b>Other Financing Sources (Uses)</b>										
Capital lease										
Bonds and commercial paper issued	171,600	253,150	263,146	223,408	168,017	95,195	206,933	52,979	228,409	196,290
Notes/Commercial paper redeemed	(62,000)	(60,978)	(197,728)	(79,160)	(152,091)	(3,900)	(155,796)	(109,908)	(103,498)	(103,498)
Insurance claim recoveries									1,670	4,013
Premium on bond sale	2,124	1,522		586	5,149		6,485		2,485	2,049
Refunding bonds issued		207,085						355,053		
Refunding bond premium		(205,624)						31,929		
Refunding payment to escrow	545,432	565,885	472,275	567,901	766,097	679,743	661,064	812,886	733,813	898,244
Transfers in	(1,563,095)	(1,693,625)	(1,619,425)	(1,748,989)	(787,813)	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)
Transfers out										
Total other financing sources (uses)	(905,939)	(932,585)	(1,081,732)	(1,036,254)	(641)	62,786	26,957	450	48,391	13,680
<b>Net Change in Fund Balances</b>	\$ 230,406	\$ 99,911	\$ 380,565	\$ 126,256	\$ (558,448)	\$ 104,072	\$ 725,063	\$ 226,717	\$ 957,510	\$ 872,643
<b>Debt Service as a Percentage of Noncapital Expenditures</b>					0.6720%	0.6937%	0.6691%	0.6241%	0.6566%	0.6055%

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

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31.									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Auto dealers	\$ 6,665	\$ 7,127	\$ 8,111	\$ 8,378	\$ 8,650	\$ 8,837	\$ 9,428	\$ 9,437	\$ 9,421	\$ 9,218
Purchases from manufacturers	4,372	4,276	4,238	4,201	3,957	3,652	3,933	4,152	4,807	4,717
Miscellaneous durable goods	11,896	11,287	12,832	13,013	12,359	12,271	12,889	14,179	15,841	17,327
Eating and drinking places	5,220	5,478	5,864	6,205	6,446	6,559	6,902	7,443	7,947	8,379
Food stores	7,474	7,575	7,892	8,132	8,095	7,619	7,137	7,215	7,451	7,688
Liquor stores	335	338	366	385	397	408	433	458	495	544
Hotels and motels	1,627	1,669	1,753	1,830	1,785	1,777	1,821	1,881	2,044	2,173
Other retail and service	18,379	19,149	20,655	21,494	21,401	21,714	22,601	23,635	25,128	26,271
Miscellaneous nondurable goods	5,492	5,430	6,169	6,334	6,309	6,253	6,265	6,547	7,049	7,314
Transportation, communication	4,571	3,929	4,448	4,683	5,135	5,721	6,013	6,405	6,668	7,392
<b>Total taxable sales</b>	<b>\$ 66,031</b>	<b>\$ 66,258</b>	<b>\$ 72,328</b>	<b>\$ 74,655</b>	<b>\$ 74,534</b>	<b>\$ 74,811</b>	<b>\$ 77,422</b>	<b>\$ 81,352</b>	<b>\$ 86,851</b>	<b>\$ 91,023</b>

Source: University of Tennessee Economic Report to the Governor

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

	FOR THE FISCAL YEAR ENDED JUNE 30.									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	6.00%	6.00%	6.00%	6.00%	6.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	N/A	N/A	N/A	N/A	N/A	6.00%	6.00%	6.00%	6.00%	6.00%
Energy fuels used by manufacturers and nurserymen	N/A	N/A	N/A	N/A	N/A	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	N/A	N/A	N/A	N/A	N/A	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	N/A	N/A	N/A	N/A	N/A	3.00%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	N/A	N/A	N/A	N/A	N/A	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	N/A	N/A	N/A	N/A	N/A	3.75%	3.75%	3.75%	3.75%	3.75%
Intrastate telecommunication services sold to businesses	N/A	N/A	N/A	N/A	N/A	3.30%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding \$100,000 sales price	N/A	N/A	N/A	N/A	N/A	3.00%	N/A	N/A	N/A	N/A
Cable and wireless TV (between \$15 and \$27.50) and satellite services	N/A	N/A	N/A	N/A	N/A	N/A	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property (\$1,601 to \$3,200)	N/A	N/A	N/A	N/A	N/A	N/A	2.75%	2.75%	2.75%	2.75%

