Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

TN

Tennessee State Government

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2015

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2015

BILL HASLAM, Governor

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

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

Front Cover: Tennessee State Capitol, Nashville, TN
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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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INTRODUCTORY SECTION

TN Department of Finance & Administration

December 29, 2015

Governor,
Members of the General Assembly,
Citizens of the State of Tennessee

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the state of Tennessee for the fiscal year ended June 30, 2015. This report is prepared and submitted by the Department of Finance and Administration as part of its responsibility under Tennessee Code Annotated 4-3-1007 to maintain a system of general accounts embracing all the financial transactions of state government.

The CAFR is the primary means of reporting the state of Tennessee's financial activities. Its objective is to provide a clear picture of our government as a single comprehensive reporting entity. Consisting of management's representations concerning the state of Tennessee's finances, management assumes full responsibility for the completeness and reliability of the information presented. To provide a reasonable basis for the making of these representations, the state's management has established a comprehensive internal control framework that is designed to protect the state's assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of this report in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Because the cost of internal controls should not outweigh their benefits, Tennessee's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement. Information presented in these financial statements is therefore believed to be accurate in all material respects, and all disclosures have been included that are necessary to enable the reader to obtain a thorough understanding of the state's financial activities.

We would like to direct your attention toward two important items contained in this CAFR. The first item is the Management Discussion and Analysis (MD&A) that follows the Independent Auditor's Report. Complementing this letter, MD&A is designed to give you, the reader, an overview of the state's financial position, described in understandable terms, in order to help you better understand the results of operations of your state government. Secondly, we would like to direct your attention to the Basic Financial Statements (BFS) which follow the MD&A. The BFS contain government-wide statements that present the state's financial activities in a manner similar to that of a private corporation; fund statements that report governmental, proprietary, fiduciary fund financial activity; component unit financial activity; and note disclosures that explain and enhance the basic financial statements.

The state of Tennessee Comptroller of the Treasury, Department of Audit, has examined the accompanying financial statements, and issued an unmodified opinion, the most favorable out come of the audit process. The Department of Audit is considered by federal and state government to be independent auditors, and its report is located at the front of the Financial Section of this report. The audit described in the auditor's report is not intended to meet all requirements of the Federal Single Audit Act. Rather, the Single Audit Report for the state is issued under separate cover.

State Profile

Tennessee became the 16th state of the union in 1796. It is just 112 miles north to south, but stretches 432 miles from the Appalachian Mountains boundary with North Carolina in the east to the Mississippi River borders with Missouri and Arkansas in the west.

Geographically, culturally, economically, and legally divided into three Grand Divisions (East Tennessee, Middle Tennessee, and West Tennessee), the U.S. Census Bureau, as of 2014, estimates Tennessee's population at 6.5 million, making it the 17th most populous of the 50 United States. Providing natural beauty, a mild climate, urban conveniences and rural peacefulness, Tennessee is legendary for breathtaking landscapes, and has played a critical role in the development of many forms of American popular music, including rock and roll, blues, country and rockabilly.

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

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

The state and its component units provide a wide range of services and funding to the citizens of Tennessee, including education; health and human services; economic development; environmental and natural resources; public safety, corrections, and regulation; transportation; agriculture; and general government services. The financial activities associated with these services are reflected in both summary and detail throughout the CAFR.

Tennessee's constitution requires the state to maintain a balanced budget, and state legislation grants the governor the authority and duty to develop and submit to the General Assembly a recommended budget. Preparation of the governor's annual budget for the state of Tennessee is the responsibility of the Commissioner of Finance and Administration, who is the state budget director. Within the Department of Finance and Administration, the Division of Budget is responsible for budget development using the modified accrual basis of accounting. (Annual budgets are adopted for the departments in the general fund and special revenue funds [except Fraud and Economic Crime and Agricultural Promotion Boards], and for the debt service fund.)

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

Information Useful in Assessing Tennessee's Economic Condition

Local economy

Health care services and automobile manufacturing lead Tennessee's economy. The state also has a long history with entertainment, including the music industry, which continues to have a place in the economy. Tourism is strong in metropolitan areas such as Nashville, Memphis and Chattanooga, as well as in pockets of the state with recreational areas. Technology is also making its mark, particularly in Nashville and Chattanooga, where startups are launching with the help of venture capitalists.

With several initiatives underway to help ensure that Tennessee is well-positioned for the workforce challenges of today's global market economy, current economic indicators are encouraging:

Economic Indicator	Estimate	Change from 1 Year Ago
Non-farm Employment (September 2015)	2,877,000	+46,700
Private Sector Employment (September 2015)	2,450,000	+251,000
Unemployment Rate (September 2015)	5.7%	-0.9%
Labor Force (September 2015)	3,043,046	+58,030
Personal Income (2015Q2)	$273.9 Million	+$8.7 Million*
Personal Income Per Capita (2015Q2)	$41,532	+$1,000*
Real GDP (2014)	$275.8 Billion	+$4.6 Billion
Exports (2014)	$32,940,171,718	+2.0%
New Business Entity Filings (2015Q2)	8,317	+9.9%
*Inflation-Adjusted to 2015 dollars		

Sources: TN Department of Labor and Workforce Development; U.S. Bureau of Economic Analysis;
U.S. Census Bureau; International Trade Administration; U.S. Department of Commerce; TN Secretary of State

In addition, long-term growth patterns showing the sustainability of Tennessee's economy include state Gross Domestic Product (GDP) growth of above 2 percent from 2010-2014, driven by durable goods GDP growth of 30 percent, and outperforming U.S. GDP growth of 1.89 percent. Also,

- Tennessee ranked No. 12 in the U.S. in nonfarm employment growth between June 2009 and August 2015. The state's 10.4 percent growth beat the 8.7 percent U.S. average and was higher than any of the eight surrounding states.
- Among Southeastern states, Tennessee's state and local taxes as a percentage of personal income are the lowest, except possibly for Florida. Both are slightly above 8 percent, below the overall U.S. rate of 10.5 percent.
- Both payroll employment and initial unemployment insurance claims have slowly returned to pre-recession levels and continue to show signs of improvement.

While Tennessee has now enjoyed more than five years of growth since the end of the Great Recession in 2009 and its economic recovery continues to be in full swing, it recognizes that an important ingredient to long-term economic growth is the quality of the labor force (i.e. education, skill level, and health), and that education and health data show Tennessean's are below the national average. Accordingly, Tennessee is working hard to ensure a strong workforce through a focus on workforce development. The state, for example, is aiming to create more educated and skilled workers with its Drive to 55 Alliance. An initiative to raise the percentage of Tennesseans with a certificate or degree beyond high school from 32 to 55 by the year 2025, the program works to identify and close gaps in the state's workforce.

Long-term financial planning and relevant financial policies

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

  For employees hired after June 30, 2014, Tennessee replaced the traditional defined benefit where financial risk was borne entirely by the employer. For these employees, the defined benefit plan was replaced with a combination of a defined benefit plan and a defined contribution plan. The new hybrid plan includes greater controls over employer costs and unfunded liabilities. Accordingly, a bifurcated pension plan is now in place. A defined benefit legacy plan remains in force for employees hired before July 1, 2014.

- The General Assembly passed legislation in 2015 amending the insurance committee statutes for the state sponsored public sector insurance plans to modernize employee health insurance benefits for current, former and future employees. The aim of the legislation is to ensure fiscal integrity and sustainability of the health insurance benefit and contribute to a market-competitive total compensation package. To assist in the mitigation of other postemployment benefits (OPEB) liabilities, this legislation includes provisions to eliminate retiree insurance and the associated subsidies for state, higher education, local education and local government employees first hired, and elected officials first elected, after July 1, 2015; and, requires the establishment of an investment trust for purposes of pre-funding OPEB accrued by employees of the state, with initial funding from appropriations made in the general appropriations act.

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

- Tennessee's financial operations are conservative and its budget is consistently balanced. The state addressed recessionary weakness by repeatedly cutting recurring spending and by using one-time resources, including federal stimulus and state reserve balances, to maintain budget equilibrium.

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

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

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

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

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

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

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

Major initiatives

With Tennessee's commitment to education making a difference (as noted in MD&A, Tennessee is the fastest improving state in the country in academic achievement), many of the state's initiatives continue to focus on creating opportunity for more people to be prepared for the jobs of the future. Education, both K – 12 and higher education have been made top priorities from a policy standpoint and through Tennessee's budget. In fact, state spending on K – 12 education over the past four years has increased at a rate more than double the national average.

Notable examples of recent education related initiatives include:

- As part of the previously mentioned Drive to 55 initiative, launched in 2012, funding has provided for programs like the Veteran Reconnect Grant (a competitive grant focused on improving the success of student veterans enrolled in Tennessee colleges and universities) and Tennessee Reconnect (a last-dollar scholarship program allowing an adult to attend a Tennessee College of Applied Technology (TCAT) free of tuition and fees), as well as for new equipment at TCATs to meet job training demands across Tennessee.

- The Seamless Alignment and Integrated Learning Support (SAILS) program gives students who need extra support in math that attention during their senior year in high school so that they can avoid remediation when they enter college. Tennessee families have already saved millions of dollars in tuition as a result of students completing needed remediation while in high school as a part of this program.

- The Educator Protection Act was passed in 2015 as part of a budget initiative to support educators and work with them as professionals who are shaping the future. The act creates the Tennessee Educator Liability Fund, which will provide liability insurance coverage to individuals and protect against damages or claims arising out of the performance of their work and within the scope of their employment or assignment. All public school teachers, and student teachers assigned to public schools will be covered. Through a conservative and responsible investment, the state is providing this added assurance to those who dedicate their lives to serving our children, schools, and state.

In addition to education, top priorities for Tennessee remain making Tennessee the No. 1 location in the Southeast for high quality jobs, and having a customer-focused, efficient and effective state government that provides Tennessee taxpayers with the highest quality of service at the lowest possible cost.

- As further explained in MD&A, efforts continue to attract new corporate investment in Tennessee, as well as help existing communities develop dynamic, diverse economies and thriving communities.

- As part of its effort to provide citizens with more electronic services, better web interfacing, and easier ways of doing business with the state, Tennessee's Enterprise IT Transformation (EIT) initiative was recently launched. The purpose of this initiative is to transform IT at an enterprise level by unifying like functions and resources. Not intended to generate cost savings, this transformation is about improving technology and the state's ability to effectively use it; and, providing career opportunities for IT staff to better recruit and maintain the best staff possible.

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, 2014. This was the thirty-fifth year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

The state also received GFOA's Distinguished Budget Presentation Award for its Annual Budget beginning July 1, 2014. Prepared by the Department of Finance and Administration's Division of Budget, this was the twenty third time the state's budget publications have received this award by meeting program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

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

Respectfully submitted,

Larry B. Martin
Commissioner

Mikel J. Corricelli
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2015

- General Assembly
  - Speaker of The House, Beth Harwell
  - Speaker of The Senate, Ron Ramsey
  - Secretary of State, Tre Hargett
  - Comptroller of the Treasury, Justin P. Wilson
  - State Treasurer, David H. Lillard, Jr.
- Governor, Bill Haslam
  - Department of Agriculture, Julius Johnson
  - Department of Children's Services, James M. Henry
  - Department of Commerce and Insurance, Julie Mix McPeak
  - Department of Correction, Derrick D. Schofield
  - Department of Economic and Community Development, Randy Boyd
  - Department of Education, Dr. Candice McQueen
  - Department of Environment and Conservation, Robert Martineau
  - Department of Finance and Administration, Larry B. Martin
  - Department of Financial Institutions, Greg Gonzales
  - Department of General Services, Bob Oglesby
  - Department of Health, John J. Dreyzehner
  - Department of' Human Resources, Rebecca Hunter
  - Department of Human Services, Dr. Raquel Hatter
  - Department of Intellectual & Developmental Disabilities, Debra K. Payne
  - Department of Labor And Workforce Development, Burns Phillips
  - Depart. Of Mental Health & Substance Abuse Services, E. Douglas Varney
  - Department of Military, Major General Max Haston
  - Department of Revenue, Richard H. Roberts
  - Department of Safety and Homeland Security, Bill Gibbons
  - Department of Tourist Development, Kevin Triplett
  - Department of Transportation, John Schroer
  - Department of Veterans Affairs, Many-Bears Grinder
  - Agencies, Boards, Commissions, and Councils
- Supreme Court Chief Justice, Sharon G. Lee
  - Attorney General, Herbert H. Slatery III
  - Court of Appeals
  - Court of Criminal Appeals
    - Chancery Courts
    - Probate Courts
    - Circuit Courts
    - Criminal Courts

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Tennessee

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2015, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4, the State of Tennessee implemented Governmental Accounting Standards Board Statement (GASBS) 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, and GASBS 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

As discussed in Note 5, the financial statements of the Tennessee Consolidated Retirement System, pension trust funds, include investments valued at $4.7 billion (10.83 percent of pension and other employee benefit trust funds net position), and the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $473.9 million (6.70 percent of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 29, 2015, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Tennessee's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 29, 2015

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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, 2015. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 2-8 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Position–The assets and deferred outflows of resources of the state exceeded its liabilities and deferred inflows of resources at June 30, 2015, by $31.9 billion (net position). Of this amount, $3.4 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $27.4 billion represents *net investment in capital assets*.

  Changes in Net Position–As a result of implementing GASB Statement 68, *Accounting and Financial Reporting for Pensions*, the state adjusted beginning unrestricted net position for governmental activities as a result of recording a $289 million pension deferred outflow of resources and a $1.4 billion net pension liability, which is the primary reason for a $1.1 billion adjustment (decrease) to the beginning unrestricted net position in fiscal year 2015. See Note 4 on page 57. After adjustments, the state's total net position for fiscal year 2015 increased by $1.4 billion. This increase was largely the result of a decrease in the pension liability of $918 million and an increase in infrastructure.

  Component units–Component units reported total net position of $7.1 billion, an increase of $395 million.

- **Fund Level:**

  At June 30, 2015, the state's governmental funds reported combined ending fund balances of $4.8 billion, an increase of $374 million (see discussion on page 20) compared to the prior year. Of the combined fund balance, approximately $3.6 billion is spendable unrestricted (committed, assigned or unassigned) fund balance and is available for spending at the government's discretion or upon legislative approval; however, $492 million of this amount is set aside in a revenue fluctuation account (rainy day fund).

- **Long-Term Debt:**

  The state's total debt decreased by $162.701 million during the fiscal year to total $2.158 billion. This change primarily results from the retirement of outstanding commercial paper from debt proceeds that were previously reported as unspent at June 30, 2015. The bonds were initially sold to be spent directly on certain projects and were subsequently reallocated to retire commercial paper.

USING THIS ANNUAL REPORT

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

Reporting the State as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the State's Most Significant Funds

Fund financial statements

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

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

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

Notes to the financial statements. Notes to the financial statements are also included and provide essential information to understand the financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. Some information is provided for significant component units. The notes to the financial statements can be found on pages 45-127.

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the state, assets and deferred outflows of resources exceeded liabilities and deferred inflow of resources by $31.9 billion as of June 30, 2015.

By far, the largest portion of the state's net position (85.9 percent) reflects its net investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment, construction in progress and software in development), less any related debt and deferred outflows of resources used to acquire those assets that is still outstanding. The state uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the state's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
Current and other assets	$ 7,347,403	$ 7,164,197	$ 2,540,155	$ 2,377,111	$ 9,887,558	$ 9,541,308
Capital assets	28,082,774	27,515,983			28,082,774	27,515,983
Total assets	35,430,177	34,680,180	2,540,155	2,377,111	37,970,332	37,057,291
Deferred outflows of resources	334,238	63,773			334,238	63,773
Current and other liabilities	1,686,025	1,809,064	111,847	104,682	1,797,872	1,913,746
Noncurrent liabilities	3,853,778	3,537,596	7,778	7,682	3,861,556	3,545,278
Total liabilities	5,539,803	5,346,660	119,625	112,364	5,659,428	5,459,024
Deferred inflows of resources	700,639				700,639	
Net position:						
Net investment in capital assets	27,432,234	26,855,523			27,432,234	26,855,523
Restricted	1,150,817	1,242,324			1,150,817	1,242,324
Unrestricted	940,922	1,299,446	2,420,530	2,264,747	3,361,452	3,564,193
Total net position	$ 29,523,973	$ 29,397,293	$ 2,420,530	$ 2,264,747	$ 31,944,503	$ 31,662,040

* The 2014 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2014 amounts was not available. See Note 4.

An additional portion of the state's net position (3.60 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position ($3.4 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted. Primarily as a result of a decrease in the net pension obligation, unrestricted net position increased by $918.3 million (38 percent) after prior period adjustments are made, see Note 4.

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

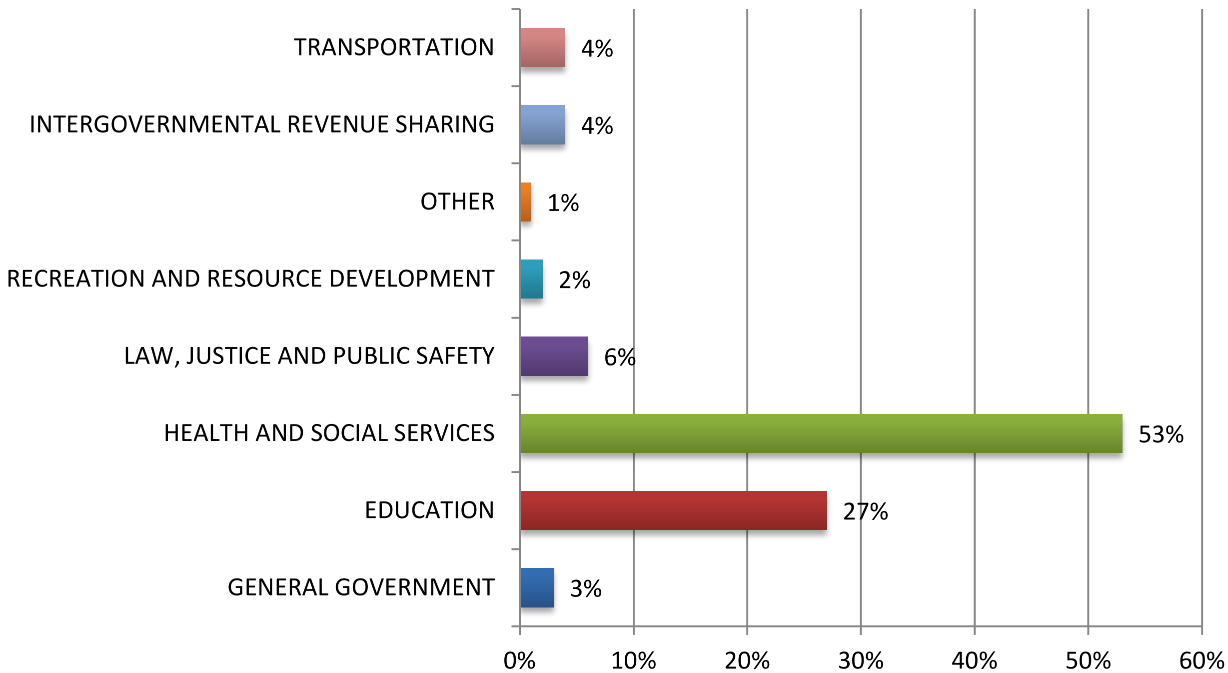
State of Tennessee
Changes in Net Position
For the Fiscal Year Ended June 30
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
Revenues:						
Program revenues:						
Charges for services	$ 2,323,866	$ 2,125,114	$ 934,339	$ 978,079	$ 3,258,205	$ 3,103,193
Operating grants and contributions	11,291,412	11,355,859	64,053	134,026	11,355,465	11,489,885
Capital grants and contributions	727,573	762,251			727,573	762,251
General revenues:						
Sales Taxes	7,713,695	7,276,443			7,713,695	7,276,443
Other taxes	5,917,859	5,432,661			5,917,859	5,432,661
Other	230,185	228,217			230,185	228,217
Total revenues	28,204,590	27,180,545	998,392	1,112,105	29,202,982	28,292,650
Expenses:						
General government	858,569	959,641			858,569	959,641
Education	7,302,492	7,383,077			7,302,492	7,383,077
Health and social services	14,258,216	13,912,421			14,258,216	13,912,421
Law, justice and public safety	1,522,333	1,612,248			1,522,333	1,612,248
Recreation and resources development	666,997	646,781			666,997	646,781
Regulation of business and professions	175,667	158,644			175,667	158,644
Transportation	1,126,447	1,126,744			1,126,447	1,126,744
Intergovernmental revenue sharing	980,258	897,312			980,258	897,312
Interest on long-term debt	60,622	67,520			60,622	67,520
Payments to fiduciary funds	400	827			400	827
Employment security			289,415	451,470	289,415	451,470
Insurance programs			556,634	541,205	556,634	541,205
Loan programs			1,493	1,469	1,493	1,469
Other			68	76	68	76
Total expenses	26,952,001	26,765,215	847,610	994,220	27,799,611	27,759,435
Increase in net position before contributions and transfers	1,252,589	415,330	150,782	117,885	1,403,371	533,215
Transfers	(8,046)	(4,622)	8,046	4,622		
Contributions to permanent funds	136	547			136	547
Increase (decrease) in net position	1,244,679	411,255	158,828	122,507	1,403,507	533,762
Net position, July 1	28,279,294	28,986,038	2,261,702	2,142,240	30,540,996	31,128,278
Net position, June 30	$ 29,523,973	$ 29,397,293	$ 2,420,530	$ 2,264,747	$ 31,944,503	$ 31,662,040

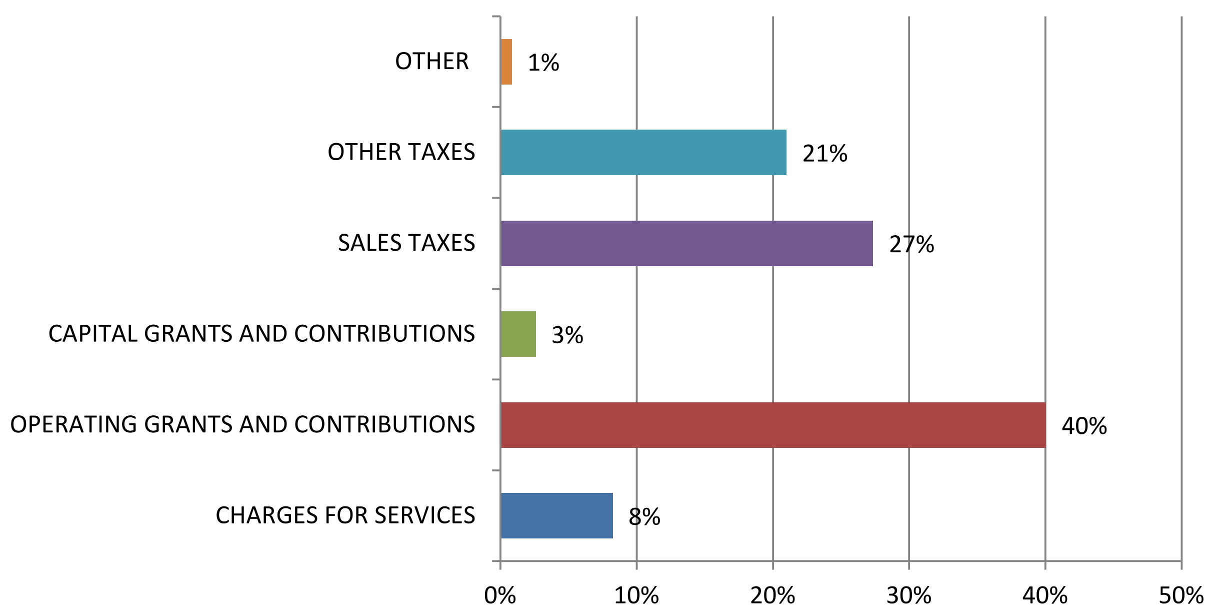
* The 2014 amounts presented here have not been restated for prior period adjustments. Complete information necessary to fully restate the 2014 amounts was not available. See Note 4.

Governmental activities. Net position of the state's governmental activities increased by $1.2 billion (4 percent). This increase accounts for 88.7 percent of the total increase in net position of the primary government and is primarily the result of the capitalization of $418.8 million in expenses related to roadways and bridges and not recording depreciation expense for these assets as well as a decrease in the state's net pension obligation of $918 million.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net position of the state's business-type activities increased by $158.83 million (7 percent). The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net position of $121.349 million. The Employment Security fund increase is due to a decrease in unemployment benefits paid combined with a smaller decrease in operating grants received. The Sewer Treatment Loan program increase is primarily due to increased operating grants received and loaned out during the year. The Nonmajor Enterprise funds' activity resulted in a $37.5 million increase in net position which in large part, is attributable to increases in premiums charged to participants' of the Teacher and Local Government Group Insurance funds. Expenses remained relatively unchanged in these two enterprise funds.

THE STATE'S FUNDS

At June 30, 2015, governmental funds reported an increase in total revenues and in total expenditures. Details are in the following paragraphs. The revenue fluctuation account (rainy day fund) reported as unassigned fund balance has been increased to $492 million or 2 percent of the general fund's expenditures.

The general fund reported a $486 million increase in fund balance. Business taxes increased by $449 million, sales tax increased by $187 million and income and privilege tax collections increased by approximately $114 million. These tax revenue increases were offset by an increase of $413 million in expenditures in the Health and Social Services function primarily from TennCare medical services which provides for services under the Medicaid waiver program. Offsetting those medical service expenditures however were state matching funds for the program from the federal government.

The education fund revenues and transfers decreased overall approximately by $91 million while expenditures decreased by $41.9 million. The decrease in expenditures was mainly due to cost increases that were provided for in the prior fiscal year that were non-recurring.

The overall fund balance increased in the education fund by $31.7 million. The majority of this increase is restricted to provide student financial assistance.

The highway fund revenues decreased $119.9 million and expenditures decreased $38.9 million. Revenues decreased primarily as a result of a decrease in federal funds and expenditures decreased because fewer new projects were started during the fiscal year.

The total plan net position of the pension trust funds are $43.2 billion, an increase of approximately $.3 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $1.3 billion.

General Fund Budgetary Highlights

Federal revenue collections were significantly below estimated levels due to the timing difference of the actual expenditures and appropriation of multi–year projects in Community Development programs, TennCare and the Department of Environment and Conservation. Another significant factor contributing to the under collection in federal revenues was the unexpected drop in expenditures in the TennCare Managed Care Organization program and for pharmacy utilization. Also contributing to the significant variance between estimated and actual federal revenue was an unexpected drop in demand for services in the state's Temporary Assistance for Needy Families (TANF) program and in Supplemental Nutrition Assistance Program (SNAP) caseloads which are significantly funded with federal revenue. TANF had approximately a 20,000 decrease in participants and SNAP has seen a decrease in monthly recipients of approximately 88,500.

Actual expenditures in the TennCare program, the Legislative offices, Miscellaneous Appropriations, Labor and Workforce Development, and Economic and Community Development were significantly less than what was projected in the final budget primarily due to unexpended reserved amounts and multi–year projects that were appropriated in the current year. Unspent allotments were non–lapsing and carried forward into the next fiscal year. There was a favorable variance between budgeted and actual expenditures for the Department of Human Services due to an unexpected decrease in participants seeking services under the TANF and SNAP programs as previously mentioned. The Department of Health also saw a decrease in expected expenditures due to a decrease (approximately 200,000) in patient encounters at local health departments.

Capital Asset and Debt Administration

Capital Assets

The state's investment in capital assets at June 30, 2015, of $28.1 billion, net of $1.8 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
(Expressed in Thousands)

	Governmental Activities	
	2015	2014
Land	$ 2,172,266	$ 2,097,270
Infrastructure	23,049,536	22,630,755
Construction in progress	1,120,501	999,670
Structures and improvements	2,473,410	2,481,209
Machinery and equipment	1,010,205	965,038
Software in development	58,680	50,325
Subtotal	29,884,598	29,224,267
Accumulated depreciation	(1,801,824)	(1,708,284)
Total	$ 28,082,774	$ 27,515,983

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 2014 to 2015 by approximately 2.3 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $418.8 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $519.8 million and decreased (projects completed and capitalized) by $449.4 million. Infrastructure right-of-way acreage increased the land classification by $62.2 million. The change in machinery and equipment of $45.2 million resulted primarily from a $10.3 million mobile equipment upgrade for the Department of Transportation and a $19.5 million increase that resulted from system projects that were placed in operation and are now classified as equipment. The state had several system projects in the application development stage, resulting in the capitalization of $27.6 million in new software development costs.

In accordance with generally accepted accounting principles, the state is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The state is responsible for approximately 14,000 miles of roadway and 8,347 bridges. Differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at targeted condition levels and the actual amounts of expense incurred for that purpose during the fiscal period are the results of timing differences. The budgeting process and the fact that projects are started at different times during the year and take more than 12 months to complete, results in spending in one year amounts that were budgeted in a previous fiscal year(s).

The decision to use the modified approach was essentially made because the state has consistently maintained its infrastructure in what it considers to be a good condition. The most recent condition assessment, which is discussed in more detail in the Required Supplementary Information section (Page 130), indicated that bridges were rated at 9 points above the state's established condition level and roadways were 12 points above the state's benchmark level. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the 2014-2015 fiscal year reflects a $194.5 million decrease from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $52.4 million for infrastructure related to the new Hankook Tire Plant, $129.16 million for higher education projects and $4 million to construct a new veteran's home, and various upgrades to state facilities.

Debt Administration

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

Purpose	Unissued June 30, 2015
Highway	$ 874,900
Higher Education	617,362
Environment and Conservation	13,577
Economic and Community Development	275,200
General Government	306,606
Total	$2,087,645

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

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

	Governmental Activities	
	June 30, 2015	June 30, 2014
Bonds, net	$ 1,960,437	$ 1,996,458
Commercial Paper	197,686	324,366
Total	$ 2,158,123	$ 2,320,824

The state issued $111.065 million in tax-exempt general obligation bonds during the fiscal year to redeem commercial paper, which is used to finance capital projects on a short term basis, and to directly finance other capital projects. The state also issued $79.160 million of tax-exempt general obligation refunding bonds to provide for the advance refunding of $84.135 million of general obligation bonds. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The state has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The state's bonds are rated AAA, Aaa, and AA+ by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to a maximum allowable debt service limitation based on a percentage of tax revenues allocated to the general fund, highway fund and debt service fund. As of June 30, 2015, the state's maximum allowable debt service of $637.424 million was well above the maximum annual debt service of $225.620 million, with a legal debt service margin of $411.804 million.

FACTORS THAT WILL AFFECT THE FUTURE

The state budget for 2015-16 includes funding for EmPower TN, an initiative to reduce energy costs and consumption in buildings owned and managed by the state of Tennessee. By measuring and controlling energy use, investing in energy efficiency and renewable power generation and creating an operational environment of excellence, EmPower TN will develop a sustainable path toward utility savings of $54 million annually for the state.

While the focus of EmPower TN will be state-owned and managed facilities, the hope is that this program will be a model and training tool for our local Tennessee governments and will attract the support of private and nonprofit organizations interested in promoting energy conservation, clean energy, renewable energy and sustainable development.

In October, 2015 it was announced that the state would be investing $8 million in a new Rural Economic Development Fund to build capacity for transformative economic development strategies in rural Tennessee.

The Rural Economic Development Fund will provide an initial $6 million for Site Development Grants for communities to help move economic development sites to shovel-ready status as part of the state's nationally recognized Select Tennessee Site Certification program. The new initiative will also fund $1 million in grants for the enhancement of tourism sites in rural communities as well as $600,000 for additional ThreeStar community grants including a Main Street Business Incubator program for downtown business districts.

Business Facilities, a leading national publication focused on site selection and economic development, has named Tennessee its 2014 State of the Year for a second consecutive year. Tennessee becomes the first state in the award's history to win back-to-back honors for economic development efforts and the first state to win the designation three times, winning in 2014, 2013 and 2009.

Moving toward the goal of making Tennessee the No. 1 location in the Southeast for high quality jobs, nearly 225,000 new private sector jobs have been created in Tennessee since 2011. Some notable recent economic development projects include:

- LEDIC Realty Company will locate its new national headquarters in Memphis. LEDIC, a fully integrated manager, owner, and developer of multifamily properties across the United States, will invest $10.2 million in a new state-of-the-art facility and create 300 jobs in Tennessee.

- Lifetime Products, Inc. will locate new manufacturing and distribution operations in Knox County. The leader in blow-molded plastic products will invest $115 million and create 500 jobs.

- Sinomax Group will locate new manufacturing operations in La Vergne. Sinomax, a foam products manufacturer and distributor, will invest $28 million and create 350 jobs in Davidson County, the largest jobs commitment made from a Chinese-owned company in Tennessee's history.

- Advanced Munitions International will build a global headquarters and state-of-the-art munitions manufacturing facility in Alcoa's Partnership Park. AMI will invest $553 million in a campus for its manufacturing, distribution and research-and-development operations, creating 605 new jobs. AMI is known in the firearms industry for specially formulated ammunition that employs proprietary technology. AMI supplies ammunition to the military, law enforcement and civilian markets.

Believing that getting education right is critical to the well-being of our state, today and in the future, Tennessee leads the country in academic achievement gains and through the Tennessee Promise is the first state ever to promise high school graduates two years at a community or technical college free of tuition and fees.

According to the 2015 National Assessment of Educational Progress (NAEP), commonly known as the Nation's Report Card, Tennessee students are still the fastest improving in the nation since 2011. The NAEP tests assess students in fourth- and eighth-grade reading and math. All 50 states have taken NAEP since 2003, and the results are regarded across the country as the best way to compare educational outcomes across states.

Effective May 26, 2015 the state adopted the State of Tennessee Voluntary Buyout Program to facilitate the effective and efficient operation of state government by reducing staffing levels and also reducing or avoiding involuntary layoffs. Intended to provide departments flexibility in their ongoing focus on process improvement, the voluntary separation date for most employees was July 31, 2015. Please refer to Note 6J for more details.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

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STATE OF TENNESSEE

Statement of Net Position

June 30, 2015

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Total Component Units
ASSETS				
Cash and cash equivalents	$ 4,566,271	$ 892,397	$ 5,458,668	$ 2,276,605
Cash on deposit with fiscal agent	-	924,449	924,449	-
Investments	296,522	-	296,522	315,832
Receivables, net	1,952,379	184,052	2,136,431	383,040
Internal balances	1,053	(1,053)	-	-
Due from primary government	-	-	-	38,965
Due from component units	106,081	7	106,088	-
Inventories, at cost	26,972	-	26,972	10,292
Prepayments	292	-	292	17,283
Loans receivable, net	17,106	540,303	557,409	3,717,235
Net investment in capital leases	10,197	-	10,197	-
Fair value of derivatives	-	-	-	832
Other	-	-	-	6,128
Restricted assets:				
Cash and cash equivalents	9,149	-	9,149	580,295
Investments	361,381	-	361,381	1,790,914
Receivables, net	-	-	-	322,733
Net pension assets	-	-	-	12,758
Capital assets:				
Land, at cost	2,172,266	-	2,172,266	226,806
Infrastructure	23,049,536	-	23,049,536	585,555
Structures and improvements, at cost	2,473,410	-	2,473,410	5,421,356
Machinery and equipment, at cost	1,010,205	-	1,010,205	1,075,823
Less-accumulated depreciation	(1,801,824)	-	(1,801,824)	(3,007,756)
Construction in progress	1,120,501	-	1,120,501	741,207
Software in development	58,680	-	58,680	-
Total assets	35,430,177	2,540,155	37,970,332	14,515,903
DEFERRED OUTFLOWS OF RESOURCES	334,238	-	334,238	215,029
LIABILITIES				
Accounts payable and other current liabilities	1,348,115	86,408	1,434,523	520,238
Due to primary government	-	-	-	106,088
Due to component units	38,922	43	38,965	-
Unearned revenue	298,988	25,396	324,384	192,182
Other	-	-	-	29,729
Noncurrent liabilities:				
Due within one year	276,640	-	276,640	334,919
Due in more than one year	3,577,138	7,778	3,584,916	6,173,605
Total liabilities	5,539,803	119,625	5,659,428	7,356,761
DEFERRED INFLOWS OF RESOURCES	700,639	-	700,639	298,879
NET POSITION				
Net investment in capital assets	27,432,234	-	27,432,234	3,514,628
Restricted for:				
Student financial assistance	135,064	-	135,064	-
Natural and wildlife resources	72,898	-	72,898	-
Capital projects	9,149	-	9,149	95,763
Single family bond programs	-	-	-	426,741
Regulatory activities	67,958	-	67,958	-
Other	143,871	-	143,871	668,230
Permanent and endowment funds				
Expendable	211,864	-	211,864	187,528
Nonexpendable	510,013	-	510,013	1,040,490
Unrestricted	940,922	2,420,530	3,361,452	1,141,912
Total net position	$ 29,523,973	$ 2,420,530	$ 31,944,503	$ 7,075,292

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, 2015

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government:				
Governmental activities:				
General government	$ 858,569	$ 787,280	$ 56,873	$ 1,403
Education	7,302,492	58,961	1,546,848	-
Health and social services	14,258,216	957,133	9,209,027	185
Law, justice and public safety	1,522,333	137,905	134,397	5,025
Recreation and resources development	666,997	153,788	186,809	2,929
Regulation of business and professions	175,667	182,959	909	-
Transportation	1,126,447	45,840	156,549	718,031
Intergovernmental revenue sharing	980,258	-	-	-
Interest	60,622	-	-	-
Payments to fiduciary fund	400	-	-	-
Total governmental activities	26,952,001	2,323,866	11,291,412	727,573
Business-type activities:				
Employment security	289,415	343,808	17,885	-
Insurance programs	556,634	581,436	180	-
Loan programs	1,493	8,865	45,986	-
Other	68	230	2	-
Total business-type activities	847,610	934,339	64,053	-
Total primary government	$ 27,799,611	$ 3,258,205	$ 11,355,465	$ 727,573
Component units:				
Higher education institutions	$ 4,395,819	$ 1,712,502	$ 1,578,143	$ 209,286
Loan programs	736,677	204,811	451,586	-
Lottery programs	1,372,537	1,372,424	34	-
Other	51,740	45,782	3,495	13,899
Total component units	$ 6,556,773	$ 3,335,519	$ 2,033,258	$ 223,185
General revenues:				
Taxes:				
Sales and use				
Fuel				
Business				
Other				
Payments from primary government				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Miscellaneous				
Contributions to permanent funds				
Transfers				
Total general revenues, contributions, and transfers				
Change in net position				
Net position, July 1				
Net position, June 30				

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

STATE OF TENNESSEE
Statement of Activities
For the Year Ended June 30, 2015
(Expressed in Thousands)

Net (Expense) Revenue and Changes in Net Position — Primary Government			
Governmental Activities	**Business-Type Activities**	**Total Primary Government**	**Component Units**
$ (13,013)	$ -	$ (13,013)	$ -
(5,696,683)	-	(5,696,683)	-
(4,091,871)	-	(4,091,871)	-
(1,245,006)	-	(1,245,006)	-
(323,471)	-	(323,471)	-
8,201	-	8,201	-
(206,027)	-	(206,027)	-
(980,258)	-	(980,258)	-
(60,622)	-	(60,622)	-
(400)	-	(400)	-
(12,609,150)	-	(12,609,150)	-
-	72,278	72,278	-
-	24,982	24,982	-
-	53,358	53,358	-
-	164	164	-
-	150,782	150,782	-
(12,609,150)	150,782	(12,458,368)	-
-	-		
-	-		
-	-	-	(895,888)
-	-	-	(80,280)
-	-	-	(79)
-	-	-	11,436
-	-	-	(964,811)
7,713,695	-	7,713,695	-
862,156	-	862,156	-
4,336,333	-	4,336,333	-
719,370	-	719,370	-
-	-	-	1,217,099
-	-	-	29,784
6,121	-	6,121	18,095
224,064	-	224,064	1,037
136	-	136	93,533
(8,046)	8,046	-	-
13,853,829	8,046	13,861,875	1,359,548
1,244,679	158,828	1,403,507	394,737
28,279,294	2,261,702	30,540,996	6,680,555
$ 29,523,973	$ 2,420,530	$ 31,944,503	$ 7,075,292

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

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

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

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

STATE OF TENNESSEE

Balance Sheet

Governmental Funds

June 30, 2015

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 2,195,557	$ 4,007	$ 511,474	$ 907,483	$ 3,618,521
Investments	-	8,021	-	288,501	296,522
Receivables, net	1,117,286	637,657	204,180	29,245	1,988,368
Due from other funds	275,735	438	-	4,304	280,477
Due from component units	165	96,281	-	9,634	106,080
Inventories, at cost	11,520	120	9,456	-	21,096
Loans receivable, net	6,063	-	1,377	9,666	17,106
Prepayments and others	1,968	-	-	23	1,991
Restricted assets:					
Cash and cash equivalents	-	-	-	9,149	9,149
Investments	-	361,381	-	-	361,381
Total assets	$ 3,608,294	$ 1,107,905	$ 726,487	$ 1,258,005	$ 6,700,691
LIABILITIES					
Accounts payable and accruals	760,635	186,668	190,508	89,654	1,227,465
Due to other funds	10,989	272,704	917	3,154	287,764
Due to component units	17,712	7,120	3,398	9,921	38,151
Unearned revenue	245,841	3,676	3,461	14	252,992
Total liabilities	1,035,177	470,168	198,284	102,743	1,806,372
DEFERRED INFLOWS OF RESOURCES	9,630	61,733	27,515	10,419	109,297
FUND BALANCES					
Nonspendable					
Inventories	$ 11,520	$ 121	$ 9,456	$ -	$ 21,097
Long term portion of accounts receivable	8,664	-	-	-	8,664
Permanent fund and endowment corpus	-	361,381	-	148,632	510,013
Restricted	69,540	179,682	42,014	354,157	645,393
Committed	302,603	8,583	257,346	123,472	692,004
Assigned	1,285,945	26,237	191,872	518,582	2,022,636
Unassigned	885,215	-	-	-	885,215
Total fund balances	2,563,487	576,004	500,688	1,144,843	4,785,022
Total liabilities, deferred inflows of resources and fund balances	$ 3,608,294	$ 1,107,905	$ 726,487	$ 1,258,005	
Amounts reported for governmental activities in the Statement of Net Position are different because:					
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.					27,629,935
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the fund.					54,150
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Position.					865,980
Resources and obligations related to pensions are not available nor due and payable, respectively, in the current period and therefore are not reported in the fund.					(884,305)
Long-term liabilities, other than pension and including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.					(2,926,809)
Net position of governmental activities					$ 29,523,973