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

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Retail:</b>										
Building materials	\$ 208,546	\$ 225,753	\$ 239,702	\$ 224,268	\$ 233,385	\$ 271,969	\$ 328,562	\$ 363,952	\$ 405,812	\$ 423,160
General merchandise	470,447	494,498	529,829	543,088	575,230	654,071	712,426	735,074	767,584	820,549
Food stores	442,494	454,136	465,827	469,960	465,917	478,857	485,947	494,466	508,981	526,981
Auto dealers and service stations	527,673	583,488	630,662	622,544	645,670	751,167	820,454	815,985	817,689	856,109
Apparel and accessory stores	125,404	136,055	134,972	137,616	137,851	160,688	177,017	185,683	194,946	200,131
Furniture and home furnishings	130,730	148,101	163,763	169,378	162,401	189,506	209,525	222,089	238,475	246,569
Eating and drinking places	312,759	333,506	349,475	362,716	379,566	435,505	486,680	518,689	547,547	585,490
Miscellaneous retail stores	309,938	335,915	360,992	372,632	378,101	443,114	491,443	508,694	550,340	580,936
<b>Total retail</b>	<b>2,527,991</b>	<b>2,711,452</b>	<b>2,875,222</b>	<b>2,902,202</b>	<b>2,978,115</b>	<b>3,384,877</b>	<b>3,712,054</b>	<b>3,844,632</b>	<b>4,030,890</b>	<b>4,239,925</b>
<b>Services:</b>										
Hotels and lodging places	96,925	100,535	104,569	104,794	102,036	118,247	124,795	131,675	142,333	154,081
Personal services	37,505	38,196	38,981	39,316	41,982	47,623	49,818	51,845	49,375	51,099
Business services	175,545	191,845	185,286	184,803	167,634	189,019	199,677	218,799	234,810	245,387
Auto repair, services, and parking	118,805	130,392	137,716	140,215	137,546	153,418	163,687	159,935	163,710	174,680
Miscellaneous repair services	20,721	21,559	21,454	20,282	19,809	21,914	23,606	24,873	27,100	28,387
Motion pictures	12,981	14,717	15,624	16,105	17,320	20,868	23,244	22,851	22,282	22,178
Amusement services	37,955	36,503	40,149	39,660	41,477	45,116	49,106	50,854	54,629	59,578
Health services	9,949	9,591	7,376	9,459	8,951	9,137	10,818	11,139	11,710	13,123
Other services	11,957	12,884	15,958	20,833	19,002	23,503	26,747	31,025	34,282	34,400
<b>Total services</b>	<b>522,343</b>	<b>556,222</b>	<b>565,113</b>	<b>575,467</b>	<b>555,757</b>	<b>628,845</b>	<b>673,525</b>	<b>700,969</b>	<b>740,231</b>	<b>782,913</b>
<b>Non-retail, non-services:</b>										
Agriculture, forestry, fishing	4,223	4,696	4,829	4,797	4,774	5,133	5,812	5,968	6,920	7,261
Mining	7,521	6,752	4,011	4,981	4,341	4,126	5,286	5,073	5,635	6,302
Construction	74,192	45,211	50,770	40,689	41,851	38,168	42,275	42,640	48,540	54,075
Manufacturing	246,393	241,857	233,960	232,558	209,366	236,163	261,260	289,494	312,570	305,558
Transportation	40,107	23,280	25,798	24,678	5,991	22,856	26,895	36,239	42,825	46,688
Communications	206,784	210,972	247,479	257,754	308,184	361,677	398,105	385,544	442,837	457,116
Electric, gas, and sanitary services	109,635	117,122	119,574	133,325	128,072	149,710	163,358	174,794	194,574	203,789
Wholesale trade	267,019	279,024	299,784	292,179	243,826	280,882	321,014	349,023	418,607	451,777
Finance, insurance, real estate	21,581	19,690	19,497	14,167	11,998	12,376	11,396	11,037	12,899	17,830
<b>Total non-retail, non-services</b>	<b>977,455</b>	<b>948,604</b>	<b>1,005,702</b>	<b>1,005,128</b>	<b>958,403</b>	<b>1,111,091</b>	<b>1,235,401</b>	<b>1,299,812</b>	<b>1,485,407</b>	<b>1,550,396</b>
County Clerk	61,641	69,364	75,020	76,608	82,391	94,705	108,781	112,753	114,767	126,081
Consumer Use Tax	N/A	N/A	N/A	N/A	N/A	104,786	4,647	5,313	7,545	5,071
<b>Grand Total</b>	<b>\$ 4,089,430</b>	<b>\$ 4,285,642</b>	<b>\$ 4,521,057</b>	<b>\$ 4,559,405</b>	<b>\$ 4,574,666</b>	<b>\$ 5,324,304</b>	<b>\$ 5,734,408</b>	<b>\$ 5,963,479</b>	<b>\$ 6,378,840</b>	<b>\$ 6,704,386</b>

Source: Revenue Collections Reports, Tennessee Department of Revenue

Note: N/A means not available.