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, 2015
(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Sales and use	$ 3,176,796	$ 4,436,396	$ 38,165	$ 54,662	$ 7,706,019
Fuel	13,531	-	741,213	107,412	862,156
Business	3,919,494	275,539	6,668	228,549	4,430,250
Other	686,704	134	-	32,421	719,259
Licenses, fines, fees, and permits	357,930	1,500	231,398	208,634	799,462
Investment income	10,173	7,972	-	9,720	27,865
Federal	9,542,772	1,146,271	874,199	38,280	11,601,522
Departmental services	1,866,451	94,336	41,909	105,347	2,108,043
Other	220,923	358,374	5,338	37	584,672
Total revenues	19,794,774	6,320,522	1,938,890	785,062	28,839,248
EXPENDITURES					
General government	544,896	-	-	20,519	565,415
Education	-	7,133,203	-	7,733	7,140,936
Health and social services	14,906,413	-	-	-	14,906,413
Law, justice and public safety	1,546,124	-	-	6,032	1,552,156
Recreation and resources development	572,825	-	-	184,341	757,166
Regulation of business and professions	97,580	-	-	89,780	187,360
Transportation	-	-	1,708,328	-	1,708,328
Intergovernmental revenue sharing	683,485	-	296,773	-	980,258
Debt service:					
Principal	-	-	-	313,050	313,050
Interest	-	-	-	68,325	68,325
Debt issuance costs	-	-	-	1,741	1,741
Capital outlay	-	-	-	406,396	406,396
Total expenditures	18,351,323	7,133,203	2,005,101	1,097,917	28,587,544
Excess (deficiency) of revenues over (under) expenditures	1,443,451	(812,681)	(66,211)	(312,855)	251,704
OTHER FINANCING SOURCES (USES)					
Bonds and commercial paper issued	-	-	-	143,200	143,200
Bond premium	-	-	-	10,308	10,308
Refunding bond proceeds	-	-	-	81,321	81,321
Refunding payment to escrow	-	-	-	(81,092)	(81,092)
Insurance claims recoveries	300	-	-	1,297	1,597
Transfers in	77,010	844,400	88,700	163,643	1,173,753
Transfers out	(1,034,431)	-	(2,178)	(169,814)	(1,206,423)
Total other financing sources (uses)	(957,121)	844,400	86,522	148,863	122,664
Net change in fund balances	486,330	31,719	20,311	(163,992)	374,368
Fund balances, July 1	2,077,157	544,285	480,377	1,308,835	4,410,654
Fund balances, June 30	$ 2,563,487	$ 576,004	$ 500,688	$ 1,144,843	$ 4,785,022

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 Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Net change in fund balances - total governmental funds	$ 374,368
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.	616,056
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the funds until available.	(81,238)
The issuance of long-term debt (e.g. bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized over the life of the debt in the Statement of Activities. This amount is the net effect of these differences in treatment of long-term debt and related items.	159,313
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.	178,713
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.	(2,533)
Changes in net position of governmental activities	$ 1,244,679

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

<u>Sewer Treatment Loan</u>—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.

<u>Employment Security Fund</u>—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.

<u>Nonmajor Enterprise Funds</u>—Nonmajor enterprise funds are presented in the supplementary section.

<u>Internal Service Funds</u>—Internal service funds are presented in the supplementary section.

STATE OF TENNESSEE

Statement of Net Position

Proprietary Funds
June 30, 2015
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	**Employment Security**	**Nonmajor Enterprise Funds**	**Total**	**Governmental Activities- Internal Service Funds**
ASSETS					
Current assets:					
Cash and cash equivalents	$ 516,083	$ -	$ 376,314	$ 892,397	$ 947,750
Cash on deposit with fiscal agent	-	924,449	-	924,449	-
Receivables:					
Accounts receivable	-	179,320	4,732	184,052	9,095
Loans receivable	21,673	-	12,924	34,597	-
Due from other funds	-	328	-	328	719
Due from component units	-	7	-	7	1
Inventories, at cost	-	-	-	-	5,876
Prepayments	-	-	-	-	256
Total current assets	537,756	1,104,104	393,970	2,035,830	963,697
Noncurrent assets:					
Accounts receivable	-	-	-	-	10,055
Loans receivable	376,686	-	129,020	505,706	-
Due from other funds	-	-	-	-	1,319
Net investment in capital leases	-	-	-	-	10,197
Capital assets:					
Land, at cost	-	-	-	-	60,357
Structures and improvements, at cost	-	-	-	-	546,068
Machinery and equipment, at cost	-	-	-	-	381,561
Less: Accumulated depreciation	-	-	-	-	(545,252)
Construction in progress	-	-	-	-	9,890
Software in development	-	-	-	-	215
Total noncurrent assets	376,686	-	129,020	505,706	474,410
Total assets	914,442	1,104,104	522,990	2,541,536	1,438,107
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	16,345
LIABILITIES					
Current liabilities:					
Accounts payable and accruals	5	48,935	37,468	86,408	92,338
Due to other funds	-	1,381	-	1,381	3,646
Due to component units	-	43	-	43	771
Lease obligations payable	-	-	-	-	350
Bond payable	-	-	-	-	16,418
Unearned revenue	-	25,248	148	25,396	45,996
Others	-	-	-	-	31,805
Total current liabilities	5	75,607	37,616	113,228	191,324
Noncurrent liabilities:					
Pension	-	-	-	-	13,966
Lease obligations payable	-	-	-	-	8,375
Commercial paper payable	-	-	-	-	26,564
Bonds payable	-	-	-	-	203,797
Others	5,358	-	2,420	7,778	124,322
Total noncurrent liabilities	5,358	-	2,420	7,778	377,024
Total liabilities	5,363	75,607	40,036	121,006	568,348
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	20,124
NET POSITION					
Net investment in capital assets	-	-	-	-	205,475
Restricted for capital projects	-	-	-	-	8,285
Unrestricted	909,079	1,028,497	482,954	2,420,530	652,220
Total net position	$ 909,079	$ 1,028,497	$ 482,954	$ 2,420,530	$ 865,980

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 Position

Proprietary Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	**Employment Security**	**Nonmajor Enterprise Funds**	**Total**	**Governmental Activities- Internal Service Funds**
Operating revenues					
Charges for services	$ 6,942	$ -	$ 3,552	$ 10,494	$ 510,875
Investment income	435	-	94	529	-
Premiums	-	343,808	580,037	923,845	744,002
Total operating revenues	7,377	343,808	583,683	934,868	1,254,877
Operating expenses					
Personal services	-	-	-	-	75,620
Contractual services	1,226	-	33,326	34,552	311,292
Materials and supplies	-	-	-	-	76,218
Rentals and insurance	-	-	-	-	49,846
Depreciation and amortization	-	-	-	-	47,233
Benefits	-	289,415	514,586	804,001	700,251
Other	-	-	9,057	9,057	14,726
Total operating expenses	1,226	289,415	556,969	847,610	1,275,186
Operating income (loss)	6,151	54,393	26,714	87,258	(20,309)
Nonoperating revenues (expenses)					
Operating grants	42,552	(2,344)	8,364	48,572	-
Insurance claims recoveries	-	-	-	-	411
Interest income	-	20,229	182	20,411	566
Interest expense	-	-	-	-	(9,921)
Other	(2,926)	-	(2,533)	(5,459)	-
Total nonoperating revenues (expenses)	39,626	17,885	6,013	63,524	(8,944)
Income (loss) before contributions and transfers	45,777	72,278	32,727	150,782	(29,253)
Capital contributions	-	-	-	-	1,403
Transfers in	3,294	-	5,054	8,348	27,847
Transfers out	-	-	(302)	(302)	(2,530)
Change in net position	49,071	72,278	37,479	158,828	(2,533)
Net position, July 1	860,008	956,219	445,475	2,261,702	868,513
Net position, June 30	$ 909,079	$ 1,028,497	$ 482,954	$ 2,420,530	$ 865,980

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, 2015
(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers and users	$ -	$ 342,941	$ 591,272	$ 934,213	$ 398,805
Receipts from interfund services provided	-	2,570	-	2,570	890,129
Payments to suppliers	-	-	(565,709)	(565,709)	(1,099,480)
Payments to employees	-	-	(1)	(1)	(81,761)
Payments for unemployment benefits	-	(309,209)	-	(309,209)	-
Payments for interfund services used	(1,226)	-	(900)	(2,126)	(76,642)
Net cash from (used for) operating activities	(1,226)	36,302	24,662	59,738	31,051
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	42,552	5,427	8,364	56,343	-
Negative cash balance implicitly repaid	-	(64)	-	(64)	(23)
Transfers in	3,294	-	5,054	8,348	27,847
Transfers out	-	-	(302)	(302)	(2,530)
Net cash from (used for) noncapital financing activities	45,846	5,363	13,116	64,325	25,294
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	-	-	-	(40,045)
Commercial paper proceeds	-	-	-	-	92,010
Proceeds from sale of capital assets	-	-	-	-	5,102
Insurance claims recoveries	-	-	-	-	411
Bond issuance cost	-	-	-	-	(177)
Principal payments	-	-	-	-	(81,247)
Interest paid	-	-	-	-	(9,066)
Capital contributions	-	-	-	-	1,345
Net cash from (used for) capital and related financing activities	-	-	-	-	(31,667)
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans issued and other disbursements to borrowers	(60,683)	-	(11,064)	(71,747)	-
Collection of loan principal	21,919	-	14,754	36,673	-
Interest received	7,381	20,230	2,171	29,782	565
Net cash from (used for) investing activities	(31,383)	20,230	5,861	(5,292)	565
Net increase (decrease) in cash and cash equivalents	13,237	61,895	43,639	118,771	25,243
Cash and cash equivalents, July 1	502,846	862,554	332,675	1,698,075	922,507
Cash and cash equivalents, June 30	$ 516,083	$ 924,449	$ 376,314	$ 1,816,846	$ 947,750

(continued on next page)

STATE OF TENNESSEE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

(continued from previous page)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided (used by) operating activities					
Operating income (loss)	$ 6,151	$ 54,393	$ 26,714	$ 87,258	$ (20,309)
Adjustment to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	-	-	-	-	47,234
Loss on disposal of capital assets	-	-	-	-	3,317
Bond issuance costs	-	-	-	-	177
Interest income	(6,942)	-	(1,893)	(8,835)	-
Investment income	(435)	-	(94)	(529)	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
(Increase) decrease in receivables	-	(14,316)	(225)	(14,541)	(1,749)
(Increase) decrease in due from other funds	-	35	-	35	(169)
(Increase) decrease in due from component units	-	-	-	-	9
(Increase) decrease in inventories	-	-	-	-	466
(Increase) decrease in prepaids	-	-	-	-	66
(Increase) decrease in deferred outflows of resources	-	-	-	-	105
Increase (decrease) in accounts payable	-	(2,634)	100	(2,534)	(20,502)
Increase (decrease) in due to other funds	-	-	-	-	2,537
Increase (decrease) in due to component units	-	43	-	43	424
Increase (decrease) in deferred inflows of resources	-	-	-	-	20,124
Increase (decrease) in unearned revenue	-	(1,219)	60	(1,159)	(679)
Total adjustments	(7,377)	(18,091)	(2,052)	(27,520)	51,360
Net cash provided by (used for) operating activities	$ (1,226)	$ 36,302	$ 24,662	$ 59,738	$ 31,051
Schedule of noncash capital and related financing activities					
Capital contributions	$ -	$ -	$ -	$ -	$ 58
Refunding bond premium	-	-	-	-	109
Refunding bond proceeds	-	-	-	-	11,789
Total noncash capital and related financing activities	$ -	$ -	$ -	$ -	$ 11,956

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

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FIDUCIARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

STATE OF TENNESSEE
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents	$ 446,693	$ 783,023	$ 59,259	$ 517,696
Cash collateral on loaned securities	5,892,944	-	-	-
Receivables:				
Account	-	-	-	2,703
Taxes	-	-	37	420,772
Interest and dividends	144,664	3,055	142	-
Investments sold	748,685	-	-	-
Derivative instruments	527,287	-	-	-
Due from other governments	55,889	-	-	-
Real estate income	2,398	-	-	-
Other	26,089	-	-	-
Due from other funds	9,944	-	3	9
Due from component units	9,233	-	-	-
Investments, at fair value:				
Short-term securities	206,268	1,041,425	-	-
Government bonds	8,613,377	59,411	387	-
Corporate bonds	5,522,155	-	1,271	-
Corporate stocks	23,682,188	-	-	-
Mutual funds	-	-	107,224	-
Strategic lending	936,416	-	-	-
Private equities	1,062,185	-	-	-
Real estate	2,684,791	-	-	-
Capital assets, at cost:				
Machinery and equipment	37,138	-	-	-
Less - accumulated depreciation	(5,391)	-	-	-
Total assets	50,602,953	1,886,914	168,323	941,180
LIABILITIES				
Accounts payable and accruals	936,437	-	14,835	814,252
Due to other funds	-	-	8	-
Derivative instruments	528,563	-	-	-
Securities lending collateral	5,892,944	-	-	-
Amount held in custody for others	-	-	-	126,928
Total liabilities	7,357,944	-	14,843	941,180
NET POSITION				
Restricted for				
Pensions	43,243,940	-	-	
Employees' flexible benefits	1,069	-	-	
Individuals, organizations and other governments	-	-	153,480	
Amounts held in trust for				
Pool participants	-	1,886,914	-	
Total net position	$ 43,245,009	$ 1,886,914	$ 153,480	

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

STATE OF TENNESSEE

Statement of Changes in Fiduciary Net Position

Fiduciary Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Members	$ 280,579	$ -	$ -
Employers	1,011,445	-	-
Federal	-	-	7,142
Private	-	-	14,837
State	-	-	474
Other	384	-	31,337
Total contributions	1,292,408	-	53,790
Investment income:			
Net increase/(decrease) in fair value of investments	79,984	-	(415)
Interest and dividends	1,177,534	3,116	3,599
Real estate income	73,994	-	-
Securities lending income	34,209	-	-
Total investment income	1,365,721	3,116	3,184
Less: Investment expenses	(46,713)	(911)	-
Securities lending expense	(7,746)	-	-
Net investment income	1,311,262	2,205	3,184
Capital share transactions:			
Shares sold	-	2,526,867	-
Less: Shares redeemed	-	(2,411,018)	-
Net capital share transactions	-	115,849	-
Total additions	2,603,670	118,054	56,974
DEDUCTIONS			
Annuity benefits	2,190,289	-	-
Death benefits	5,525	-	-
Other	6,054	-	28,567
Refunds	47,962	-	2,717
Administrative expenses	15,186	-	16,788
Total deductions	2,265,016	-	48,072
Change in net position	338,654	118,054	8,902
Net position, July 1	42,906,355	1,768,860	144,578
Net position, June 30	$ 43,245,009	$ 1,886,914	$ 153,480

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, 2015
Index for the Notes

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

A. **Financial reporting entity**

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

Discretely presented component units

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

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

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

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

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

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

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

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

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

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

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

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

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

Tennessee Housing Development Agency
Andrew Jackson Building, 3rd floor
502 Deaderick Street
Nashville, TN 37243

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

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

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

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

Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, TN 37217-2833

Tennessee Education Lottery Corporation
One Century Place
23 Century Boulevard, Suite 200
Nashville, TN 37214

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

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The state reports the following major governmental funds:

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

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

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

The state reports the following major proprietary funds:

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

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

Additionally, the state reports the following fund types:

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

The *fiduciary fund types* are used to account for resources legally held in trust. Fiduciary activities include the following funds:

The *pension and other employee benefit* trust funds – account for activities of the Tennessee Consolidated Retirement System and the employee flexible benefits plan.

The *investment trust* funds – account for deposits belonging to entities outside of the state's financial reporting entity.

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

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

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

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

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

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

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

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

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

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

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

3. Inventories and prepaid items—Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a special revenue fund) and Office for Information Resources, Postal Services, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2015, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-

type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Restricted assets—Proceeds of the state's general obligation bonds and commercial paper program that remain unspent at year end are classified as restricted cash on the statement of net position. The commercial paper program provides short-term financing for the state's capital projects. Tennessee Promise (reported in the education fund) has restricted assets in an endowment trust agreement.

   Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, and Tennessee Local Development Authority – 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. The Tennessee Board of Regents and the University of Tennessee report restricted cash, investments, and receivables for those that come with certain restrictions from donors, lenders, or grantors. Tennessee Education Lottery Corporation has restricted investments related to prize annuities. Tennessee Veterans' Homes Board has restricted assets related to loan agreements and other restricted assets that are the property of the homes' residents. Federal Family Education Loan Program has restricted assets related to loan guarantees.

   Tennessee Community Services Agency and Tennessee Veterans' Homes Board have net pension assets because pension plan net position is greater than their total pension liability.

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

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

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

6. Deferred outflows/inflows—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The primary government has two items that qualify for reporting in this category. The first is refunding of debt and the other is employer pension contributions being made after the measurement date. In the governmental activities column of the government-wide statement of net position, the state reported $57.5 million for refunding of debt and $276.7 million for employer contributions made after the measurement date.

   Deferred inflows of resources represent an acquisition of net position that applies to a future period, and so will not be recognized as an inflow of resources (revenue) until that time. The primary government has one item that qualifies for reporting in this category. This item is the result of two pension related factors. The first factor is investment returns were better than projected, and the other is the difference between the actual and expected economic and demographic factors that were more favorable than anticipated. In the governmental activities column of the government-wide statement of net position, the state reported $701 million for these factors. In addition, the state has one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($62.5 million), federal grants ($33 million), and other sources ($14 million) as deferred inflows of resources.

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

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

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

9. Pensions−For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the state's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the state's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions)

are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

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

    Restricted net position consists of net position in which constraints are placed on the use of net position either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.2 billion restricted by the primary government, $297 million was by enabling legislation.

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

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

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

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

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

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

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

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

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

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $2,926.809 million difference are as follows (expressed in thousands):

Bonds payable	$	1,575,935
Plus: premium on bonds issued (to be amortized as interest expense)		164,288
Deferred outflows of resources for bond refundings (to be amortized as interest expense)		(49,380)
Commercial paper payable		171,122
Accrued interest payable		21,318
Capital leases payable		11,870
Claims and judgments		47,438
Compensated absences		242,294
Other postemployment benefits		622,042
Pollution remediation		72,592
Other long-term liabilities and accounts payable		47,290
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$	2,926,809

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 reconciliation between *net changes in fund balances – total governmental funds* and *changes in net positions of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $616.056 million difference are as follows (expressed in thousands):

Capital outlay	$	710,217
Depreciation expense		(94,161)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$	616,056

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positions. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities." The details of this ($159.313) million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	$ 67,371
Issuance of general obligation bonds	59,532
Issuance of commercial paper	83,668
Bond premium capitalized	24,258
Debt reduced:	
General obligation bonds/payments to escrow	(81,092)
General obligation debt	(136,068)
Commercial paper redeemed	(176,982)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ (159,313)

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 ($178.713) million difference are as follows (expressed in thousands):

Pension	$ (198,146)
Compensated absences	(2,939)
Claims and judgments	(20,509)
Accrued interest	(232)
Capital lease	(827)
Other postemployment benefits	60,111
Pollution remediation	(15,348)
Pledged tax credits	(29,312)
Amortization of other charges	40
Loss on disposal of capital assets	35,921
Amortization of bond premiums	(15,703)
Amortization of deferred outflows of resources	8,231
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ (178,713)

NOTE 3 – **Deficit fund equity**

The risk management fund, an internal service fund, has a total net position deficit of $7.27 million. This deficit was caused by a higher claims award actuarial liability than expected. Additional billings to state agencies will be made over a reasonable period of time to address this deficit.

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NOTE 4 – **Accounting changes**

Prior period adjustments

Primary government

- Governmental activities—$1,114.459 million, a net decrease in net position, is a result of an accounting change. During fiscal year 2015, the state implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Of this amount, $32.009 million related to internal service funds.

- Governmental activities—approximately $3.540 million, a net decrease in net position, is a correction of an error resulting from the understatement of liabilities in the previous year in the employee group insurance fund (an internal service fund).

- Business-type activities—$3.045 million, net decrease in net position, is a correction of an error resulting from the understatement of accrued liabilities in the previous year in the teacher group insurance and local government group insurance funds (enterprise funds).

Component units

- During fiscal year 2015, six component units implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions* and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these statements resulted in a cumulative adjustment to beginning net position of the following component units of (expressed in thousands):

Tennessee Student Assistance Corporation	$ (1,715)
Tennessee CSA	6,064
Tennessee Housing Development Agency	(6,793)
Tennessee Board of Regents	(256,098)
University of Tennessee	(201,843)
Veterans' Homes Board	3,361

- In 2015, Campus Development Foundation, LLC, a subsidiary of the University of Chattanooga Foundation, a component unit of the University of Tennessee, changed its fiscal year end to June 30 to coincide with the foundation's year end. In all prior years, the LLC's fiscal year end was July 31. The foundation's beginning consolidated net position was increased by $720 thousand due to this change in the subsidiary's fiscal year end.