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
FOR THE FISCAL YEAR ENDED JUNE 30,										
<b>Governmental activities debt:</b>										
General obligation bonds	\$ 966,204	\$ 1,062,850	\$ 983,721	\$ 1,049,456	\$ 1,134,881	\$ 1,047,531	\$ 1,141,026	\$ 1,044,830	\$ 1,096,765	\$ 1,115,488
General obligation bond anticipation notes	139,100	177,300	248,500	250,000	110,700	201,800	82,775	168,575	144,625	130,824
General obligation commercial paper	588	543	496	562	483	788	1,008	1,229	3,619	3,943
Capital leases	1,105,892	1,240,693	1,232,717	1,300,018	1,246,064	1,250,119	1,224,809	1,214,634	1,245,009	1,250,255
Total governmental activities debt	26,605	23,551	20,347	17,213	13,924	11,070	8,071	5,232	3,378	2,534
General obligation bonds	26,605	23,551	20,347	17,213	13,924	11,070	8,071	5,232	3,378	2,534
Total business-type activities debt	1,132,497	1,264,244	1,253,064	1,317,231	1,259,988	1,261,189	1,232,880	1,219,866	1,248,387	1,252,789
Total primary government debt										
<b>Business-type activities debt:</b>										
General obligation bonds										
Total business-type activities debt										
Total primary government debt										
<b>Debt Ratios</b>										
Personal income	\$ 133,620,000	\$ 140,395,000	\$ 148,834,000	\$ 154,416,000	\$ 159,173,000	\$ 165,622,000	\$ 174,727,000	\$ 184,567,000	\$ 195,656,000	N/A
Ratio of total debt to personal income	0.85%	0.90%	0.84%	0.85%	0.79%	0.76%	0.71%	0.66%	0.64%	
Population	N/A	N/A	5,689	5,747	5,790	5,842	5,893	5,963	6,039	N/A
Net general bonded debt per capita	N/A	N/A	\$ 220	\$ 229	\$ 218	\$ 216	\$ 209	\$ 205	\$ 206	
<b>General Bonded Debt:</b>										
General obligation bonds	\$ 992,809	\$ 1,086,401	\$ 1,004,068	\$ 1,066,669	\$ 1,148,805	\$ 1,058,601	\$ 1,149,097	\$ 1,050,062	\$ 1,100,143	\$ 1,118,022
General obligation bond anticipation notes	139,100	177,300	248,500	250,000	110,700	201,800	82,775	168,575	144,625	130,824
General obligation commercial paper										
Total net bonded debt	\$ 1,131,909	\$ 1,263,701	\$ 1,252,568	\$ 1,316,669	\$ 1,259,505	\$ 1,260,401	\$ 1,231,872	\$ 1,218,637	\$ 1,244,768	\$ 1,248,846
<b>Debt Ratios</b>										
Ratio of net bonded debt to total of pledged revenue:	54.88%	50.01%	69.48%	60.91%	61.03%	65.48%	70.45%	73.21%	75.68%	80.92%

Source: State of Tennessee Comprehensive Annual Financial Report and the University of Tennessee Economic Report to the Governor  
 Notes: (1) N/A - not available because the source did not provide the data  
 (2) See Schedule 10 for personal income and population data  
 (3) Details of the state's debt can be found in Note 5H in the basic financial statements

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

Calculation of 2007 pledged revenues:	Collections for Fiscal Year 2007		Fiscal Year 2007 Pledged Amount	Pledged amount
	Portion Pledged	All Governmental Fund Types		
Gasoline tax	29.3%	\$ 612,790	\$ 179,547	Legal debt service limit (pledged amount/150%) Less: 2007 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds
Petroleum products fee	100%	65,312	65,312	
Motor vehicle registration fee	50%	257,580	128,791	
Franchise tax	100%	636,972	636,972	
		<u>\$ 1,572,654</u>	<u>\$ 1,010,622</u>	<u>\$ 527,773</u>

	FOR THE FISCAL YEAR ENDED JUNE 30									
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Debt limit	\$ 414,106	\$ 421,360	\$ 580,201	\$ 534,682	\$ 512,464	\$ 550,211	\$ 578,609	\$ 594,778	\$ 628,010	\$ 673,748
Total net debt service applicable to limit	117,895	125,924	138,481	131,593	142,075	148,079	143,702	153,215	148,033	145,975
Legal debt service margin	<u>\$ 296,211</u>	<u>\$ 295,436</u>	<u>\$ 441,720</u>	<u>\$ 403,089</u>	<u>\$ 370,389</u>	<u>\$ 402,132</u>	<u>\$ 434,907</u>	<u>\$ 439,563</u>	<u>\$ 479,977</u>	<u>\$ 527,773</u>

Legal debt service margin as a percentage of the debt limit

1998	71.53%
1999	70.11%
2000	76.13%
2001	75.39%
2002	72.28%
2003	73.09%
2004	75.16%
2005	73.90%
2006	76.43%
2007	78.33%



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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population	N/A	N/A	N/A	5,689	5,747	5,790	5,842	5,893	5,963	6,039
Total personal income	\$ 124,699,000	\$ 133,620,000	\$ 140,395,000	\$ 148,834,000	\$ 154,416,000	\$ 159,173,000	\$ 165,622,000	\$ 174,727,000	\$ 184,567,000	\$ 195,656,000
Per capita personal income	\$ 23,158	\$ 24,567	\$ 25,437	\$ 26,168	\$ 26,842	\$ 27,434	\$ 28,377	\$ 29,761	\$ 31,127	\$ 32,474
Unemployment rate	5.3%	4.5%	4.0%	4.0%	4.6%	5.2%	5.5%	5.4%	5.6%	4.5%

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

STATE OF TENNESSEE  
 DEMOGRAPHIC AND ECONOMIC INFORMATION - PRINCIPAL EMPLOYERS  
 CURRENT YEAR AND NINE YEARS AGO

Employer	2007			1998		
	Number of Employees	Rank	Percentage of Total State Employment	Number of Employees	Rank	Percentage of Total State Employment
Federal Government	49,271	1	1.80%	54,146	1	2.05%
State Government	47,126	2	1.72%	40,911	2	1.55%
Wal-Mart Associates Inc.	32,000	3	1.17%			
Federal Express Inc.	30,000	4	1.09%	25,126	3	0.95%
Nashville/Davidson County Metropolitan Government	20,607	5	0.75%	21,368	4	0.81%
Kroger Limited Partnership Inc.	15,500	6	0.57%			
Tennessee Board of Regents	15,309	7	0.56%	14,091	7	0.53%
Shelby County	13,656	8	0.50%	11,298	8	0.43%
Hamilton County	11,399	9	0.42%	4,884	9	0.19%
Eastman Chemical Corporation	11,100	10	0.40%	17,500	5	0.66%
Martin Marietta Corporation				16,760	6	0.63%
<b>Total</b>	<b>245,968</b>		<b>8.97%</b>	<b>111,027</b>		<b>4.21%</b>
	Calendar Year 2007 (est)			Calendar Year 1998		
<b>Total State Employment</b>	<b>2,741,000</b>			<b>2,640,000</b>		

Source: U.S. Census Bureau,  
 Tennessee Department of Economic & Community Development,  
 and the Tennessee Board of Regents

Note: Time periods related to number of employees vary depending on the source.

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government	4,076	4,123	4,045	4,150	4,114	4,163	4,254	4,394	4,671	4,964
Education	918	943	941	979	955	966	1,014	1,028	1,025	1,070
Health and social services (1)	17,195	17,327	17,564	18,147	18,852	19,144	19,255	20,431	21,246	21,208
Law, justice and public safety	9,547	9,836	10,079	10,406	10,681	10,569	10,691	10,922	10,987	10,843
Recreation and resources development	3,690	3,734	3,681	3,718	3,586	3,689	3,762	3,757	3,846	3,885
Regulation of business and professions	589	590	600	624	646	668	680	718	738	776
Transportation	4,802	4,791	4,620	4,620	4,559	4,528	4,460	4,454	4,448	4,380
Total	40,817	41,344	41,530	42,644	43,393	43,727	44,116	45,704	46,961	47,126

Source: Department of Personnel

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

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General government					7,587	7,701	7,785	6,689	7,067	7,276
Motor pool vehicles				62	62	61	61	108	107	107
Buildings				3,282	3,233	3,581	3,861	3,634	3,637	3,586
Machinery and equipment										
Education				4	4	4	4	4	4	4
Number of residential schools				210	167	223	228	244	219	209
Machinery and equipment										
Health and social services				417	397	391	388	342	340	339
Buildings				2,014	1,916	1,973	1,964	2,031	2,142	2,303
Machinery and equipment										
Law, justice and public safety				19	19	19	19	19	19	19
Correctional facilities				89	90	90	86	86	86	86
Armories				1,728	1,739	1,882	2,009	2,352	2,532	2,586
Machinery and equipment										
Recreation and resources development	153,380	155,153	156,643	156,643	158,252	158,581	158,723	164,251	164,399	164,537
Acreage of state parks				1,991	1,884	2,093	2,185	2,295	2,476	2,543
Machinery and equipment										
Regulation of business and professions				72	59	68	82	93	104	138
Machinery and equipment										
Transportation	14,022	14,056	14,073	14,111	14,107	14,107	14,289	14,151	14,163	13,835
State highways (in miles)	19,169	19,201	19,403	19,453	19,453	19,493	19,621	19,646	19,432	19,515
Bridges, state highways				122	120	120	120	122	122	122
Facilities				631	629	671	682	710	713	717
Buildings										