- Institutions of the Tennessee Board of Regents recorded prior period adjustments for a net decrease to net position of $3.064 million for overstating pledge receivables by $3.014 million, understating liabilities by $105 thousand, and understating capital assets by $55 thousand.

Fiduciary funds

- The local government investment pool recorded a prior period adjustment of $208 thousand to correct an error related to an understatement in deposits.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2015, (expressed in thousands):

	6/30/2014 Net Position As Reported	Adjustments to Net Position	6/30/2014 Net Position As Restated
Government-wide statements:			
Primary government			
Governmental activities	$ 29,397,293	$ (1,117,999)	$ 28,279,294
Business-type activities	2,264,747	(3,045)	2,261,702
Total primary government	$ 31,662,040	$ (1,121,044)	$ 30,540,996
Proprietary funds statements:			
Governmental activities-internal	$ 904,062	$ (35,549)	$ 868,513
Total proprietary funds	$ 904,062	$ (35,549)	$ 868,513
Component units	$ 7,139,923	$ (459,368)	$ 6,680,555
Total component units	$ 7,139,923	$ (459,368)	$ 6,680,555
Fiduciary funds statements:			
Local government investment pool	$ 1,768,652	$ 208	$ 1,768,860
Total investment trust funds	$ 1,768,652	$ 208	$ 1,768,860

During the fiscal year ended June 30, 2015, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASBS 68, *Accounting and Financial Reporting for Pensions*, replaces the requirements of Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers* and No. 50 *Pension Disclosures*, as they related to pension plans that are administered through trusts or equivalent arrangements. This statement requires changes in the accounting and financial reporting standards for defined benefit and defined contribution pension plans that are administered through a trust. The implementation of this standard resulted in the recognition and restatement of beginning balances for assets, deferred outflows, deferred inflows, and liabilities.

GASBS 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, amends paragraph 137 of Statement No. 68, *Accounting and Financial Reporting for Pensions* to clarify the requirement of the recognition of beginning balances for other deferred outflows of resources for pension contributions made subsequent to the measurement date. The implementation of this standard did not have an impact on the beginning balances of the financial statements.

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 are required by court order, contract, state or federal law, or federal regulation to receive interest on invested funds, and which are authorized by the State Treasurer to participate in the SPIF.

In addition, funds in the State of Tennessee Local Government Investment Pool (LGIP) investment trust fund are consolidated with the SPIF for investment purposes only. The primary oversight responsibility for the investment and operations of the SPIF rests with the Funding Board of the State of Tennessee (Funding Board).

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

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the College Savings Plans, a private-purpose trust consisting of the Baccalaureate Education System Trust (BEST) and the Tennessee Stars College Savings 529 Program (TNStars); the Tennessee Promise Scholarship Endowment Trust, a part of the education fund, a special revenue fund; and the Chairs of Excellence (COE) Trust, a permanent fund; are authorized by statutes to invest in long-term investments, including bonds, debentures, preferred stock and common stock, real estate and other good and solvent securities subject to the approval of the applicable boards of trustees.

Effective July 1, the state began offering a longer range product for participants in the SPIF who were wanting a higher return on their investment and who did not need access to their money immediately. The Intermediate Term Investment Fund, an investment trust fund, was created July 1, 2013. Also, the Insurance Receivership Fund, a private-purpose trust fund, was created in fiscal year 2014.

As of June 30, 2015, the state's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Credit Quality Rating	TCRS	COE	SPIF	College Savings Plans
AAA	$ 876,554	$ 3,204	$ 1,727,808	
AA	521,115	11,599	1,289,701	
A	1,077,924	11,513		
BBB	2,757,564	12,369		
BB	183,838			
B	39,467			
CCC	90,396	389		
CC	1,181			
D	35,069			
NR	3,400,589	25,541	1,562,329	
A1 (Commercial paper)			749,983	
	8,983,697	64,615	5,329,821	
Government agencies and obligations[1]	5,627,671	51,661	2,425,611	
Total debt investments	14,611,368	116,276	7,755,432	
Non Fixed Income Assets				
Equity	23,682,188	176,751		
Equity fund				$ 25,323
Fixed mutual fund				48,853
Fixed mutual fund & MM funds				3,035
Blended mutual funds				12,663
Equity mutual funds				17,169
Preferred stock	75,790			
Real estate	2,684,791			
Private equities	1,062,185			
Strategic lending	936,416			
Certificate of deposit classified as short term			589,100	
Short-term investment fund at custodian	1,772			
Less: short term	(347,131)		(2,986,224)	
Total investments	$ 42,707,379	$ 293,027	$ 5,358,308	$ 107,043

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

STATE OF TENNESSEE
Notes to the Financial Statements
June 30, 2015 (Continued)

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

Credit Quality Rating	Tennessee Promise Scholarship Endowment Trust	Intermediate Term Investment Fund	Insurance Receiverships Fund	Total
AAA	$ 5,534			$ 2,613,100
AA	20,014	$ 59,411		1,901,840
A	61,847			1,151,284
BBB	41,016			2,810,949
BB				183,838
B				39,467
CCC				90,785
CC				1,181
D				35,069
NR	29,898		$ 1,658	5,020,015
A1 (Commercial paper)				749,983
	158,309	59,411	1,658	14,597,511
Government Agencies and Obligations[1]	22,703			8,127,646
Total Debt Investments	181,012	59,411	1,658	22,725,157
Non Fixed Income Assets				
Equity	164,019			24,022,958
Equity fund			182	25,505
Fixed mutual fund				48,853
Fixed mutual fund & MM				3,035
Blended mutual funds				12,663
Equity mutual funds				17,169
Preferred stock				75,790
Real estate				2,684,791
Private equities				1,062,185
Strategic lending				936,416
Certificate of deposit classified as short term				589,100
Short-term investment fund at custodian				1,772
Less: short term				(3,333,355)
Total investments	$ 345,031	$ 59,411	$ 1,840	$ 48,872,039

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, 2015, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the state. The SPIF's investment policy requires an AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net position in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2015, the state had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

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

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

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

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

The Intermediate Term Investment fund's (ITIF) investment policy requires that prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long term debt rating by a majority of the designated 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 investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper. Repurchase agreements must be done with primary dealers in government securities which have executed a master repurchase agreement with the state.

The Insurance Receiverships Fund has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical ratings.

2. Concentration of Credit Risk

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

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

As of June 30, 2015, the combined SPIF, TCRS, COE Trust, Intermediate Term Investment Fund, College Savings Plans, Tennessee Promise Scholarship Endowment Trust, and other state funds did not hold 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.

As of June 30, 2015, SPIF, Intermediate Term Investment Fund, and Tennessee Promise Scholarship Endowment Trust separately held investments in certain organizations representing five percent (5%) or more of its total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

The State Pooled Investment Fund (SPIF)

Issuer Organization	Carry Value	Percentage
Federal National Mortgage Association	$ 653,593	8.43
Federal Home Loan Bank	1,508,842	19.46
Federal Home Loan Mortgage Corporation	857,129	11.05
International Bank for Recon & Dev	814,986	10.51
Federal Farm Credit Banks	745,288	9.61

The Intermediate Term Investment Fund (ITIF)

Issuer Organization	Fair Value	Percentage
Federal National Mortgage Association	$ 15,053	25.34
Federal Home Loan Bank	21,482	36.16
Federal Farm Credit Bank	22,876	38.50

Tennessee Promise Scholarship Endowment Trust

Issuer Organization	Fair Value	Percentage
Federal Home Mortgage Corporation	$ 17,618	5.11

3. Interest Rate Risk

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

Prime banker’s acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 7 to 365 days at June 30, 2015. Interest rates on certificates of deposit held at June 30, 2015, ranged from 0.10 percent to 0.20 percent. The days to maturity on U.S. Government Agencies ranged from 12 to 396 days at June 30, 2015. Interest rates on U.S. Government Agencies held at June 30, 2015 ranged from 0.25 percent to 4.50 percent. The days to maturity on commercial paper ranged from 1 to 41 days at June 30, 2015. Interest rates on commercial paper held at June 30, 2015, ranged from 0.01 percent to 0.15 percent.

As of June 30, 2015, the combined SPIF portfolio had the following weighted average maturities (expressed in thousands):

STATE POOLED INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type		Fair Value	Weighted Average Maturity (Months)
U.S. Government Agencies	$	4,579,838	3.12
U.S. Government Treasuries		2,425,611	5.89
Commercial paper		749,983	0.26

For ITIF, the days to maturity on U.S. Government Agencies ranged from 408 to 1484 days at June 30, 2015. Interest rates on U.S. Government Agencies held at June 30, 2015, ranged from 0.57 percent to 2.38 percent.

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

As of June 30, 2015, the Intermediate Term Investment Fund had the following weighted average maturities (expressed in thousands):

INTERMEDIATE TERM INVESTMENT FUND
WEIGHTED AVERAGE MATURITY

Deposit/Investment Type		Fair Value	Weighted Average Maturity (Years)
U.S. Government Agencies	$	59,411	2.54

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 duration within a range around that index. 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 mortgages, which may result from a decline in interest rates.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2015	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 288,764	8.18
Government Bonds	2,255,342	14.11
Government Inflation Indexed	2,604,278	8.45
Government Mortgage-Backed	3,466,373	4.30
Government Asset-Backed	45,411	7.15
Municipal Bonds	156,099	10.22
Corporate Fixed Income		
Collateralized Mortgage Obligations		
Commercial Mortgage Backed	470,623	2.40
Asset Backed Securities	236,558	2.41
Corporate Bonds	4,536,294	8.31
Short Term		
Commercial Paper		
Short Term Bills and Notes	551,626	0.05
Total Debt Investments	$ 14,611,368	

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

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2015	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 17,206	7.78
U.S. TIPS	28,143	6.89
U.S. Agencies	7,556	2.68
Government Mortgage-Backed	23,658	3.49
Government Asset-Backed	1,725	6.25
Municipal Bonds	6,834	4.65
Corporate Fixed Income		
Corporate Mortgage-Backed	3,455	2.99
Corporate Bonds	27,122	5.84
Corporate Asset-Backed	577	4.14
Total Debt Investments	$ 116,276	

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

TENNESSEE PROMISE SCHOLARSHIP ENDOWMENT TRUST
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2015	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 12,742	6.88
Municipal Bonds	2,933	8.25
Government Asset-Backed	7,060	6.01
Government Mortgage-Backed	27,069	4.92
Corporate		
Corporate Bonds	119,032	4.68
Mortgage-Backed	12,175	4.39
Total Debt Investments	$ 181,011	

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

The average duration for the fixed income investments of the BEST Educational Services Plan was 5.70 years at June 30, 2015. The average duration for the fixed income investments of the TNStars Educational Savings Plan ranged from 1.48 to 7.95 years at June 30, 2015.

TN STARS EDUCATIONAL SAVINGS PLAN
DEBT INVESTMENTS
(expressed in thousands)

Fund Name Blended		Fair Value as of June 30, 2015	Effective Duration (Years)
Vanguard Wellington Fund Admiral Shares	$	6,323	5.94
Vanguard LifeStrategy Conservative Growth Fund		3,881	6.13
Vanguard LifeStrategy Income Fund		2,459	6.14
Fixed Income			
Vanguard Total Bond Market Signal Shares		1,500	5.70
Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares		229	5.44
DFA Inflation-Protected Securities Portfolio Institutional Class		165	7.95
Vanguard Intermediate-Term Treasury Admiral Shares		78	5.30
Total Debt Investments	$	14,635	

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

INSURANCE RECEIVERSHIPS FUND
(expressed in thousands)

Investment Type		Fair Value	Effective Duration (in years)
Corporate bonds	$	1,271	3.37
Government bonds		387	10+

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to 25 percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2015, was as follows (expressed in thousands):

Currency	Total Fair Value	Equity	Cash
Australian Dollar	$ 246,507	$ 246,300	$ 207
British Pound Sterling	1,112,564	1,103,194	9,370
Canadian Dollar	1,577,942	1,562,054	15,888
Danish Krone	122,986	122,986	
Euro Currency	1,519,192	1,512,236	6,956
Hong Kong Dollar	203,728	201,594	2,134
Japanese Yen	1,373,639	1,356,066	17,573
New Israeli Shekel	19,773	19,661	112
New Zealand Dollar	6,146	6,146	
Norwegian Krone	48,326	48,121	205
Singapore Dollar	54,479	54,375	104
Swedish Krona	166,508	166,494	14
Swiss Franc	545,066	543,181	1,885
Total	$ 6,996,856	$ 6,942,408	$ 54,448

5. Derivatives

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

The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2015, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair values of such derivative instruments for the year ended as reported in the financial statements are as follows (expressed in thousands):

	Changes in Fair Value		Fair Value at June 30, 2015			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts						
		$ 142		$ 142	16,390	EUR
		(332)		(332)	16,845,184	JPY
	Investment Income	$ (190)	Derivative Instruments Payable	$ (190)		
Future Contracts	Investment Income	$ (22,559)	Derivative Instruments Receivable	$ 352	$ 859,140	
TBA Mortgage-Backed Securities	Investment Income	$ (734)	Derivative Instruments Payable	$ (734)	$ 369,403	

6. <u>Custodial Credit Risk</u>

Custodial Credit Risk—Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TCRS' deposits may not be returned to TCRS. The TCRS does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2015, the TCRS had uninsured and uncollateralized cash deposits of $54,448,276 in foreign currency held by our master custodian, State Street, in State Street's name. These deposits were used for investments pending settlement.

The Insurance Receiverships fund does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2015, the Insurance Receiverships fund had uninsured and uncollateralized cash deposits of $1,531,320 at various institutions.

7. <u>Securities Lending</u>

The TCRS is authorized to invest in securities lending investments by TCA 8-37-104(a)(6) with the terms established in the investment policy, whereby TCRS loans securities to brokers and dealers (borrower) and in turn, TCRS receives cash as collateral. TCRS pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TCRS portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TCRS in any instrument the TCRS may be directly invested.

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

At June 30, 2015 the TCRS had the following securities on loan and received the cash collateral (expressed in thousands) as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non Cash Collateral Received
Fixed	$ 2,031,511	$ 2,077,594
Equity	3,730,720	3,815,349
Total	$ 5,762,231	$ 5,892,943

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

Component Units

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

1. University of Tennessee

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

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2015, the University's investments were rated as follows (expressed in thousands):

STATE OF TENNESSEE
Notes to the Financial Statements
June 30, 2015 (Continued)

Rated Debt Instruments	Fair Value	Credit Quality Rating: US Treasury/ Agency	Aaa	Aa1	Aa2
U.S. Treasuries	$ 4,761	$ 4,761			
U.S. Agencies	5,254		$ 5,254		
U.S. Agencies (in pool)	741,920		570,359		
Corporate Bonds	12,170				$ 388
Municipal Bonds	2,221			$ 356	389
Mutual Funds – Bonds	106,737		89		35,673
Mortgages and Notes	15				
Money Market Mutual Fund	4,324				
Total	$ 877,402	$ 4,761	$ 575,702	$ 356	$ 36,450

(Continued)

Rated Debt Instruments	Credit Quality Rating: Aa3	A1	A2	A3	Baa1
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)	$ 35,131				
Corporate Bonds	374	$ 1,047	$ 949	$ 3,579	$ 3,859
Municipal Bonds	736				
Mutual Funds – Bonds		2,756	6,078		
Mortgages and Notes					
Money Market Mutual Fund					
Total	$ 36,241	$ 3,803	$ 7,027	$ 3,579	$ 3,859

(Continued)

Rated Debt Instruments	Credit Quality Rating: Baa2	Baa3	Ba1	Ba2	Ba3
U.S. Treasuries					
U.S. Agencies					
U.S. Agencies (in pool)					
Corporate Bonds	$ 1,817	$ 109		$ 48	
Municipal Bonds					
Mutual Funds – Bonds	2,768		$ 179	17,535	$ 267
Mortgages and Notes					
Money Market Mutual Fund					
Total	$ 4,585	$ 109	$ 179	$ 17,583	$ 267

(Continued)

Rated Debt Instruments	Credit Quality Rating: B2	Unrated
U.S. Treasuries		
U.S. Agencies		
U.S. Agencies (in pool)		$ 136,430
Corporate Bonds		
Municipal Bonds		740
Mutual Funds – Bonds	$ 814	40,578
Mortgages and Notes		15
Money Market Mutual Fund		4,324
Total	$ 814	$ 182,087

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2015, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
Investments						
U.S. Treasuries	$ 4,761		$ 1,164	$ 3,597		
U.S. Agencies	5,254	$ 2,033	867	1,607	$ 747	
U.S. Agencies (in pool)	741,920		315,943	336,133	89,844	
Corporate Bonds	12,170	1,087	8,956	1,937	190	
Municipal Bonds	2,221	1,130	356	735		
Mortgages and Notes	15	15				
Bond Mutual Funds	106,737	91	17,921	42,100	2,768	$ 43,857
	$ 873,078	$ 4,356	$ 345,207	$ 386,109	$ 93,549	$ 43,857

University foundations' investments in the amount of $154.362 million are not included in these disclosures because the foundations utilize private-sector accounting standards.

Alternative Investments

In its Consolidated Investment Pool, as part of its endowment assets, the University has investments in ninety four limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2015, the estimated fair value of these assets is $473.925 million and total capital contributions, less returns of capital, equal $378.929 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents System

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2015, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

		Credit Quality Rating					
Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	AAA	AA	A	BBB	Not Rated
U.S. Treasuries	$ 62,120	$62,120					
U.S. Agencies	74,198	1,450	$ 7	$72,631			$ 110
Commercial Paper	1,000				$ 1,000		
Corporate Bonds	4,313		9	333	3,953	$ 18	
Mutual Funds—Bonds	59,233		9,557	1,355	4,453	4,410	39,458
Collateralized Mortgage Obligation	4,851		104	4,746			1
Money Market Mutual Fund	335						335
Total Debt Instruments	$206,050	$63,570	$ 9,677	$79,065	$ 9,406	$ 4,428	$39,904

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

Interest Rate Risk

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. As of June 30, 2015, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
U.S. Treasuries	$ 62,120	$ 2,745	$ 59,309	$ 66		
U.S. Agencies	74,198	1,541	69,955	1,926	$ 761	$ 15
Commercial Paper	1,000	1,000				
Corporate Bonds	4,313	579	3,583	151		
Mutual Funds—Bonds	59,233	336	4,797	6,821	9,119	38,160
Collateralized Mortgage Obligation	4,851	104	759	1,848	2,140	
Total Debt Investments	$ 205,715	$ 6,305	$ 138,403	$ 10,812	$ 12,020	$ 38,175

The investments of certain foundations of the System are not included in these disclosures because these foundations utilize private-sector accounting standards. These foundations reported investments at fair value in the amount of $279.529 million.

3. Tennessee Housing Development Agency (THDA)

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

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

Credit Risk

The Agency's investments as of June 30, 2015, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

			Credit Quality Rating		
Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	AA+	AA-2	Not Rated
U.S. Agency Coupon	$ 144,043		$ 126,720	4,556	$ 12,767
U.S. Treasury Coupon	77,246	$ 77,246			
U.S. Treasury Discount	154,992			$	154,992
Total Debt Instruments	$ 376,281	$ 77,246	$ 126,720	$ 4,556	$ 167,759

Concentration of Credit Risk

At June 30, 2015, more than 5 percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 215,105	57.17
Federal National Mortgage Association	53,209	14.14

Interest Rate Risk

As of June 30, 2015, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 144,043	2.994
U.S. Treasury Coupon	77,246	2.305
U.S. Agency Discount	154,992	0.076
Total	$ 376,281	

B. **Receivables**

Receivables at June 30, 2015, for the state's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes and Certain Other Licenses, Fees, and Permits	Due From Other Governments	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:							
General	$ 149,270	$ 710,634	$ 342,092	$ 11,521	$ 1,213,517	$ (151,370)	$ 1,062,147
Education	175	561,347	119,191	12,692	693,405	(55,748)	637,657
Highway	241	71,699	131,054	1,197	204,191	(11)	204,180
Nonmajor governmental funds	577	14,471	13,575	1,387	30,010	(765)	29,245
Internal service funds	8,530		10,295	844	19,669	(519)	19,150
Total-governmental activities	$ 158,793	$ 1,358,151	$ 616,207	$ 27,641	$ 2,160,792	$ (208,413)	$ 1,952,379
Amounts not expected to be collected within one year		$ 145,059	$ 10,055				$ 155,114
Business-type activities:							
Employment security	$ 134,036	$ 90,322	$ 773	$ 5,556	$ 230,687	$ (51,367)	$ 179,320
Nonmajor enterprise funds	4,901		33		4,934	(202)	4,732
Total-business-type activities	$ 138,937	$ 90,322	$ 806	$ 5,556	$ 235,621	$ (51,569)	$ 184,052

C. Capital assets

Capital asset activity for the year ended June 30, 2015, was as follows (expressed in thousands):

Primary government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,097,270	$ 75,506	$ (510)	$ 2,172,266
Infrastructure	22,630,755	449,454	(30,673)	23,049,536
Construction in progress	999,670	579,897	(459,066)	1,120,501
Software in development	50,325	27,840	(19,485)	58,680
Capital assets, being depreciated:				
Structures and improvements	2,481,209	11,247	(19,046)	2,473,410
Machinery and equipment	965,038	87,300	(42,133)	1,010,205
Total capital assets	29,224,267	1,231,244	(570,913)	29,884,598
Less accumulated depreciation for:				
Structures and improvements	(1,075,097)	(54,206)	15,796	(1,113,507)
Machinery and equipment	(633,187)	(86,970)	31,840	(688,317)
Total accumulated depreciation	(1,708,284)	(141,176)	47,636	(1,801,824)
Governmental activities capital assets, net	$ 27,515,983	$ 1,090,068	$ (523,277)	$ 28,082,774

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

Governmental activities:	
General government	$ 4,674
Education	1,242
Health and social services	18,451
Law, justice and public safety	36,982
Recreation and resource development	13,448
Regulation of business and professions	976
Transportation	18,390
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	47,013
Total depreciation expense – governmental activities	$ 141,176

<u>Highway construction commitments</u> — At June 30, 2015, the Department of Transportation had contractual commitments of approximately $733.9 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($662.5 million) and general obligation bond proceeds ($71.4 million).