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

Function	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>General government</b>										
Tax returns processed (1)	1,970,870	2,075,559	2,077,000	2,148,643	2,125,072	1,999,458	2,225,891	2,013,809	2,398,453	2,502,248
New corporate charters registered		10,996	11,471	12,162	11,716	11,563	11,826	12,103	11,807	11,726
Investment return on total portfolio	5.64%	5.22%	5.66%	5.94%	2.67%	1.64%	1.11%	2.12%	4.11%	5.30%
Residential and commercial property reappraisals completed	730,947	426,098	130,668	1,435,746	475,539	256,916	265,373	1,441,168	554,798	336,050
<b>Education</b>										
Number of public schools (K-12)	1,575	1,589	1,611	1,623	1,646	1,659	1,677	1,693	1,699	1,714
Enrollment of public schools (K-12)	978,438	967,556	992,031	984,015	988,496	973,170	973,626	976,574	991,489	925,898
Number of high school graduates from public schools	43,533	44,597	45,825	44,873	44,622	48,341	50,203	51,436	53,960	54,191
<b>Health and social services</b>										
TempCare enrollees	1,281,200	1,332,300	1,340,500	1,445,900	1,428,600	1,287,600	1,336,700	1,213,800	1,187,500	1,191,233
Food stamp recipients	640,300	517,900	496,435	504,443	578,144	692,300	791,695	833,687	870,304	861,979
Percentage of population (4)		8.73%	8.73%	8.78%	9.99%	11.85%	13.43%	13.98%	14.41%	
Temporary assistance recipients	188,490	146,928	144,393	153,845	163,840	68,300	73,158	72,676	70,108	64,684
Percentage of population (4)		2.54%	2.54%	2.68%	2.83%	1.17%	1.24%	1.22%	1.16%	
Children in state custody (2)	11,859	11,755	11,217	10,819	10,259	10,345	10,869	10,467	9,700	9,048
Percentage of population (4)		0.20%	0.20%	0.19%	0.18%	0.18%	0.18%	0.18%	0.16%	
Mental health institutes average daily census	885	934	928	985	941	958	960	888	845	808
<b>Law, justice and public safety</b>										
Correctional institutions average daily census	14,941	15,712	16,547	16,920	17,372	18,170	19,117	19,141	19,119	20,518 (est.)
Department of Safety citations issued	387,740	377,161	406,523	415,928	415,030	388,356	423,305	453,630	472,465	403,363
Drivers licenses issued	1,117,220	1,200,000	1,261,467	1,402,735	1,281,106	1,271,141	1,334,417	1,351,241	1,711,655	1,632,164
<b>Recreation and resources development</b>										
Hunting/fishing licenses and boats registered	795,764	803,201	761,689	735,941	722,949	718,307	723,305	733,554	690,426 (est.)	718,397 (est.)
Wetland acres acquired	4,039	2,426	7,160	10,873	4,798	74,851	6,369	782	3,308 (est.)	891 (est.)
Number of visitors to state parks	31,060,240	31,833,942	30,182,137	28,824,110	28,821,110	26,878,838	26,702,434	27,604,112	28,859,399	29,408,099
Air pollution monitoring sites	104	107	109	104	99	92	91	86	87	86
<b>Regulation of business and professions</b>										
Fire safety inspections	13,591	17,982	15,189	20,087	12,574		41,402		18,418	34,976
Consumer affairs written complaints	6,841	5,300	5,111	5,017	4,660		4,747		5,528	5,420
<b>Transportation</b>										
Lane miles resurfaced (3)	2,443	2,694	2,412	2,748	3,483	2,194	2,238	2,351	1,541	2,408
HELP program services provided			50,451	85,267	150,086	123,809	137,615	148,805	154,362	128,006

Source: Tennessee fact book, various state agencies

Notes:

- (1) Tennessee does not tax employment income.
- (2) Children who are abused/dependent, neglected, delinquent, and unruly.
- (3) Amounts are reported on a calendar year basis; the 2007 amount is through August 2007.
- (4) Population figures used in calculating percentages are from schedule 10.
- (5) Blank lines indicate that data is unavailable.

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

(expressed in thousands)

University of Tennessee				University of Memphis			
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)
1998	\$ 559,661	\$ 367,938	\$ 21	1998	\$ 80,625	\$ 89,924	\$ -
1999	622,109	373,207	21	1999	93,593	93,576	-
2000	410,086	375,872	21	2000	102,186	94,289	-
2001	401,918	408,671	21	2001	114,031	97,499	-
2002	438,956	406,146	21	2002	120,196	99,786	-
2003	413,632	409,612	-	2003	102,139	102,139	-
2004	417,191	406,033	75	2004	128,880	100,602	-
2005	448,955	430,412	66	2005	134,065	106,593	-
2006	484,786	440,014	56	2006	148,290	108,395	-
2007	532,582	471,730	45	2007	154,742	116,006	-

Austin Peay State University				Middle Tennessee State University			
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)
1998	\$ 20,420	\$ 25,559	\$ 48	1998	\$ 62,814	\$ 64,469	\$ -
1999	23,188	27,444	48	1999	70,530	70,576	-
2000	24,288	28,001	48	2000	78,317	73,273	-
2001	26,555	28,051	48	2001	86,328	76,159	-
2002	33,157	30,884	48	2002	62,437	77,990	-
2003	36,201	31,100	48	2003	71,185	82,144	-
2004	33,058	30,712	48	2004	84,404	81,057	-
2005	34,012	32,216	-	2005	86,644	85,305	-
2006	39,907	32,684	-	2006	96,307	86,971	-
2007	43,904	34,977	-	2007	98,470	94,005	-

East Tennessee State University				Tennessee State University			
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)
1998	\$ 57,826	\$ 67,202	\$ -	1998	\$ 39,141	\$ 32,052	\$ 135
1999	64,652	70,814	-	1999	46,423	35,597	66
2000	64,386	72,837	258	2000	52,156	36,337	66
2001	59,516	75,937	261	2001	54,979	34,843	66
2002	65,342	77,965	261	2002	45,119	35,067	-
2003	68,805	79,735	319	2003	57,939	39,040	-
2004	77,570	79,247	315	2004	53,840	40,621	-
2005	83,221	77,284	312	2005	55,752	42,305	-
2006	79,200	86,173	2,242	2006	59,094	44,939	-
2007	80,825	91,709	2,070	2007	60,841	55,719	-

(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)

Tennessee Technological University						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Total Fees and Charges	Legislative Appropriations
1998	\$ 28,831	\$ 37,699	-	1,150	\$ 2,534	\$ 5,125
1999	51,616	59,259	-	1,145	2,859	5,466
2000	33,791	38,938	-	1,075	2,918	5,666
2001	37,065	43,568	-	844	3,127	5,809
2002	41,311	40,392	-	639	2,349	5,579
2003	53,518	45,813	-	415	2,514	6,108
2004	47,194	40,165	-	897	3,057	6,035
2005	44,801	47,869	-	1,168	3,087	6,386
2006	48,903	48,503	-	1,042	3,550	6,490
2007	52,390	51,042	-	1,242	3,026	7,255
						\$ 117
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)	Total Fees and Charges	Legislative Appropriations
1998	\$ 9,818	\$ 18,589	68	-	\$ 3,749	\$ 8,343
1999	10,453	19,402	69	-	3,915	9,028
2000	11,074	20,234	72	-	4,350	9,417
2001	11,650	20,684	69	34	2,763	10,210
2002	12,380	21,233	70	73	5,043	10,477
2003	13,428	21,108	60	73	4,979	10,768
2004	11,937	20,979	65	73	5,649	10,610
2005	12,306	21,977	-	73	5,908	11,282
2006	19,084	22,336	-	69	6,224	11,480
2007	15,608	23,697	-	280	14,821	12,553
						\$ 168
Chatanooga State Technical Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Total Fees and Charges	Legislative Appropriations
1998	\$ 3,424	\$ 7,977	-	-	\$ 5,753	\$ 9,069
1999	2,484	8,519	-	-	6,615	10,143
2000	3,726	8,843	-	-	6,836	10,675
2001	3,952	9,072	-	-	7,294	11,016
2002	3,213	9,422	-	-	13,136	11,437
2003	3,191	9,338	-	-	14,921	11,540
2004	4,085	9,176	-	-	10,799	11,344
2005	3,524	9,706	-	-	12,133	12,839
2006	3,714	9,812	-	-	13,027	12,731
2007	4,215	10,705	-	169	13,829	13,710
						\$ 17
						\$ 17
						\$ 17
						\$ 17
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)	Total Fees and Charges	Legislative Appropriations
1998	\$ 9,818	\$ 18,589	68	-	\$ 3,749	\$ 8,343
1999	10,453	19,402	69	-	3,915	9,028
2000	11,074	20,234	72	-	4,350	9,417
2001	11,650	20,684	69	34	2,763	10,210
2002	12,380	21,233	70	73	5,043	10,477
2003	13,428	21,108	60	73	4,979	10,768
2004	11,937	20,979	65	73	5,649	10,610
2005	12,306	21,977	-	73	5,908	11,282
2006	19,084	22,336	-	69	6,224	11,480
2007	15,608	23,697	-	280	14,821	12,553
						\$ 168
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)	Total Fees and Charges	Legislative Appropriations
1998	\$ 9,818	\$ 18,589	68	-	\$ 3,749	\$ 8,343
1999	10,453	19,402	69	-	3,915	9,028
2000	11,074	20,234	72	-	4,350	9,417
2001	11,650	20,684	69	34	2,763	10,210
2002	12,380	21,233	70	73	5,043	10,477
2003	13,428	21,108	60	73	4,979	10,768
2004	11,937	20,979	65	73	5,649	10,610
2005	12,306	21,977	-	73	5,908	11,282
2006	19,084	22,336	-	69	6,224	11,480
2007	15,608	23,697	-	280	14,821	12,553
						\$ 168
Columbia State Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Total Fees and Charges	Legislative Appropriations
1998	\$ 9,818	\$ 18,589	68	-	\$ 3,749	\$ 8,343
1999	10,453	19,402	69	-	3,915	9,028
2000	11,074	20,234	72	-	4,350	9,417
2001	11,650	20,684	69	34	2,763	10,210
2002	12,380	21,233	70	73	5,043	10,477
2003	13,428	21,108	60	73	4,979	10,768
2004	11,937	20,979	65	73	5,649	10,610
2005	12,306	21,977	-	73	5,908	11,282
2006	19,084	22,336	-	69	6,224	11,480
2007	15,608	23,697	-	280	14,821	12,553
						\$ 168