Discretely presented component units

Capital asset activity for the year ended June 30, 2015, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Art and collections	$ 10,902		(5)	$ 10,897
Land	205,890	6,901	$ (1,865)	210,926
Construction in progress	686,262	385,447	(330,612)	741,097
Capital assets, being depreciated:				
Infrastructure	497,887	86,728	(69)	584,546
Structures and improvements	5,009,913	281,123	(5,818)	5,285,218
Machinery and equipment	1,026,683	84,049	(79,543)	1,031,189
Total capital assets	7,437,537	844,248	(417,912)	7,863,873
Less accumulated depreciation for:				
Infrastructure	(235,448)	(23,540)	39	(258,949)
Structures and improvements	(1,914,052)	(104,998)	5,275	(2,013,775)
Machinery and equipment	(666,404)	(81,282)	76,136	(671,550)
Total accumulated depreciation	(2,815,904)	(209,820)	81,450	(2,944,274)
Total capital assets, net	$ 4,621,633	$ 634,428	$ (336,462)	$ 4,919,599

The University of Tennessee foundations, and certain Tennessee Board of Regents foundations utilize FASB standards; therefore, only the June 30, 2015, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Art and collections	$ 640
Land	15,880
Construction in progress	110
Total capital assets, not being depreciated	16,630
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	136,138
Machinery and equipment	33,097
Total capital assets being depreciated	170,244
Less: total accumulated depreciation	(63,482)
Total capital assets, being depreciated, net	106,762
Total capital assets, net	$ 123,392

D. Interfund balances

1. Interfund balances at June 30, 2015, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

DUE FROM

		General	Education	Highway	Nonmajor Government Funds	Employment Security	Internal Service Funds	Fiduciary Funds	Total
	General		$ 272,261	$ 48	$ 1,959	$ 1,381	$ 78	$ 8	$ 275,735
	Education	$ 438							438
D U E	Nonmajor governmental funds	179		13	900		3,212		4,304
T	Employment security	328							328
O	Internal service funds	2,038							2,038
	Fiduciary funds	8,006	443	856	295		356		9,956
	Total	$ 10,989	$ 272,704	$ 917	$ 3,154	$ 1,381	$ 3,646	$ 8	$ 292,799

The $272.2 million due to the general fund from the education fund resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the education fund.

2. COMPONENT UNITS PAYABLES

Component units' accounts payable to the primary government at June 30, 2015, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

		Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
	PRIMARY GOVERNMENT:						
P	General		$ 1	$ 155	$ 1	$ 8	$ 165
A	Education		96,281				96,281
Y A	Nonmajor governmental funds			6,142	776	2,716	9,634
B	Employment security					7	7
L	Internal service funds				1		1
E	Fiduciary funds	$ 71		4,701	4,317	144	9,233
T O	Total	$ 71	$ 96,282	$ 10,998	$ 5,095	$ 2,875	$ 115,321

3. COMPONENT UNITS RECEIVABLES

Component units accounts receivable from the primary government at June 30, 2015, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

RECEIVABLE TO

	General	Education	Highway	Nonmajor Governmental Funds	Employment Security	Internal Service Funds	Total
COMPONENT UNITS:							
Tennessee Board of Regents	$ 6,975	$ 2,742	$ 749	$ 1,292		$ 61	$ 11,819
University of Tennessee	9,226	4,378	2,649	8,629		710	25,592
Nonmajor component units	1,511				$ 43		1,554
Total	$ 17,712	$ 7,120	$ 3,398	$ 9,921	$ 43	$ 771	$ 38,965

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2015, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Nonmajor Governmental Funds	Sewer Treatment
General		$ 844,400		$ 154,653	$ 3,294
Highway	$ 2,178				
Nonmajor governmental funds	72,000		$ 88,700	8,990	
Nonmajor enterprise funds	302				
Internal service funds	2,530				
Totals	$ 77,010	$ 844,400	$ 88,700	$ 163,643	$ 3,294

(Continued) **Transfers In**

Transfers Out	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General	$ 5,054	$ 26,556	$ 474	$ 1,034,431
Highway				2,178
Nonmajor governmental funds		124		169,814
Nonmajor enterprise funds				302
Internal service funds				2,530
Totals	$ 5,054	$ 26,680	$ 474	$ 1,209,255

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, 2015, the general fund transferred $1 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $844.4 million to subsidize the activities of the education fund, $148.3 million for capital outlay expenditures, $19.8 million to provide appropriations to internal service funds, $5.8 million for payments for interfund services used, $12.3 million to provide appropriations to finance various programs in other funds, and $3.8 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $88.7 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

The Office of Information Resources, an internal service fund, had transfers in of $1.2 million from the full accrual ledger for the sale of equipment. This transfer caused total transfers-in to not match total transfers-out on the fund level statements.

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
2016	$ 10,056
2017	8,343
2018	7,744
2019	5,977
2020	5,216
2021-2025	17,713
Total minimum payments required	$ 55,049

Expenditures for rent under leases for the year ended June 30, 2015, amounted to $67.6 million.

Capital lease obligations – The state leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 14 years. The effective interest rates for these leases range from 4.48 percent to 32.12 percent. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 323
Buildings	$ 39,671	
Less: accumulated depreciation	6,131	33,540
		$ 33,863

At June 30, 2015, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Executory Costs	Governmental Activities Lease Obligation Payable
2016	$ 1,179	$ 1,518	$ 734	$ 3,431
2017	1,159	1,579	753	3,491
2018	1,225	1,546	772	3,543
2019	1,297	1,507	791	3,595
2020	1,376	1,461	811	3,648
2021-2025	8,459	6,233	4,369	19,061
2026-2029	5,904	2,264	3,700	11,868
Total	$ 20,599	$ 16,108	$ 11,930	48,637
Less - interest				16,108
Less - executory costs				11,930
Present value of net minimum lease payments				$ 20,599

G. **Lease receivables**

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

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

Minimum future lease payments to be received as of June 30, 2015 (expressed in thousands):

Year Ended June 30	Total
2016	$ 688
2017	689
2018	673
2019	657
2020	641
2021-2025	2,229
2026-2030	1,837
2031-2033	994
Total minimum future lease payments	$ 8,408

Net investment in direct financing leases at June 30:

Minimum lease payments receivable	$ 8,408
Less: executory costs	(1,130)
Plus: unamortized loss on leases	3,763
Net investment in direct financing lease	$ 11,041

H. **Long-term liabilities**

1. General obligation bonds – Bonds Payable at June 30, 2015, are shown below (expressed in thousands):

Governmental activities:		Amount
General obligation bonds, 1.38% to 5.59%, due in generally decreasing amounts of principal and interest from $123.754 million in 2016 to $5.689 million in 2035	$	913,775
General obligation refunding bonds, 2004 Series C, 5% to 5.25%, principal and interest due in amounts from $25.752 million in 2016 to $11.388 million in 2018		46,245
General obligation refunding bonds, 2005 Series A, 5.25%, principal and interest due in amounts from $18.798 million in 2016 to $17.950 million in 2017		34,065
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $10.691 million in 2016 to $7.544 million in 2022		74,400
General obligation refunding bonds, 2009 Series D, 3.34% to 5.59%, principal and interest due in amounts from $3.814 million in 2016 to $3.889 million in 2029		38,130
General obligation refunding bonds, 2010 Series B, 3% to 4%, principal and interest due in amounts from $1.223 million in 2016 to $7.375 million in 2024		37,135
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $9.246 million in 2016 to $187.775 thousand in 2026		55,450
General obligation refunding bonds, 2011 Series C, 1.38% to 3.53%, principal and interest due in amounts from $2.533 million in 2016 to $1.175 million in 2024		16,255
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $24.607 million in 2016 to $7.334 million in 2028		449,070
General obligation refunding bonds, 2012 Series C, .75% to 1.60%, principal and interest due in amounts from $1.243 million in 2016 to $7.021 million in 2020		28,330
General obligation refunding bonds, 2014 Series B, 5%, principal and interest due in amounts from $3.958 million in 2016 to $11.475 million in 2030		79,160
Total bonds outstanding		1,772,015
Plus unamortized bond premium		188,422
Total bonds payable	$	1,960,437

General obligation bonds issued during the year ended June 30, 2015:

July 2014	Bond Series 2014A in the amount of $111.065 million
	Refunding Bond Series 2014B in the amount of $79.160 million

The July 2014, bond series 2014A, general obligation bond issuance in the amount of $111.065 million represents tax-exempt bonds maturing serially through 2035 at interest rates ranging from 3 percent to 5 percent. The bonds were sold at a premium of $19.230 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In July 2014, the state issued general obligation refunding bonds, series 2014B, in the amount of $79.160 million to provide for the advance refunding of $25.160 million and $58.975 million of general obligation bonds issued in series 2008A and 2009C respectively. Proceeds from the refunding were deposited in an irrevocable trust account with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the bonds are considered defeased and the liability for those bonds have been removed from the government wide statement of net position.

The net carrying amount of the refunded bonds was $91.986 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.296 million. The difference, reported in the accompanying financial statements as deferred outflows of resources, is being charged to operations through 2030 using the straight line method. The state completed the refunding to reduce its total debt service payments over 16 years by $9.795 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $6.920 million.

Prior-year defeasance of debt

In prior years, the state defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the state's financial statements. On June 30, 2015, $545.810 million of bonds outstanding are considered defeased.

2. General obligation commercial paper – Governmental activities commercial paper payable at June 30, 2015, is shown below (expressed in thousands).

	Commercial paper
General obligation commercial paper, interest rates ranging from .06% to .11% for tax exempt and .14% to .20% for taxable, varying maturities	$ 197,686

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

The state has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on July 1, 2016. At June 30, 2015, $197.686 million of commercial paper was outstanding ($171.823 million tax exempt and $25.863 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Pledged Revenues/Collateralized Borrowing

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

The total amount of proceeds received and remaining to be repaid through the use of the aforementioned tax credits is $45,335,059.59 as of June 30, 2015. For the current year, gross premium tax revenue totaled $789,552,278.51 and credits of $29,312,395.00 were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $691 million per year over the last five years.

General obligation bonds and commercial paper constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state; and a charge and lien upon all fees, taxes and other revenues and funds allocated to the state's general fund, debt service fund and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. The charge and lien on fees, taxes and other revenues in favor of the bonds is subject to a specific pledge of "Special Taxes" in favor of state general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of the annual proceeds of a tax of five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon upon petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be paid to the state; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the state. The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter, or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013, this pledge of "Special Taxes" will expire. Annual debt service for the current year and the total available pledged revenues were $227.401 million and $1.084 billion respectively. For fiscal year 2015, 64.82 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds issued prior to July 1, 2013.

4. Debt service requirements to maturity – Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2015, are as follows (expressed in thousands):

For the Year(s)	General Obligation Bonds		Total
Ended June 30	Principal	Interest	Requirements
2016	$ 151,825	$ 73,796	$ 225,621
2017	145,965	67,248	213,213
2018	137,270	60,497	197,767
2019	127,975	54,684	182,659
2020	124,960	49,231	174,191
2021-2025	559,155	169,643	728,798
2026-2030	420,355	65,793	486,148
2031-2035	104,510	6,900	111,410
	$ 1,772,015	$ 547,792	$ 2,319,807

5. General obligation bonds authorized and unissued – A summary of general obligation bonds authorized and unissued at June 30, 2015, 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, 2014	Authorized	Canceled	Unissued June 30, 2015
Highway	$ 904,700	$ 83,800	$ 113,600	$ 874,900
Higher Education	479,906	193,900	56,444	617,362
Environment & Conservation	12,077	6,200	4,700	13,577
Economic & Community Development	96,157	200,800	21,757	275,200
General government	464,625	36,700	194,719	306,606
Totals	$ 1,957,465	$ 521,400	$ 391,220	$ 2,087,645

6. Changes in long-term liabilities – A summary of changes in long-term obligations for the year ended June 30, 2015 follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,320,824	$ 340,846	$ (503,547)	$ 2,158,123	$ 151,825
Capital leases	21,798		(1,199)	20,599	1,179
Compensated absences	252,701	155,600	(158,499)	249,802	88,679
Claims and judgments	198,656	58,604	(66,130)	191,130	31,805
Pollution remediation	99,734	15,417	(42,560)	72,591	3,152
Other postemployment benefits	569,235	60,693		629,928	
Pension	1,403,851	865,400	(1,782,982)	486,269	
Other long-term liabilities	74,648		(29,312)	45,336	
Governmental activities Long-term obligations	$ 4,941,447	$ 1,496,560	$ (2,584,229)	$ 3,853,778	$ 276,640
Business-type activities					
Deposits payable	$ 7,682	$ 185	$ (89)	$ 7,778	
Business-type activities Long-term obligations	$ 7,682	$ 185	$ (89)	$ 7,778	

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

I. Payables

Payables as of June 30, 2015, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 429,411	$ 76,406	531	$ 111,150	$ 151,673	$ 769,171
Education	38,461	4,444		125,725	18,497	187,127
Highway	130,449	7,175		53,725		191,349
Nonmajor governmental funds	56,502	2,304	$ 20,805	30,895	229	110,735
Internal service funds	78,430	2,947	4,694	3,662		89,733
Total—governmental activities	$ 733,253	$ 93,276	$ 26,030	$ 325,157	$ 170,399	$ 1,348,115
Business-type activities:						
Employment security	$ 111			$ 42,807	$ 6,017	$ 48,935
Sewer treatment loan			$ 5			5
Nonmajor enterprise funds	34,291		2	3,175		37,468
Total—business-type activities	$ 34,402		$ 7	$ 45,982	$ 6,017	$ 86,408

J. Governmental fund balances

Balances as of June 30, 2015, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General fund			
General operations:			
Legislature			$ 49,346
Constitutional offices	$ 4,089	$ 16,406	38,393
Administrative services		26,248	521,052
Children's services			5,785
Public health	23,209	96,772	302,531
Human services	5,079	53,660	35,636
Business and industry development	7,848	1,463	259,590
Judicial	16,868	12,696	2,395
Natural resources	1,213	14,188	5,292
Public safety		16,683	36,796
Agriculture		1,574	18,790
Employment and business regulation	11,079	55,400	1,814
Other	155	7,513	8,525
Total general fund	$ 69,540	$ 302,603	$ 1,285,945
Education fund			
After school program	$ 25,114		
Lottery for education	135,064		
Energy efficient school initiative	3,237		
State endowment	15,914		
Other	353	$ 8,583	$ 26,237
Total education fund	$ 179,682	$ 8,583	$ 26,237
Highway fund			
State matching	$ 42,014		
Railway, aeronautics, and waterway program		$ 164,538	
State aid		91,143	
Future highway projects			$ 167,087
Railroad inspection		1,665	
Other			24,785
Total highway fund	$ 42,014	$ 257,346	$ 191,872
Nonmajor governmental funds			
Capital projects	$ 9,149		$ 508,874
Debt service			9,708
Chairs of excellence	195,906		
Criminal injuries		$ 9,165	
Wildlife resources	38,636	16,550	
Underground storage tanks	45,514	512	
Enhanced emergency 911	57,133	3,313	
Environmental protection		31,968	
Solid and hazardous waste	48	15,213	
Parks acquisition		27,305	
Other	7,771	19,446	
Total nonmajor governmental funds	$ 354,157	$ 123,472	$ 518,582

Budget stabilization accounts

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

(a) General fund's Reserve for Revenue Fluctuations

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

The lesser of:

(1) At least 10 percent of the estimated growth in state tax revenues to be allocated to the general fund and education fund.
(2) An amount to maintain the account at eight percent (8%) of the estimated tax revenues allocated to the general fund and education fund.

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The general fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $492 million as of June 30, 2015.

(b) Education fund's General Shortfall Reserve Account

In accordance with *Tennessee Code Annotated*, 4-51-111, the state transferred one hundred million dollars ($100,000,000) from the Lottery for Education Account to the General Shortfall Reserve Account. The resources of this account may be used when the net lottery proceeds are not sufficient to meet the amount appropriated for educational programs and other purposes consistent with Article XI, Section 5 of the Constitution of Tennessee. In the event this account is drawn upon in any fiscal year, the account shall be brought back to its prior level in subsequent fiscal years. In addition to the one hundred million dollars mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below one hundred million dollars ($100,000,000). As of June 30, 2015, this account has a balance of $100 million and is reported as restricted fund balance in the education fund.

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

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2015 (expressed in thousands):

Condensed Statement of Net Position
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,360,239	$ 161,297	$ 974,456	$ 986,101	$ 711,324	$ 5,193,417
Due from primary government			11,819	25,592	1,554	38,965
Due from other component units					1,533,830	1,533,830
Restricted assets	205,675	6,442	884,800	1,406,596	203,187	2,706,700
Capital assets, net	512	2,758	2,668,538	2,318,729	52,454	5,042,991
Total assets	2,566,426	170,497	4,539,613	4,737,018	2,502,349	14,515,903
Deferred outflows	2,653		86,442	77,731	48,203	215,029
Liabilities						
Accounts payable and other current liabilities	45,450	63,056	225,205	293,943	94,105	721,759
Due to primary government	71	96,282	10,998	5,095	2,875	115,321
Due to other component units			741,648	792,182		1,533,830
Long-term liabilities	2,004,880	11,120	303,443	435,366	2,231,042	4,985,851
Total liabilities	2,050,401	170,458	1,281,294	1,526,586	2,328,022	7,356,761
Deferred inflows	4,271		161,254	126,894	6,460	298,879
Net position						
Net investment in capital assets	512	2,758	1,962,435	1,502,155	46,768	3,514,628
Restricted	441,196	39	636,165	1,304,979	36,373	2,418,752
Unrestricted	72,699	(2,758)	584,907	354,135	132,929	1,141,912
Total net position	$ 514,407	$ 39	$ 3,183,507	$ 3,161,269	$ 216,070	$ 7,075,292

Condensed Statement of Activities
Component Units

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component units:				
Housing Development Agency	$ 432,786	$ 113,511	$ 313,518	
Tennessee Education Lottery	1,372,537	1,372,424	34	
Board of Regents	2,370,273	984,414	773,346	$ 142,827
University of Tennessee	2,025,546	728,088	804,797	66,459
Nonmajor component units	355,631	137,082	141,563	13,899
Total	$ 6,556,773	$ 3,335,519	$ 2,033,258	$ 223,185

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

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

State appropriations from the education fund in the amount of $669.5 million were made to the TBR and $499.7 million to the UT.

Capital project expenditures in the amount of $177.5 million were made for the TBR and $52 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 $54.1 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $335.9 million for the state’s Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Position					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ (5,757)					$ (5,757)
	$ (79)				(79)
		$ (469,686)			(469,686)
			$ (426,202)		(426,202)
				$ (63,087)	(63,087)
(5,757)	(79)	(469,686)	(426,202)	(63,087)	(964,811)
		659,484	500,003	57,612	1,217,099
		17,454	2,743	9,587	29,784
29	97	4,504	13,342	123	18,095
		1,037			1,037
29	97	682,479	516,088	67,322	1,266,015
		8,996	84,537		93,533
(5,728)	18	221,789	174,423	4,235	394,737
520,135	21	2,961,718	2,986,846	211,835	6,680,555
$ 514,407	$ 39	$ 3,183,507	$ 3,161,269	$ 216,070	$ 7,075,292

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, 2015, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 28,034	$ 708,854
University of Tennessee	32,365	753,436
Total	$ 60,399	$ 1,462,290

L. **Major component units – long-term debt**

Tennessee Housing Development Agency (THDA)

Bonds Payable at June 30, 2015, is shown below (expressed in thousands):

Homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 5.75%, due in amounts of principal and interest ranging from $196.537 million in 2016 to $13.461 million in 2045	$ 1,948,970
Plus unamortized bond premium	30,333
Less unamortized bond discount	(133)
Total bonds payable	$ 1,979,170

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

Bond sales during the year ended June 30, 2015, included the following issues:

November 2014—Residential Finance program bonds of $150.000 million
May 2015—Housing Finance program bonds of $163.850 million

Current refundings

During the year ended June 30, 2015, bonds were retired at par before maturity in the Homeownership Program in the amount of $80,555,000, in the Housing Finance Program in the amount of $61,800,000, and in the Residential Finance Program in the amount of $9,740,000. The respective carrying values of the bonds were $82,201,000, $62,080,000 and $10,014,000. This resulted in revenue to the Homeownership Program of $1,645,000, to the Housing Finance Program of $280,414, and to the Residential Finance Program of $274,860.

On May 29, 2014, the agency issued $150,000,000 in Residential Finance Program Bonds, Issue 2014-1. On July 1, 2014, the agency used $30,375,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $30,375,000 early redemption). The carrying amount of these bonds was $30,375,000. The refunding increased the agency's debt service by $2,086,324 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $603,145.

On November 20, 2014, the agency issued $150,000,000 in Residential Finance Program Bonds, Issue 2014-2. On January 1, 2015, the agency used $32,955,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $32,955,000 early redemption). The carrying amount of these bonds was $32,970,071. The refunding increased the agency's debt service by $2,804,783 over the next 20.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $628,626.

On May 28, 2015, the agency issued $163,850,000 in Housing Finance Program Bonds, Issue 2015-A. On June 1, 2015, the agency used $153,040,000 of these bonds to refund bonds previously issued in the Housing Finance Program (this amount consists of $153,040,000 early redemption). The carrying amount of these bonds was $153,040,000. The refunding reduced the agency's debt service by $12,922,997 over the next 24.5 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $2,296,133.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2016	$ 130,210	$ 66,327	$ 196,537
2017	60,840	67,253	128,093
2018	62,240	65,731	127,971
2019	65,205	63,938	129,143
2020	67,515	61,921	129,436
2021-2025	371,950	272,510	644,460
2026-2030	344,895	202,692	547,587
2031-2035	357,140	132,603	489,743
2036-2040	327,036	63,012	390,048
2041-2045	161,939	13,973	175,912
	$ 1,948,970	$ 1,009,960	$ 2,958,930

M. Nonmajor component units – long-term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable at June 30, 2015, is shown below (expressed in thousands):

Revenue bonds, 3.5% to 5%, due in generally decreasing amounts of principal and interest from $988 thousand in 2016 to $25 thousand in 2029	$ 4,610
Plus unamortized bond premium	139
Less unamortized bond discount	(12)
Total bonds payable	$ 4,737

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

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2016	$ 785	$ 203	$ 988
2017	775	166	941
2018	585	129	714
2019	495	105	600
2020	435	85	520
2021-2025	1,220	240	1,460
2026-2029	315	37	352
	$ 4,610	$ 965	$ 5,575

Tennessee State School Bond Authority (TSSBA)

Bonds and Revolving Credit Facility Payable at June 30, 2015, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.86%, due in decreasing amounts of principal and interest from $138.193 million in 2016 to $13.292 million in 2046	$ 1,979,840
Plus unamortized bond premium	176,080
Less unamortized bond discount	(56)
Total bonds payable	$ 2,155,864
Revolving credit facility, interest rates ranging from .48% to .66%, varying maturities	$ 61,682

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

Bond sales during the year ended June 30, 2015, included the following issues:

August 2014—2014 Series A bonds of $132.450 million
2014 Series B bonds of $212.200 million
May 2015—2015 Series A bonds of $75.550 million
2015 Series B bonds of $388.615 million

On August 27, 2014, the Authority issued the 2014 Series A bonds. The 2014 Series A taxable bond proceeds in the amount of $132,450,000 were issued to redeem $44,843,001 of the Authority's taxable revolving credit facility and to advance refund $56,680,000 of the 2005 Series A bonds and $7,725,000 of the 2007 Series B bonds. The balance of the proceeds of the 2014 Series A was used to pay for new construction projects and various costs of issuance. The 2014 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,320,467. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2036. The 2014 Series A refunding resulted in a reduction of total debt service payments of $8,297,682 over the next 22 years and an economic gain (difference between the present values of the old and new debt service payments) of $7,330,312. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption price then due on the refunded bonds.

On August 27, 2014, the Authority issued the 2014 Series B bonds. The 2014 Series B tax-exempt bond proceeds in the amount of $212,200,000 were issued to current refund $4,590,000 of the 2006 Series A bonds and advance refund $18,890,000 of the 2007 Series A bonds, $84,135,000 of the 2008 Series A bonds, $99,115,000 of the 2008 Series B bonds and $22,225,000 of the 2009 Series A bonds. The balance of the proceeds of the 2014 Series B was used to pay for new construction projects and various costs of issuance. The 2014 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $23,037,977. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2038. The 2014 Series B refunding resulted in a reduction of total debt service payments of $29,059,618 over the next 24 years and an economic gain (difference between the present values of the old and new debt service payments) of $24,666,277. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption price then due on the refunded bonds.

On May 7, 2015, the Authority issued the 2015 Series A bonds. The 2015 Series A taxable bond proceeds in the amount of $75,550,000 were issued to redeem $10,600,432 of the Authority's taxable revolving credit facility and to advance refund $40,545,000 of the 2007 Series C bonds. The balance of the proceeds of the

2015 Series A was used to pay for new construction projects and various costs of issuance. The 2015 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,847,500. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2025. The 2015 Series A refunding resulted in a reduction of total debt service payments of $4,548,899 over the next 10 years and an economic gain (difference between the present values of the old and new debt service payments) of $4,122,985. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption price then due on the refunded bonds.

On May 7, 2015, the Authority issued the 2015 Series B bonds. The 2015 Series B tax-exempt bond proceeds in the amount of $388,615,000 were issued to redeem $86,453,306 of the Authority's tax-exempt revolving credit facility and to advance refund $6,950,000 of the 2008 Series A bonds, $11,845,000 of the 2008 Series B bonds, $31,175,000 of the 2009 Series A bonds and $84,135,000 of the 2010 Series A bonds. The balance of the proceeds of the 2015 Series B was used to pay for new construction projects and various costs of issuance. The 2015 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6,805,826. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2038. The 2015 Series B refunding resulted in a reduction of total debt service payments of $21,723,485 over the next 24 years and an economic gain (difference between the present values of the old and new debt service payments) of $16,176,450. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption price then due on the refunded bonds.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2016	$ 71,715	$ 66,478	$ 138,193
2017	66,595	64,637	131,232
2018	68,265	62,372	130,637
2019	72,275	59,433	131,708
2020	68,665	56,313	124,978
2021-2025	361,210	239,846	601,056
2026-2030	699,210	168,782	867,992
2031-2035	234,050	105,447	339,497
2036-2040	197,865	55,896	253,761
2041-2045	127,020	16,212	143,232
2046	12,970	322	13,292
	$ 1,979,840	$ 895,738	$ 2,875,578

<u>Revolving credit facility program</u>

The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the revolving credit facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed

$300,000,000. The Revolving Credit Agreement expires March 20, 2017, subject to extension. The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2015, $51,443,643 of tax-exempt revolving credit facility and $10,238,386 of taxable revolving credit facility loans were outstanding.

N. Component units – changes in long-term liabilities

A summary of changes in long-term obligations for the year ended June 30, 2015, follows (expressed in thousands).

Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds and loans payable:					
University of Tennessee (UT) loans payable	$ 691,579	$ 581,300	$ (487,078)	$ 785,801	$ 32,365
Tennessee Board of Regents (TBR) loans payable	713,257	297,390	(267,400)	743,247	28,811
Tennessee Housing Development Agency (THDA) bonds payable	1,984,298	478,945	(484,073)	1,979,170	130,455
Nonmajor component units bonds and loans payable	1,949,973	974,442	(696,446)	2,227,969	61,919
Total revenue bonds and loans payable	$ 5,339,107	$ 2,332,077	$ (1,934,997)	$ 5,736,187	$ 253,550
UT compensated absences	81,285	41,577	(44,296)	78,566	44,296
UT other postemployment benefits	94,119	5,923		100,042	
UT pension	254,255	156,735	(322,920)	88,070	
UT due to grantors, unearned revenue and annuities payable	72,011	128,448	(129,004)	71,455	
TBR compensated absences	63,617	38,141	(37,439)	64,319	16,200
TBR other postemployment benefits	98,399	2,640		101,039	
TBR pension	323,049	199,143	(410,294)	111,898	
TBR due to grantors, unearned revenue and other	20,048	1,318	(1,398)	19,968	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	3,449	2,902	(995)	5,356	76
THDA compensated absences	1,210	80	(83)	1,207	585
THDA other postemployment benefits	1,413	103		1,516	
THDA pension	8,557	5,275	(10,868)	2,964	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	6,487	912	(352)	7,047	392
TELC compensated absences	584	528	(539)	573	584
TELC unearned rent	918	4,588	(2,006)	3,500	165
Nonmajor component units compensated absences	1,272	493	(453)	1,312	744
Nonmajor component units other postemployment benefits	990	22		1,012	
Nonmajor component units pension	2,159	1,331	(2,742)	748	
Component units long-term liabilities	$ 6,372,929	$ 2,922,236	$ (2,898,386)	$ 6,396,779	$ 316,592

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 $97.233 million ($3.951 million due within one year).

O. **Endowments – component units**

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2015, net appreciation of $168.879 million is available to be spent, of which $165.378 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, 2015, net appreciation of $18.648 million is available to be spent, of which $18.415 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, 2015, included 130 local education agencies and one education cooperative, with 49,847 active teachers and support personnel enrolled in one of three health care options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the limited preferred provider organization plan (PPO). The state does not retain any risk for losses by this fund.

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

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

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

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

	2015	2014
Unpaid claims at beginning of year	$ 26,966	$ 30,125
Incurred claims:		
Provision for insured events of the current year	445,964	429,300
Increase (decrease) in provision for insured events of prior years	(681)	(3,680)
Total incurred claims expenses	445,283	425,620
Payments:		
Claims attributable to insured events of the current year	418,773	402,349
Claims attributable to insured events of prior years	26,280	26,430
Total payments	445,053	428,779
Total unpaid claims at end of the year	$ 27,196	$ 26,966

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* 8-27-401, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2015, included 57 counties, 146 municipalities and 137 quasi-governmental organizations, with 12,572 active employees maintaining coverage through one of three options: partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), or the PPO limited plan. The state does not retain any risk for losses by this fund.

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

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

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

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

	2015	2014
Unpaid claims at beginning of year	$ 6,032	$ 6,884
Incurred claims:		
Provision for insured events of the current year	100,806	97,731
Increase (decrease) in provision for insured events of prior years	(224)	(531)
Total incurred claims expenses	100,582	97,200
Payments:		
Claims attributable to insured events of the current year	95,096	91,708
Claims attributable to insured events of prior years	5,753	6,344
Total payments	100,849	98,052
Total unpaid claims at end of the year	$ 5,765	$ 6,032

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

   The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $140,117,000 (discounted at one percent) at June 30, 2015 and $136,844,000 (discounted at one percent) at June 30, 2014. The accrued liability for incurred property losses was $3,575,452 at June 30, 2015 and $5,701,233 at June 30, 2014. The changes in the balances of the claims liabilities during fiscal years 2014 and 2015 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
2014-2015	$ 142,545	$ 48,903	$ (47,756)	$ 143,692
2013-2014	$ 96,403	$ 83,017	$ (36,875)	$ 142,545

   The RMF held $127.9 million in cash at June 30, 2015 and $116.3 million in cash at June 30, 2014 that is designated for payment of these claims.

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

4. Employee Group Insurance – The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the state with the risk retained by the state; therefore, it is accounted for as an Internal Service Fund. In accordance with *Tennessee Code Annotated* 8-27-201, all state employees and certain former employees with work related injuries are eligible to participate. Fund members at June 30, 2015, included 62,060 active employees enrolled in one of two options: partnership preferred provider organization plan (PPO) or the standard preferred provider organization plan (PPO).

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

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

	2015	2014
Unpaid claims at beginning of year	$ 44,250	$ 41,233
Incurred claims:		
Provision for insured events of the current year	694,426	665,258
Increase (decrease) in provision for insured events of prior years	90	1,522
Total incurred claims expenses	694,516	666,780
Payments:		
Claims attributable to insured events of the current year	651,805	621,136
Claims attributable to insured events of prior years	44,083	42,627
Total payments	695,888	663,763
Total unpaid claims at end of the year	$ 42,878	$ 44,250

5. CoverTN – The CoverTN program was established in 2006 to provide an affordable, basic health care option to small businesses and the working uninsured. Because CoverTN is a limited benefit plan that does not meet the minimum requirements under the Affordable Care Act, the program closed December 31, 2013.

The CoverTN program provided health care financing based in part upon member premiums, and used traditional insurance components, including co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium.

Individual shares of the monthly premium ranged from $37 to $109. The CoverTN program claim run out period with Blue Cross Blue Shield of Tennessee ended January 31, 2015.

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

	2015	2014
Unpaid claims at beginning of year	$ (47)	$ 1,822
Incurred claims:		
Provision for insured events of the current year		15,202
Increase (decrease) in provision for insured events of prior years	(105)	134
Total incurred claims expenses	(105)	15,336
Payments:		
Claims attributable to insured events of the current year		15,232
Claims attributable to insured events of prior years	(152)	1,973
Total payments	(152)	17,205
Total unpaid claims at end of the year	$ -	$ (47)

6. CoverKids – The CoverKids program was launched in 2007 as part of the federal funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with *Tennessee Code Annotated* 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is placed on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 70,811 at June 30, 2015.

   As part of the federally funded CHIP program, CoverKids receives the majority of funding from the Federal Government at an approximately 75/25 ratio match. There are no monthly premiums and the program has no deductibles. Members pay affordable co-pays for services. CoverKids members use the TennCareSelect Provider Network administered by BlueCross BlueShield.

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

	2015	2014
Unpaid claims at beginning of year	$ 7,839	$ 12,450
Incurred claims:		
Provision for insured events of the current year	111,646	144,272
Increase (decrease) in provision for insured events of prior years	(7,717)	(3,237)
Total incurred claims expenses	103,929	141,035
Payments:		
Claims attributable to insured events of the current year	104,643	136,465
Claims attributable to insured events of prior years		9,181
Total payments	104,643	145,646
Total unpaid claims at end of the year	$ 7,125	$ 7,839

7. Component unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state's uninsured. In accordance with *Tennessee Code Annotated* 56-7-2901, the target population being those Tennessee residents who were unable to obtain health insurance because of their health conditions. Beginning January 1, 2015, AccessTN transitioned its membership to individual commercial health coverage plans. Enrollment is closed and members must be at or below 100 percent of the federal poverty level to retain eligibility. The state does not retain any risk for losses by this fund.

   Beginning January 1, 2015, the AccessTN program pays 100% of the premium cost for all members. The claim run out period for claims incurred through December 31, 2014, extends through January 31, 2016. The state's enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The 2015 assessment determination should be made by the AccessTN Board following the end of fiscal year 2015 at the September 15, 2015, board meeting. AccessTN has adequate funding established by state appropriations to conduct operations through that period.

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

	2015	2014
Unpaid claims at beginning of year	$ 703	$ 2,146
Incurred claims:		
Provision for insured events of the current year	3,934	25,462
Increase (decrease) in provision for insured events of prior years	1,248	(222)
Total incurred claims expenses	5,182	25,240
Payments:		
Claims attributable to insured events of the current year	3,958	24,702
Claims attributable to insured events of prior years	1,959	1,981
Total payments	5,917	26,683
Total unpaid claims at end of the year	$ (32)	$ 703

B. Related organizations

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

C. Jointly governed organizations

The Southern Regional Education Compact has 16 member states. Tennessee paid $13,000 for 2015 membership dues.

The Compact for Education has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2015 membership dues.

The Interstate Mining Compact has 23 member states. Tennessee paid $17,029 for 2015 membership dues.

The Southern States Nuclear Compact (also known as the Southern States Energy Compact) has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2015 membership dues.

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

The Interstate Insurance Product Regulation Commission is comprised of 43 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 50 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $17,000 for 2015 membership dues.

The Interstate Compact for Supervision of Adult Offenders is comprised of all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands. Tennessee paid $36,674 for 2015 membership dues.

The Interstate Compact on Educational Opportunities for Military Children has 50 member states and the District of Columbia. Tennessee paid $14,519 for 2015 membership dues.

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):

	2014	2013
Current assets	$ 471	$ 386
Capital assets, less depreciation	341	344
Total assets	812	730
Total liabilities	241	266
Net position	571	464
Total liabilities and net position	$ 812	$ 730
Revenues	$ 446	$ 408
Expenses	339	311
Excess of revenues over expenses	107	97
Beginning net position	464	367
Ending net position	$ 571	$ 464

E. Other postemployment benefits (OPEB)

Employer

Plan description

The State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by *Tennessee Code Annotated* (TCA) 8-27-201 for the state plan and the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy. During the fiscal year 2015, the state general assembly made substantial changes to the insurance offerings for new employees, the most significant change being any state or higher education employee hired after July 1, 2015, will not be eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan. Current employees were not affected by these changes. Further, after July 1, 2015, state or higher education employees working less than an average of 30 hours per week will not be eligible for any insurance plan. The new OPEB valuation as of July 1, 2015, will take all of the changes made by the general assembly into consideration during preparation.

Special funding situation

The state is legally responsible for contributions to the Teacher Group and Medicare Supplement Plans that cover the retirees of other governmental entities. The state provides a subsidy for retired higher education and local education agency (LEA) teachers in the plans. The state is not the sole employer for the LEA employees since some of these agencies provide additional direct subsidies and all provide implicit subsidies. However, the state is the sole contributor for the vast majority of LEA and higher education teachers that participate in the Medicare Supplement Plan.

Funding policy

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

<u>Annual OPEB cost and net OPEB obligation—*Primary government*</u>
(expressed in thousands)

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Annual required contribution	$ 84,027	$ 31,435	$ 11,759	$ 9,510
Interest on the net OPEB obligation	15,768	2,336	2,812	1,853
Adjustment to the ARC	(15,362)	(2,276)	(2,740)	(1,806)
Annual OPEB cost	84,433	31,495	11,831	9,557
Amount of contribution	(47,513)	(16,976)	(6,359)	(5,775)
Increase in net OPEB obligation	36,920	14,519	5,472	3,782
Net OPEB obligation —beginning of year	394,183	58,411	70,309	46,332
Net OPEB obligation —end of year	$ 431,103	$ 72,930	$ 75,781	$ 50,114

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2013	Employee Group	$ 98,253	46%	$ 357,535
6/30/2014	Employee Group	81,575	55%	394,183
6/30/2015	Employee Group	84,433	56%	431,103
6/30/2013	Teacher Group (State Share)	23,974	75%	45,715
6/30/2014	Teacher Group (State Share)	30,402	58%	58,411
6/30/2015	Teacher Group (State Share)	31,495	54%	72,930
6/30/2013	Medicare Supp State	16,607	33%	64,891
6/30/2014	Medicare Supp State	11,448	53%	70,309
6/30/2015	Medicare Supp State	11,831	54%	75,781
6/30/2013	Medicare Supp Teachers	12,117	42%	42,314
6/30/2014	Medicare Supp Teachers	9,251	57%	46,332
6/30/2015	Medicare Supp Teachers	9,557	60%	50,114

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

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 42,907	$ 67
Interest on the net OPEB obligation	7,773	23
Adjustment to the ARC	(7,573)	(23)
Annual OPEB cost	43,107	67
Amount of contribution	(34,427)	(50)
Increase in net OPEB obligation	8,680	17
Net OPEB obligation —beginning of year	194,330	580
Net OPEB obligation —end of year	$ 203,010	$ 597

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2013	Employee Group	$ 50,084	64%	$ 184,494
6/30/2014	Employee Group	41,623	76%	194,330
6/30/2015	Employee Group	43,107	80%	203,010
6/30/2013	Local Government Group	121	48%	527
6/30/2014	Local Government Group	66	20%	580
6/30/2015	Local Government Group	67	75%	597

Funded status and funding progress

The funded status of the plans as of July 1, 2013, was as follows (expressed in thousands):

Primary government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan State	Medicare Supplement Plan Teachers
Actuarial valuation date	7/1/2013	7/1/2013	7/1/2013	7/1/2013
Actuarial accrued liability (AAL)	$ 855,642	$ 294,798	$ 154,051	$ 137,717
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	$ 855,642	$ 294,798	$ 154,051	$ 137,717
Actuarial Value of Assets as a % of the AAL	0%	0%	0%	0%
Covered payroll (active plan members)	$ 1,568,285	N/A	N/A	N/A
UAAL as a percentage of covered payroll	55%	N/A	N/A	N/A

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

Component units

		Employee Group Plan		Local Government Group Plan
Actuarial valuation date		7/1/2013		7/1/2013
Actuarial accrued liability (AAL)	$	369,470	$	238
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	$	369,470	$	238
Actuarial Value of Assets as a % of the AAL		0%		0%
Covered payroll (active plan members)	$	1,514,097	$	22,584
UAAL as a percentage of covered payroll		24%		1%

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

Actuarial methods and assumptions

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

In the July 1, 2013, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent initially for the Employee Group plan and the Local Education Group plan. The rate decreases to 7 percent in fiscal year 2015, and then will reduce by decrements to an ultimate rate of 4.7 percent in fiscal year 2044. All rates include a 2.5 percent inflation assumption. Premium subsidies in the Medicare Supplement plan are projected to remain unchanged and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

Plan

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

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

1. Retiree health plan—State plan

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

      All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2015, there were 6,798 retirees and disability participants enrolled in one of two options: standard preferred provider organization plan (PPO), or the partnership preferred provider organization plan (PPO). The state insurance committee establishes premiums annually.