(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)

Motlow State Community College				Nashville State Technical Community College				Northeast State Technical Community College						
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1998	\$ 7,275	\$ 7,890	-	-	1998	\$ 6,260	\$ 9,864	-	-	1998	\$ 3,494	\$ 8,166	-	-
1999	9,227	7,883	-	-	1999	6,816	11,092	-	-	1999	3,910	8,713	-	-
2000	9,663	8,187	-	-	2000	7,474	11,655	-	-	2000	4,341	9,026	-	-
2001	9,648	8,405	-	-	2001	8,322	12,168	-	-	2001	4,817	9,595	-	-
2002	9,759	8,864	-	-	2002	8,254	12,525	-	-	2002	4,066	9,864	-	-
2003	9,937	9,041	-	-	2003	13,519	13,099	-	-	2003	4,478	10,669	-	-
2004	9,173	8,893	-	-	2004	12,202	12,730	-	13	2004	5,508	10,514	-	-
2005	12,184	9,489	-	-	2005	13,955	13,449	-	13	2005	5,949	11,084	-	-
2006	9,861	9,585	-	-	2006	15,615	14,045	-	13	2006	6,342	11,275	-	-
2007	16,152	10,446	-	171	2007	15,828	15,185	-	13	2007	8,410	12,388	-	212

Roane State Community College				Pelississippi State Technical Community College					
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
1998	\$ 6,268	\$ 13,441	-	-	1998	\$ 14,403	\$ 15,444	-	-
1999	6,940	14,254	-	-	1999	16,162	16,630	121	-
2000	7,565	14,879	-	-	2000	16,623	17,144	114	-
2001	7,697	15,524	-	-	2001	18,779	17,596	131	-
2002	8,589	15,771	-	-	2002	21,648	18,185	-	-
2003	9,532	15,779	-	-	2003	22,727	18,345	-	-
2004	7,473	15,518	-	-	2004	25,818	18,096	-	-
2005	7,890	16,471	-	-	2005	27,694	19,039	-	-
2006	8,858	16,933	-	-	2006	29,979	19,548	-	-
2007	8,822	17,892	-	330	2007	26,825	20,765	-	293

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)
1998	\$ 9,837	\$ 17,898	-	-
1999	9,991	18,527	-	-
2000	10,838	18,464	-	56
2001	18,325	34,451	-	146
2002	19,022	35,175	-	146
2003	21,839	34,827	-	179
2004	16,472	34,191	-	179
2005	16,749	36,210	-	179
2006	18,166	36,905	-	169
2007	22,042	38,723	-	174

(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		Walters State Community College		Debt Service Requirements (Authority Bonds)		Debt Service Requirements (Authority Bonds)		
Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	
1998	\$ 13,046	13,232	-	1998	\$ 8,350	13,132	-	
1999	15,088	14,323	-	1999	8,408	14,265	-	
2000	17,843	14,947	-	2000	9,001	14,767	-	
2001	15,567	15,594	-	2001	10,170	15,173	-	
2002	15,060	15,862	-	2002	17,832	15,595	-	
2003	12,941	15,813	-	2003	20,031	16,045	-	
2004	9,395	15,417	-	2004	20,827	15,821	-	
2005	19,115	18,049	\$ -	2005	21,318	16,780	-	
2006	19,245	17,479	-	2006	28,946	16,999	-	
2007	10,460	18,175	-	2007	36,511	18,394	-	
								\$ 294

Source: Comptroller of the Treasury,  
Division of Bond Finance

STATE OF TENNESSEE  
STUDENT FEES AND CHARGES  
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Schedule 16

<u>Institution</u>	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	\$ 74	\$ 5,932	\$ 18,174	\$ 2,866	\$ 3,260
University of Tennessee- Chattanooga	220	5,062	15,024	2,990	6,450
University of Tennessee- Martin	174	5,005	15,045	2,396	2,160
University of Tennessee- Memphis	54	6,196	18,672		3,555
Austin Peay State University	274	5,238	15,514	2,110	3,400
East Tennessee State University	180	4,887	14,365	2,278	2,272
Middle Tennessee State University	0	5,278	15,554	2,258	3,726
Tennessee State University	178	4,856	15,162	2,220	2,982
Tennessee Technological University	58	4,980	15,256	3,320	3,410
University of Memphis		5,802	16,630	2,000	3,280
Chattanooga State Technical Community College		2,641	9,711		
Cleveland State Community College		2,627	9,723		
Columbia State Community College		2,605	9,440		
Dyersburg State Community College		2,635	9,711		
Jackson State Community College		2,617	9,684		
Motlow State Community College		2,623	9,699		
Nashville State Technical Community College		2,589	9,440		
Northeast State Technical Community College		2,625	9,702		
Pellissippi State Technical Community College	30	2,657	9,732		
Roane State Community College		2,645	6,984		
Southwest Tennessee Community College		2,679	9,701		
Volunteer State Community College		2,625	9,665		
Walters State Community College		2,627	9,702		

Source: Comptroller of the Treasury,  
Division of Bond Finance

STATE OF TENNESSEE  
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION  
COMPONENT UNITS  
COLLEGE AND UNIVERSITY FUNDS  
JUNE 30, 2007

Schedule 17

<u>Institution</u>	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	\$ 6,885	\$ 274,342	\$ 77,582	\$ 45	\$ 358,854
Austin Peay State University		35,480	969		36,449
East Tennessee State University	81	31,232	29,060	2,070	62,443
Middle Tennessee State University	186	89,001	35,326		124,513
Tennessee State University	730	37,045	925		38,700
Tennessee Technological University	48	11,282	4,538		15,868
University of Memphis	92	53,546	1,911		55,549
Chattanooga State Technical Community College		1,050	2,288		3,338
Cleveland State Community College		466			466
Columbia State Community College		106			106
Dyersburg State Community College		320			320
Jackson State Community College		461			461
Motlow State Community College		471			471
Nashville State Technical Community College		55	780		835
Northeast State Technical Community College		913			913
Pellissippi State Technical Community College		1,489			1,489
Roane State Community College		2,071			2,071
Southwest Tennessee Community College		1,347			1,347
Volunteer State Community College		440			440
Walters State Community College		1,584			1,584
	<u>\$ 8,022</u>	<u>\$ 542,701</u>	<u>\$ 153,379</u>	<u>\$ 2,115</u>	<u>\$ 706,217</u>

Source: Comptroller of the Treasury,  
Division of Bond Finance



## SECURITIES & EXCHANGE COMMISSION DISCLOSURES

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# ACKNOWLEDGMENTS

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## DEPARTMENT OF FINANCE AND ADMINISTRATION DIVISION OF ACCOUNTS

### CHIEF OF ACCOUNTS

JAN SYLVIS, CPA\*

### CASH MANAGEMENT

ANNETTE WHITE  
JOHN BONO  
LYNN CUMMINGS, CPA  
TERRI RACARD

### POLICY DEVELOPMENT

JACK HILL  
TAMMY WORLEY

### PAYROLL

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

### PAYROLL CALL CENTER

KRISTI HUFFINE  
JOYCE LINDAMOOD  
CARLA SEALE  
GEAN WHITE  
REGINA WILLHITE

### REVENUE MAXIMIZATION

DOTTIE HAGOOD  
CHRISTA MARTIN

## STATE-WIDE ACCOUNTING

### ADMINISTRATION

MIKE CORRICELLI, CPA\*  
RHONDA HICKS, CPA  
MICKI LINDSLEY, CPA\*  
TERRY MASON  
JUANITA MCCRARY  
DA NORM  
TONYA VANTERPOOL

### FINANCIAL CONTROL

RICHARD NICKS, CPA  
LINDA DWIGGINS  
TAMMY HARSH  
TARA LEWIS  
JAN OSBORNE  
FRANCINE VAUGHN  
DEBORAH WOODALL

### REPORTING

DON SHELTON  
NANCY CHECK  
DONNA NICELY  
ROB PACK  
MARGARET WAYNICK  
WANDA WILSON  
SHERITA WOODS

### STARS DEVELOPMENT

DAVID DEALY  
GEORGE CROSSWHITE  
VIVIAN KAAIHUE  
CINDY RITTENBERRY  
LISA WELLS  
KEN WINTER, CPA, Inactive

### FINANCIAL OVERSIGHT

DIANNE MCKAY, CPA\*  
IKE BOONE\*  
ANN COLLETT, CPA\*  
KRISTI COUCH, CPA, Inactive\*  
MICHELLE EARHART, CPA\*  
MICHELLE ELLIOTT, CPA\*  
JENNIFER LEWIS\*  
TAMMY MILLER, CPA  
RANDY ROSS\*  
ELAINE WERNER, CPA\*

### PRE-AUDIT

LARRY PERRY, CPA  
GEORGE BALBALOSA  
TOM CAREY  
BECKY CARTER  
DORINDA COLEMAN  
STEPHANIE FRENCH  
CLARISA GOMEZ  
KURT HERRON  
LAURA POOLE  
RICHARD REESE

### GENERAL LEDGER

TRACY BROWN  
CORA LEE DAUGHERTY  
WANDA DRIGGERS  
SUZE GAFFORD  
LINDA MILLER  
SHAWANNA NORMAN  
JENNIFER PEARSON, CPA, Inactive  
HELEN THOMAS  
GLENDA TIDWELL

**\*PREPARER OF COMPREHENSIVE ANNUAL FINANCIAL REPORT**