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

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

2. Retiree health plan—LEA plan

   a. Plan description—Retired teachers participate in the Teacher Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Teacher Group Insurance Plan enterprise fund and reported in an agency fund. The Teacher Group Insurance Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 130 local education agencies and one education cooperative participate in the plan.

      All retired teachers and disability participants of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2015, there were 4,839 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

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

   c. Contributions and reserves—An insurance committee, created in accordance with *Tennessee Code Annotated* (TCA) 8-27-301, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as-you-go basis.

3. Retiree health plan—Local plan

   a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 57 counties, 146 municipalities, and 137 quasi-governmental organizations participate in the plan.

      All retired employees and disability participants of the local governments, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2015, there were 106 retirees and disability participants enrolled in one of three options: standard preferred provider organization plan (PPO), the partnership preferred provider organization plan (PPO), or the limited preferred provider organization plan (PPO). The insurance committee establishes premiums annually.

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

   c. Contributions and reserves—An insurance committee, created in accordance with *Tennessee Code Annotated* (TCA) 8-27-701, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Local Government Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree health plan—Medicare Supplement

   a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2015, there were 29,790 retirees enrolled. The state insurance committee establishes premiums annually.

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

c. Contributions and reserves—In accordance with *Tennessee Code Annotated* (TCA) 8-27-209, the state insurance committee establishes the contributions to the plan by member employers and employees. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Employers contribute a fixed amount to retirees' premiums based on years of service; therefore, retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. This plan is funded on a pay-as-you-go basis.

5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay-as-you-go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The state covered an average of 352 former employees during fiscal year 2014-2015, and the State Plan paid approximately $6.16 million in benefits to this group.

F. **Pension plans**

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

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

2. Defined benefit plan

   Closed State and Higher Education Employee Pension Plan

   General information about the pension plan

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

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

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

Plus

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

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

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

Employees covered by benefit terms−At the measurement date of June 30, 2014, the following employees of the state and the four component units mentioned above were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	49,509
Inactive employees entitled to but not yet receiving benefits	35,945
Active employees	57,132
	142,586

Contributions−Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory, except for a small group of public safety officers and judges. The state makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions by the state were $273.70 million based on an average rate of 15.55 percent of covered payroll. For the year ended June 30, 2015, employer contributions by the four previously mentioned component units were $117.08 million based on an average rate of 15.03 percent of covered payroll.

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

Net Pension Liability (Asset)

The net pension liability (asset) of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

***Actuarial assumptions*−**The total pension liability as of June 30, 2014, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

***Discount rate*−**The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the state will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Primary government

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/13	$ 9,742,291	$ 8,338,440	$ 1,403,851
Changes for the year:			
Service cost	141,726		141,726
Interest	721,707		721,707
Differences between expected and actual experience	(131,127)		(131,127)
Contributions-employer		289,392	(289,392)
Contributions-employees		1,181	(1,181)
Net investment income		1,361,282	(1,361,282)
Benefit payments, including refunds of employee contributions	(522,517)	(522,517)	-
Administrative expense		(1,967)	1,967
Net changes	$ 209,789	$ 1,127,371	$ (917,582)
Balance at 6/30/14	$ 9,952,080	$ 9,465,811	$ 486,269

Component units

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/13	$ 4,080,678	$ 3,492,658	$ 588,020
Changes for the year:			
Service cost	59,364		59,364
Interest	302,296		302,296
Differences between expected and actual experience	(54,924)		(54,924)
Contributions-employer		121,215	(121,215)
Contributions-employees		495	(495)
Net investment income		570,190	(570,190)
Benefit payments, including refunds of employee contributions	(218,863)	(218,863)	-
Administrative expense		(824)	824
Net changes	$ 87,873	$ 472,213	$ (384,340)
Balance at 6/30/14	$ 4,168,551	$ 3,964,871	$ 203,680

Sensitivity of the net pension liability (asset) to changes in the discount rate−The following presents the net position liability (asset) of the State of Tennessee and the four previously mentioned component units calculated using the discount rate of 7.5 percent, as well as, what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage–point lower (6.5 percent) or 1 percentage-point higher (8.5 percent) than the current rate (expressed in thousands):

Primary government

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ 1,667,846	$ 486,269	$ (508,311)

Component units

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ 698,598	$ 203,680	$ (212,912)

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

Pension expense−For the year ended June 30, 2015, the state and the previously mentioned four component units recognized pension expense of $72.45 million and $30.35 million, respectively.

Deferred outflows of resources and deferred inflows of resources−For the year ended June 30, 2015, the state and its four component units mentioned reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

Primary government

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 104,902
Net difference between projected and actual earnings on pension plan investments		$ 595,736
Contributions subsequent to the measurement date of June 30, 2014	$ 273,698	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

Year Ended June 30:	
2016	$ (175,160)
2017	(175,160)
2018	(175,160)
2019	(175,160)
	$ (700,640)

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

Component units

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$ 43,939
Net difference between projected and actual earnings on pension plan investments		$ 249,531
Contributions subsequent to the measurement date of June 30, 2014	$ 117,079	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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

Year Ended June 30:	
2016	$ (73,368)
2017	(73,368)
2018	(73,368)
2019	(73,368)
	$ (293,472)

Payable to the Pension Plan

At June 30, 2015, the state reported a payable of $9.24 million and the four mentioned component units reported a payable of $8.90 million for the outstanding amount of contributions to the pension plan required at year ended June 30, 2015.

State and Higher Education Employee Retirement Plan

General information about the pension plan

Plan description**−**Employees of the state and four of its discretely presented component units hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the Tennessee Board of Regents, and the University of Tennessee.

Benefits provided**−***Tennessee Code Annotated* Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90, in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by multiplying the member's highest five consecutive year average compensation by 1.0 percent multiplied by the member's years of service credit.

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

Members and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is grated if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLA, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

***Contributions*−**Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. The state makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the state for the year ended June 30, 2015, to the State and Higher Education Employee Retirement Plan were $3.02 million, which is 4 percent of covered payroll. Employer contributions by the four component units were $1.23 million, which is 3.87 percent of covered payroll.

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

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

***Pension liabilities*−**Since the measurement date is June 30, 2014, which is prior to the July 1, 2014, inception of the State and Higher Education Employee Retirement Plan, there is not a net pension liability to report at June 30, 2015.

***Pension expense*−**Since the measurement date is June 30, 2014, the state did not recognize a pension expense at June 30, 2015.

***Deferred outflows of resources and deferred inflows of resources*−**For the year ended June 30, 2015, the state and the previously mentioned four component units reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date of June 30, 2014 by the primary government	$ 3,023	(not applicable)
Contributions subsequent to the measurement date of June 30, 2014 by the four component units	$ 1,232	(not applicable)

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Payable to the Pension Plan

At June 30, 2015, the state reported a payable of $0.19 million and the four mentioned component units reported a payable of $0.01 million for the outstanding amount of contributions to the pension plan required at year ended June 30, 2015.

3. Defined contribution plan

Optional Retirement Plan (ORP) – The ORP, administered by the Tennessee Department of Treasury, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $100.0 million for the year ended June 30, 2015. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary.

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

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

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Employees will vest immediately to both the employee and the employer match. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2015, contributions totaling $175.4 million were made to the plans. For the fiscal year ended June 30, 2015, state and higher education employees participating in the 401(k) plan are eligible for a state matching contribution of up to $50 per month. The funding of this match is subject to state appropriations each year. There is no employer matching for employees who participate in the 457 plan. For fiscal year ended June 30, 2015, the state and its employees contributed $70.09 million to Section 401(k) plans. The state recognized pension expenses of $16.1 million for its contributions to the Section 401(k) plans and had no related liability at June 30, 2015.

Pursuant to Public Chapter No. 259 of Public Acts of 2013, state employees hired after June 30, 2014, are automatically enrolled to contribute 2 percent of salary to the state's 401(k) plan with the employer contributing an additional 5 percent to the plan. Employees may opt out of the 2 percent auto enrollment.

Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5 percent employer contribution to the 401(k) plan.

Employees will vest immediately to both the employee and employer contributions. For fiscal year ended June 30, 2015, the state and its employees contributed $5.35 million to the plan. The state recognized pension expenses of $4.36 million for employer contributions and had no related liability at June 30, 2015.

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.

The Intermediate Term Investment Fund (ITIF) is an external investment pool sponsored by the State of Tennessee. All funds in the ITIF at June 30, 2015, consist of funds belonging to entities outside of the state's financial reporting entity, and have been included as a separate investment trust fund.

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

H. **Loan guarantees**

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75 percent of their principal amounts. At June 30, 2015, TSAC was guarantor of $2.468 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. **Contingencies**

1. <u>Litigation</u>

The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes which could result in future programmatic costs will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $123 million.

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

2. Tobacco settlement

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

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

One of the provisions of this settlement requires the use of the annual payments in splitting amounts previously deposited in the disputed payments account between states and tobacco companies. These amounts were released to the participating states in 2013, and the tobacco companies are receiving their share by taking credits against their annual payments through 2017.

3. Pollution remediation obligations

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

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

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

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

During the fiscal year, the state spent $5 million for remediation activities and had an expected recovery of $198 thousand from responsible parties. At June 30, 2015, the state had a pollution remediation obligation of $72.6 million and an estimated potential recovery of $4.3 million from other responsible parties.

4. Federal grants

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

J. Subsequent events

Primary government

Subsequent to June 30, the state issued $110 million in general obligation commercial paper. In October 2015, the state issued 2015 Series A tax-exempt general obligation bonds in the amount of $286.2 million at a premium of $54.3 million and 2015 Series B tax-exempt general obligation bonds in the amount of $97.4 million at a premium of $14.1 million. The Series A issuance was used to redeem commercial paper and to finance the purchase of capital assets. The Series B issuance was used to refund portions of 2009 Series A and 2010 Series A.

In an effort to facilitate the effective and efficient operation of state government, the state developed a Voluntary Buyout Program (VBP). The VBP was designed to provide eligible employees who voluntarily elected to separate employment with severance pay and benefits. The VBP details were mailed to eligible employees in May 2015, and they were notified of their acceptance into the program in July 2015. The state accepted 708 applications with an estimated additional cost of $35.2 million.

Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2015-2 in October 2015 in the amount of $175 million. The agency used mortgage prepayments and foreclosures proceeds to redeem $62.1 million of outstanding bonds in July 2015, $24.4 million in August 2015, $24.5 million in September 2015, $23.2 million in October 2015, $23.2 million in November 2015, and $27.1 million in December 2015.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $10 million in revolving credit facility.

Subsequent to June 30, the Federal Family Education Loan Program (FFELP), a proprietary fund type administered by the Tennessee Student Assistance Corporation, began the process of transitioning the loan portfolio to a new loan servicer.

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REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

Measurement Scale

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

Established Condition Level

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

Assessed Conditions

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

For the Period Ended	Maintenance Rating Index
June 30, 2015	86.70
June 30, 2014	88.90
June 30, 2013	88.10

BRIDGES

Measurement Scale

The state maintains information on its 8,347 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

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

Assessed Conditions

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

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2014	84%
June 30, 2012	83%
June 30, 2010	82%

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

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

For the Period Ended June 30	Roadways		Bridges	
	Estimated	Actual	Estimated	Actual
2015	$ 418,114	$ 477,516	$ 37,945	$ 51,346
2014	419,214	511,204	37,945	54,260
2013	391,114	441,582	33,404	42,175
2012	387,204	411,633	36,904	33,332
2011	376,965	482,271	36,904	11,044
2010	259,147	425,681	39,707	44,312

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

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	Employee Grp	$ 0	$ 977,935	$ 977,935	0%	$ 1,560,085	63%
7/1/2011	Employee Grp	0	1,023,529	1,023,529	0%	1,613,128	63%
7/1/2013	Employee Grp	0	855,642	855,642	0%	1,568,285	55%
7/1/2010	Teacher Grp	0	215,202	215,202	0%	N/A	N/A
7/1/2011	Teacher Grp	0	216,600	216,600	0%	N/A	N/A
7/1/2013	Teacher Grp	0	294,798	294,798	0%	N/A	N/A
7/1/2010	MedSupp- State	0	209,622	209,622	0%	N/A	N/A
7/1/2011	MedSupp- State	0	220,509	220,509	0%	N/A	N/A
7/1/2013	MedSupp- State	0	154,051	154,051	0%	N/A	N/A
7/1/2010	MedSupp- Teacher	0	158,789	158,789	0%	N/A	N/A
7/1/2011	MedSupp- Teacher	0	163,305	163,305	0%	N/A	N/A
7/1/2013	MedSupp- Teacher	0	137,317	137,317	0%	N/A	N/A

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
(Continued)

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

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2010	Employee Grp	$ 0	$ 518,083	$ 518,083	0%	$ 1,362,560	38%
7/1/2011	Employee Grp	0	452,669	452,669	0%	1,445,364	31%
7/1/2013	Employee Grp	0	369,470	369,470	0%	1,514,097	24%
7/1/2010	Local Govt	0	2,166	2,166	0%	21,500	10%
7/1/2011	Local Govt	0	363	363	0%	21,458	2%
7/1/2013	Local Govt	0	238	238	0%	22,584	1%

STATE OF TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
(Continued)

State of Tennessee
Tennessee Consolidated Retirement Fund
Required Supplementary Information
Schedule of Changes in the State of Tennessee's Net Pension Liability (Asset) and Related Ratios Based on Participation in the Closed State and Higher Education Employee Pension Plan of TCRS[1]
(expressed in thousands)

		2014
Total pension liability		
Service cost	$	201,090
Interest		1,024,003
Changes in benefit terms		
Differences between actual and expected experience		(186,051)
Changes of assumptions		
Benefit payments, including refunds of employee contributions		(741,380)
Net change in total pension liability		297,662
Total pension liability-beginning		13,822,970
Total pension liability-ending (a)	$	14,120,632
Plan fiduciary net position		
Contributions-employer		410,608
Contributions-employee		1,676
Net investment income		1,931,471
Benefit payments, including refunds of employee contributions		(741,380)
Administrative expense		(2,791)
Net change in plan fiduciary net position		1,599,584
Plan fiduciary net position-beginning		11,831,098
Plan fiduciary net position-ending (b)	$	13,430,682
Net pension liability (asset)-ending (a)-(b)	$	689,950
Plan fiduciary net position as a percentage of total pension liability		95.11%
Covered-employee payroll		2,658,354
Net pension liability (asset) as a percentage of covered-employee payroll		25.95%

Schedule of the State of Tennessee's Contributions Closed State and Higher Education Employee Pension Plan[1]

	2014	2015
Actuarially determined contribution	$ 410,608	$ 390,777
Contributions in relation of the actuarially determined contribution	410,608	390,777
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	2,658,354	2,538,802
Contributions as a percentage of covered-employee payroll	15.45%	15.39%

Notes to schedule

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013, actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	13 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

Schedule of the State of Tennessee's Contributions State and Higher Education Employee Retirement Plan[1]

	2015
Actuarially determined contribution	$ 4,255
Contributions in relation of the actuarially determined contribution	4,255
Contribution deficiency (excess)	$ -
Covered-employee payroll	106,890
Contributions as a percentage of covered-employee payroll	3.98%

1. The above schedules include information from the four component units of the state.

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

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

	2007	2008	2009	2010	2011	2012	2013	2014	2015
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773	18,579	21,146	18,073	12,735	1,408
(2) Unallocated expenses	3,520	2,830	2,085	1,195	888	1,277	1,327	940	1,690
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	45,418	41,328	36,871	33,239	11,194	
(4) Net paid (cumulative) as of:									
End of policy year	6,591	34,095	36,859	45,389	41,378	34,206	30,914	10,839	
One year later	9,044	38,791	40,277	45,073	41,319	36,594	33,216		
Two years later	9,056	40,010	40,232	45,072	41,215	36,477			
Three years later	9,452	40,000	40,234	45,059	41,149				
Four years later	9,452	40,000	40,232	45,073					
Five years later	9,452	40,000	40,232						
Six years later	9,452	40,000							
Seven years later	9,452								
(5) Reestimated net incurred claims and expenses:									
End of policy year	8,922	38,764	39,811	45,418	41,328	36,871	33,239	11,194	
One year later	8,975	38,715	40,276	45,066	41,217	36,585	33,117		
Two years later	9,051	40,010	40,232	45,066	41,217	36,469			
Three years later	9,452	40,000	40,232	45,066	41,140				
Four years later	9,452	40,000	40,232	45,073					
Five years later	9,452	40,000	40,232						
Six years later	9,452	40,000							
Seven years later	9,452								
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	530	1,236	421	(345)	(188)	(402)	(122)		

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

STATE OF TENNESSEE

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Required Supplementary Information

Major Governmental Funds

For the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

	General			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget-Favorable (Unfavorable)
REVENUES				
Taxes	$ 7,384,000	$ 7,384,000	$ 7,796,525	$ 412,525
Licenses, fines, fees, and permits	354,457	354,457	357,930	3,473
Investment income	3,710	3,710	10,173	6,463
Federal	10,514,180	10,752,199	9,542,772	(1,209,427)
Departmental services	1,548,259	1,907,181	1,866,451	(40,730)
Other	177,302	177,302	220,923	43,621
Total revenues	19,981,908	20,578,849	19,794,774	(784,075)
EXPENDITURES				
General government				
Legislative	89,062	89,153	38,028	51,125
Secretary of State	57,613	57,616	38,789	18,827
Comptroller	112,286	115,701	97,366	18,335
Treasurer	70,568	83,468	76,649	6,819
Governor	5,381	5,291	4,891	400
Commissions	74,639	75,212	65,813	9,399
Finance and Administration	162,318	149,887	96,926	52,961
General Services	49,944	49,694	24,623	25,071
Revenue	113,446	111,446	101,713	9,733
Miscellaneous Appropriations	1,727	1,752	98	1,654
Health and social services				
Veterans Affairs	7,187	7,339	6,455	884
Labor and Workforce Development	272,261	271,691	164,303	107,388
TennCare	10,959,427	11,241,483	10,224,764	1,016,719
Mental Health	317,045	320,731	306,181	14,550
Intellectual Disabilities	198,160	210,757	191,003	19,754
Health	596,323	610,824	559,803	51,021
Human Services	3,096,390	3,096,050	2,692,907	403,143
Children's Services	735,020	780,112	760,997	19,115
Law, justice, and public safety				
Judicial	332,249	335,145	313,582	21,563
Correction	933,510	902,918	864,352	38,566
Probation and Paroles	7,425	7,325	7,105	220
Military	69,490	104,158	97,330	6,828
Bureau of Criminal Investigation	74,630	82,273	75,436	6,837
Safety	196,065	192,738	188,319	4,419
Recreation and resources development				
Agriculture	101,626	102,319	80,428	21,891
Tourist Development	25,912	25,512	22,922	2,590
Environment and Conservation	247,502	262,093	239,192	22,901
Economic and Community Development	437,712	587,660	230,283	357,377
Regulation of business and professions				
Commerce and Insurance	94,336	99,103	79,902	19,201
Financial Institutions	22,207	22,207	17,678	4,529
Intergovernmental revenue sharing	683,485	683,485	683,485	-
Total expenditures	20,144,946	20,685,143	18,351,323	2,333,820
Excess (deficiency) of revenues over (under) expenditures	(163,038)	(106,294)	1,443,451	1,549,745
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	-	300	300	-
Transfers in	76,210	77,010	77,010	-
Transfers out	(1,034,431)	(1,034,431)	(1,034,431)	-
Total other financing sources (uses)	(958,221)	(957,121)	(957,121)	-
Net change in fund balances	(1,121,259)	(1,063,415)	486,330	1,549,745
Fund balances (budgetary basis), July 1	2,077,157	2,077,157	2,077,157	-
Fund balances (budgetary basis), June 30	$ 955,898	$ 1,013,742	$ 2,563,487	$ 1,549,745

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, 2015
(Expressed in Thousands)

	Education			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget - Favorable (Unfavorable)
REVENUES				
Taxes	$ 4,608,400	$ 4,608,400	$ 4,712,069	$ 103,669
Licenses, fines, fees, and permits	1,800	1,800	1,500	(300)
Investment income	1,310	1,310	1,784	474
Federal	1,097,840	1,183,979	1,146,271	(37,708)
Departmental services	44,686	68,737	94,336	25,599
Other	358,500	358,500	348,374	(10,126)
Total revenues	6,112,536	6,222,726	6,304,334	81,608
EXPENDITURES				
Education	5,519,043	5,625,886	5,576,405	49,481
Higher education	1,585,585	1,582,902	1,556,524	26,378
Total expenditures	7,104,628	7,208,788	7,132,929	75,859
Excess (deficiency) of revenues over (under) expenditures	(992,092)	(986,062)	(828,595)	157,467
OTHER FINANCING SOURCES (USES)				
Transfers in	844,400	844,400	844,400	-
Transfers out	(361,381)	(361,381)	(361,381)	-
Total other financing sources (uses)	483,019	483,019	483,019	-
Net change in fund balance	(509,073)	(503,043)	(345,576)	157,467
Fund balances (budgetary basis), July 1	544,285	544,285	544,285	-
Fund balances (budgetary basis), June 30	$ 35,212	$ 41,242	$ 198,709	$ 157,467

	Highway			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget - Favorable (Unfavorable)
REVENUES				
Taxes	$ 779,900	$ 779,900	$ 786,046	$ 6,146
Licenses, fines, fees, and permits	232,490	232,490	231,398	(1,092)
Federal	975,722	3,594,236	874,199	(2,720,037)
Departmental services	41,988	208,338	41,909	(166,429)
Other	3,386	3,386	5,338	1,952
Total revenues	2,033,486	4,818,350	1,938,890	(2,879,460)
EXPENDITURES				
Transportation	2,297,558	5,082,422	1,708,328	3,374,094
Intergovernmental revenue sharing	289,100	289,100	296,773	(7,673)
Total expenditures	2,586,658	5,371,522	2,005,101	3,366,421
Excess (deficiency) of revenues over (under) expenditures	(553,172)	(553,172)	(66,211)	486,961
OTHER FINANCING SOURCES (USES)				
Bond authorizations	83,500	-	-	-
Transfers in	-	88,700	88,700	-
Transfers out	(2,178)	(2,178)	(2,178)	-
Total other financing sources (uses)	81,322	86,522	86,522	-
Net change in fund balance	(471,850)	(466,650)	20,311	486,961
Fund balances (budgetary basis), July 1	480,377	480,377	480,377	-
Fund balances (budgetary basis), June 30	$ 8,527	$ 13,727	$ 500,688	$ 486,961

STATE OF TENNESSEE
Required Supplementary Information
Note to RSI
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

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

	Education
Revenues	
Actual amount (budgetary basis)	$ 6,304,334
The revenues for the Tennessee Promise Scholarship Endowment Trust are not included in the annually adopted budget.	16,188
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 6,320,522
Expenditures	
Actual amount (budgetary basis)	$ 7,132,929
The expenditures for the Tennessee Promise Scholarship Endowment Trust are not included in the annually adopted budget.	274
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 7,133,203
Other financing sources (uses)	
Actual amount (budgetary basis)	$ 483,019
The transfers out to the Tennessee Promise Scholarship Endowment Trust were eliminated in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	361,381
Total other financing sources (uses) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 844,400

2. Budgetary process

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

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

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $500.7 million fund balance remaining in the highway fund, $491.2 million will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2015. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $20.3 million were required.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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

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.

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

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

STATE OF TENNESSEE

Combining Balance Sheet

Nonmajor Governmental Funds - By Fund Type
June 30, 2015
(Expressed in Thousands)

	Special Revenue Funds	Capital Projects	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS					
Cash and cash equivalents	$ 306,731	$ 539,876	$ 4,829	$ 56,047	$ 907,483
Investments	-	-	-	288,501	288,501
Receivables, net	15,495	6,473	5,879	1,398	29,245
Due from other funds	655	3,649	-	-	4,304
Due from component units	-	8,871	-	763	9,634
Loans receivable	-	-	9,666	-	9,666
Prepayments and others	23	-	-	-	23
Restricted assets:					
Cash and cash equivalents	-	9,149	-	-	9,149
Total assets	$ 322,904	$ 568,018	$ 20,374	$ 346,709	$ 1,258,005
LIABILITIES					
Accounts payable and accruals	48,556	40,851	247	-	89,654
Due to other funds	1,287	1,804	-	63	3,154
Due to component units	517	7,340	-	2,064	9,921
Unearned revenue	14	-	-	-	14
Total liabilities	50,374	49,995	247	2,127	102,743
DEFERRED INFLOWS OF RESOURCES	-	-	10,419	-	10,419
FUND BALANCES					
Nonspendable					
Permanent fund and endowment corpus	$ -	$ -	$ -	$ 148,632	$ 148,632
Restricted	149,058	9,149	-	195,950	354,157
Committed	123,472	-	-	-	123,472
Assigned	-	508,874	9,708	-	518,582
Total fund balances	272,530	518,023	9,708	344,582	1,144,843
Total liabilities, deferred inflows of resources and fund balances	$ 322,904	$ 568,018	$ 20,374	$ 346,709	$ 1,258,005

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, 2015
(Expressed in Thousands)

	Special Revenue Funds	Capital Projects	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES					
Taxes:					
Sales and use	$ -	$ -	$ 54,662	$ -	$ 54,662
Fuel	18,712	-	88,700	-	107,412
Business	511	-	228,038	-	228,549
Other	32,421	-	-	-	32,421
Licenses, fines, fees, and permits	201,066	-	2,700	4,868	208,634
Investment income	238	-	-	9,482	9,720
Federal	33,255	5,025	-	-	38,280
Departmental services	12,772	91,303	1,272	-	105,347
Other	36	-	-	1	37
Total revenues	299,011	96,328	375,372	14,351	785,062
EXPENDITURES					
General government	20,519	-	-	-	20,519
Education	-	-	-	7,733	7,733
Law, justice and public safety	6,032	-	-	-	6,032
Recreation and resources development	184,313	-	-	28	184,341
Regulation of business and professions	89,780	-	-	-	89,780
Debt service:					
Principal	-	176,982	136,068	-	313,050
Interest	-	-	68,325	-	68,325
Debt issuance costs	-	-	1,741	-	1,741
Capital outlay	-	406,396	-	-	406,396
Total expenditures	300,644	583,378	206,134	7,761	1,097,917
Excess (deficiency) of revenues over (under) expenditures	(1,633)	(487,050)	169,238	6,590	(312,855)
OTHER FINANCING SOURCES (USES)					
Bonds and commercial paper issued	-	143,200	-	-	143,200
Bond premium	-	10,150	158	-	10,308
Refunding bond proceeds	-	-	81,321	-	81,321
Refunding payment to escrow	-	-	(81,092)	-	(81,092)
Insurance claims recoveries	5	1,292	-	-	1,297
Transfers in	2,624	157,180	3,839	-	163,643
Transfers out	(124)	(150)	(169,540)	-	(169,814)
Total other financing sources (uses)	2,505	311,672	(165,314)	-	148,863
Net change in fund balances	872	(175,378)	3,924	6,590	(163,992)
Fund balances, July 1	271,658	693,401	5,784	337,992	1,308,835
Fund balances, June 30	$ 272,530	$ 518,023	$ 9,708	$ 344,582	$ 1,144,843

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STATE OF TENNESSEE
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 371,400	$ 371,400	$ -
Licenses, fines, fees, and permits	2,700	2,700	-
Departmental services	1,272	1,272	-
Total revenues	375,372	375,372	-
EXPENDITURES			
Debt service	209,484	206,134	3,350
Total expenditures	209,484	206,134	3,350
Excess (deficiency) of revenues over (under) expenditures	165,888	169,238	3,350
OTHER FINANCING SOURCES (USES)			
Bond premium	158	158	-
Refunding bond proceeds	229	229	-
Transfers in	3,839	3,839	-
Transfers out	(169,540)	(169,540)	-
Total other financing sources (uses)	(165,314)	(165,314)	-
Net change in fund balances	574	3,924	3,350
Fund balances (budgetary basis), July 1	5,784	5,784	-
Fund balances (budgetary basis), June 30	$ 6,358	$ 9,708	$ 3,350

NONMAJOR SPECIAL REVENUE FUNDS

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

<u>Wildlife Resources Agency</u>—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.

<u>Criminal Injuries Compensation</u>—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.

<u>Solid Waste</u>—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.

<u>Help America Vote</u>—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.

<u>Environmental Protection</u>—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.

<u>Hazardous Waste</u>—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.

<u>Parks Acquisition</u>—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.

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

<u>Underground Storage Tanks</u>—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.

<u>Enhanced Emergency 911 Service</u>—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.

<u>Driver Education</u>—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.

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2015
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
ASSETS				
Cash and cash equivalents	$ 56,887	$ 10,587	$ 10,144	$ 30,048
Receivables, net	3,776	4,960	552	123
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 60,663	$ 15,547	$ 10,696	$ 30,171
LIABILITIES				
Accounts payable and accruals	4,525	6,331	1,462	28,664
Due to other funds	497	51	5	-
Due to component units	455	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	5,477	6,382	1,467	28,664
FUND BALANCES				
Restricted	$ 38,636	$ -	$ -	$ 1,507
Committed	16,550	9,165	9,229	-
Total fund balances	55,186	9,165	9,229	1,507
Total liabilities and fund balances	$ 60,663	$ 15,547	$ 10,696	$ 30,171

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2015
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ 31,970	$ 6,299	$ 27,228	$ 3,436	$ 46,782	$ 61,432
-	43	1,346	5	1,822	1,774
-	-	-	-	-	-
-	-	-	-	-	-
$ 31,970	$ 6,342	$ 28,574	$ 3,441	$ 48,604	$ 63,206
2	234	1,264	40	2,553	2,101
-	16	5	-	25	659
-	60	-	-	-	-
-	-	-	13	-	-
2	310	1,269	53	2,578	2,760
$ -	$ 48	$ -	$ 3,388	$ 45,514	$ 57,133
31,968	5,984	27,305	-	512	3,313
31,968	6,032	27,305	3,388	46,026	60,446
$ 31,970	$ 6,342	$ 28,574	$ 3,441	$ 48,604	$ 63,206

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2015
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
ASSETS				
Cash and cash equivalents	$ 1,167	$ 3,519	$ 5,035	$ 858
Receivables, net	60	-	591	-
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 1,227	$ 3,519	$ 5,626	$ 858
LIABILITIES				
Accounts payable and accruals	4	10	377	74
Due to other funds	1	-	-	5
Due to component units	-	-	2	-
Unearned revenue	-	-	-	-
Total liabilities	5	10	379	79
FUND BALANCES				
Restricted	$ -	$ 2,832	$ -	$ -
Committed	1,222	677	5,247	779
Total fund balances	1,222	3,509	5,247	779
Total liabilities and fund balances	$ 1,227	$ 3,519	$ 5,626	$ 858

STATE OF TENNESSEE

Combining Balance Sheet

Nonmajor Special Revenue Funds
June 30, 2015
(Expressed in Thousands)

	Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
	$ 469	$ 1,121	$ 1,929	$ 4,824	$ 2,996	$ 306,731
	44	-	-	399	-	15,495
	-	-	-	655	-	655
	23	-	-	-	-	23
	$ 536	$ 1,121	$ 1,929	$ 5,878	$ 2,996	$ 322,904
	30	106	2	777	-	48,556
	-	1	-	22	-	1,287
	-	-	-	-	-	517
	-	-	-	1	-	14
	30	107	2	800	-	50,374
	$ -	$ -	$ -	$ -	$ -	$ 149,058
	506	1,014	1,927	5,078	2,996	123,472
	506	1,014	1,927	5,078	2,996	272,530
	$ 536	$ 1,121	$ 1,929	$ 5,878	$ 2,996	$ 322,904

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds

For the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
REVENUES				
Taxes:				
Fuel	$ 543	$ -	$ -	$ -
Business	511	-	-	-
Other	11,709	-	2,398	-
Licenses, fines, fees, and permits	39,133	8,735	5,610	-
Investment income	51	10	9	1
Federal	24,337	4,408	-	648
Departmental services	7,500	-	42	-
Other	-	11	-	-
Total revenues	83,784	13,164	8,059	649
EXPENDITURES				
General government	-	11,943	-	648
Law, justice and public safety	-	-	-	-
Recreation and resources development	90,426	-	6,186	-
Regulation of business and professions	-	-	-	-
Total expenditures	90,426	11,943	6,186	648
Excess (deficiency) of revenues over (under) expenditures	(6,642)	1,221	1,873	1
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	5	-	-	-
Transfers in	1,474	-	-	-
Transfers out	(124)	-	-	-
Total other financing sources (uses)	1,355	-	-	-
Net change in fund balances	(5,287)	1,221	1,873	1
Fund balances, July 1	60,473	7,944	7,356	1,506
Fund balances, June 30	$ 55,186	$ 9,165	$ 9,229	$ 1,507

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ -	$ -	$ -	$ -	$ 18,169	$ -
-	-	-	-	-	-
-	-	11,709	-	-	-
46,054	-	-	4,988	2,440	81,077
26	6	21	3	40	60
-	1,155	-	-	1,639	-
-	3,451	1	297	569	-
-	-	-	25	-	-
46,080	4,612	11,731	5,313	22,857	81,137
-	-	-	-	-	-
-	-	-	4,796	-	-
40,255	6,937	7,056	-	24,367	-
-	-	-	-	-	89,780
40,255	6,937	7,056	4,796	24,367	89,780
5,825	(2,325)	4,675	517	(1,510)	(8,643)
-	-	-	-	-	-
150	1,000	-	-	-	-
-	-	-	-	-	-
150	1,000	-	-	-	-
5,975	(1,325)	4,675	517	(1,510)	(8,643)
25,993	7,357	22,630	2,871	47,536	69,089
$ 31,968	$ 6,032	$ 27,305	$ 3,388	$ 46,026	$ 60,446

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
REVENUES				
Taxes:				
Fuel	$ -	$ -	$ -	$ -
Business	-	-	-	-
Other	-	-	5,405	-
Licenses, fines, fees, and permits	694	31	-	1,818
Investment income	-	3	3	-
Federal	-	454	-	-
Departmental services	-	35	-	-
Other	-	-	-	-
Total revenues	694	523	5,408	1,818
EXPENDITURES				
General government	-	-	-	1,539
Law, justice and public safety	449	-	-	-
Recreation and resources development	-	159	3,613	-
Regulation of business and professions	-	-	-	-
Total expenditures	449	159	3,613	1,539
Excess (deficiency) of revenues over (under) expenditures	245	364	1,795	279
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	245	364	1,795	279
Fund balances, July 1	977	3,145	3,452	500
Fund balances, June 30	$ 1,222	$ 3,509	$ 5,247	$ 779

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Agricultural Promotion Boards	Drycleaner's Environmental Response	Agricultural Regulatory Fund	Tennessee Regulatory Authority	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ -	$ -	$ -	$ -	$ -	$ 18,712
-	-	-	-	-	511
1,200	-	-	-	-	32,421
-	824	3,308	5,462	892	201,066
1	1	2	-	1	238
-	-	-	614	-	33,255
4	6	-	867	-	12,772
-	-	-	-	-	36
1,205	831	3,310	6,943	893	299,011
-	-	-	6,389	-	20,519
-	-	-	-	787	6,032
1,058	920	3,336	-	-	184,313
-	-	-	-	-	89,780
1,058	920	3,336	6,389	787	300,644
147	(89)	(26)	554	106	(1,633)
-	-	-	-	-	5
-	-	-	-	-	2,624
-	-	-	-	-	(124)
-	-	-	-	-	2,505
147	(89)	(26)	554	106	872
359	1,103	1,953	4,524	2,890	271,658
$ 506	$ 1,014	$ 1,927	$ 5,078	$ 2,996	$ 272,530

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, 2015
(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 7,931	$ 12,763	$ 4,832
Licenses, fines, fees, and permits	38,751	39,133	382
Investment income	-	51	51
Federal	31,814	24,337	(7,477)
Departmental services	11,353	7,500	(3,853)
Other	-	-	-
Total revenues	89,849	83,784	(6,065)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	114,606	90,426	24,180
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	114,606	90,426	24,180
Excess (deficiency) of revenues over (under) expenditures	(24,757)	(6,642)	18,115
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	5	5	-
Transfers in	1,474	1,474	-
Transfers out	(124)	(124)	-
Total other financing sources (uses)	1,355	1,355	-
Net change in fund balances	(23,402)	(5,287)	18,115
Fund balances (budgetary basis), July 1	60,473	60,473	-
Fund balances (budgetary basis), June 30	$ 37,071	$ 55,186	$ 18,115

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, 2015

(Expressed in Thousands)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ 6,759	$ 2,398	$ (4,361)
11,843	8,735	(3,108)	5,644	5,610	(34)
-	10	10	-	9	9
4,500	4,408	(92)	-	-	-
-	-	-	1	42	41
7	11	4	-	-	-
16,350	13,164	(3,186)	12,404	8,059	(4,345)
-	-	-	-	-	-
-	-	-	-	-	-
16,350	11,943	4,407	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	12,410	6,186	6,224
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,350	11,943	4,407	12,410	6,186	6,224
-	1,221	1,221	(6)	1,873	1,879
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,221	1,221	(6)	1,873	1,879
7,944	7,944	-	7,356	7,356	-
$ 7,944	$ 9,165	$ 1,221	$ 7,350	$ 9,229	$ 1,879

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, 2015

(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	-	-	-
Investment income	-	1	1
Federal	26,500	648	(25,852)
Departmental services	-	-	-
Other	-	-	-
Total revenues	26,500	649	(25,851)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	27,500	648	26,852
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	27,500	648	26,852
Excess (deficiency) of revenues over (under) expenditures	(1,000)	1	1,001
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(1,000)	1	1,001
Fund balances (budgetary basis), July 1	1,506	1,506	-
Fund balances (budgetary basis), June 30	$ 506	$ 1,507	$ 1,001

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, 2015
(Expressed in Thousands)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -
48,672	46,054	(2,618)	-	-	-
-	26	26	-	6	6
-	-	-	1,891	1,155	(736)
-	-	-	3,599	3,451	(148)
-	-	-	-	-	-
48,672	46,080	(2,592)	5,490	4,612	(878)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
53,324	40,255	13,069	9,522	6,937	2,585
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
53,324	40,255	13,069	9,522	6,937	2,585
(4,652)	5,825	10,477	(4,032)	(2,325)	1,707
-	-	-	-	-	-
150	150	-	1,000	1,000	-
-	-	-	-	-	-
150	150	-	1,000	1,000	-
(4,502)	5,975	10,477	(3,032)	(1,325)	1,707
25,993	25,993	-	7,357	7,357	-
$ 21,491	$ 31,968	$ 10,477	$ 4,325	$ 6,032	$ 1,707

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, 2015
(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 6,931	$ 11,709	$ 4,778
Licenses, fines, fees, and permits	-	-	-
Investment income	-	21	21
Federal	-	-	-
Departmental services	-	1	1
Other	-	-	-
Total revenues	6,931	11,731	4,800
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	7,761	7,056	705
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	7,761	7,056	705
Excess (deficiency) of revenues over (under) expenditures	(830)	4,675	5,505
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(830)	4,675	5,505
Fund balances (budgetary basis), July 1	22,630	22,630	-
Fund balances (budgetary basis), June 30	$ 21,800	$ 27,305	$ 5,505

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, 2015
(Expressed in Thousands)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ 18,500	$ 18,169	$ (331)
4,822	4,988	166	4,880	2,440	(2,440)
-	3	3	-	40	40
-	-	-	1,973	1,639	(334)
-	297	297	-	569	569
-	25	25	-	-	-
4,822	5,313	491	25,353	22,857	(2,496)
4,951	4,796	155	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	25,371	24,367	1,004
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,951	4,796	155	25,371	24,367	1,004
(129)	517	646	(18)	(1,510)	(1,492)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(129)	517	646	(18)	(1,510)	(1,492)
2,871	2,871	-	47,536	47,536	-
$ 2,742	$ 3,388	$ 646	$ 47,518	$ 46,026	$ (1,492)

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, 2015
(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	85,588	81,077	(4,511)
Investment income	-	60	60
Federal	-	-	-
Departmental services	-	-	-
Other	-	-	-
Total revenues	85,588	81,137	(4,451)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	103,910	89,780	14,130
Revenue	-	-	-
Total expenditures	103,910	89,780	14,130
Excess (deficiency) of revenues over (under) expenditures	(18,322)	(8,643)	9,679
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(18,322)	(8,643)	9,679
Fund balances (budgetary basis), July 1	69,089	69,089	-
Fund balances (budgetary basis), June 30	$ 50,767	$ 60,446	$ 9,679

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, 2015
(Expressed in Thousands)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -
791	694	(97)	500	31	(469)
-	-	-	-	3	3
-	-	-	-	454	454
-	-	-	-	35	35
-	-	-	-	-	-
791	694	(97)	500	523	23
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
791	449	342	-	-	-
-	-	-	-	-	-
-	-	-	500	159	341
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
791	449	342	500	159	341
-	245	245	-	364	364
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	245	245	-	364	364
977	977	-	3,145	3,145	-
$ 977	$ 1,222	$ 245	$ 3,145	$ 3,509	$ 364

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, 2015
(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
REVENUES			
Taxes	$ 3,188	$ 5,405	$ 2,217
Licenses, fines, fees, and permits	-	-	-
Investment income	-	3	3
Federal	-	-	-
Departmental services	-	-	-
Other	-	-	-
Total revenues	3,188	5,408	2,220
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	6,588	3,613	2,975
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	6,588	3,613	2,975
Excess (deficiency) of revenues over (under) expenditures	(3,400)	1,795	5,195
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(3,400)	1,795	5,195
Fund balances (budgetary basis), July 1	3,452	3,452	-
Fund balances (budgetary basis), June 30	$ 52	$ 5,247	$ 5,195

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, 2015

(Expressed in Thousands)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ -	$ -	$ -
1,633	1,818	185	1,896	824	(1,072)
-	-	-	-	1	1
-	-	-	-	-	-
-	-	-	-	6	6
-	-	-	-	-	-
1,633	1,818	185	1,896	831	(1,065)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,896	920	976
-	-	-	-	-	-
-	-	-	-	-	-
1,633	1,539	94	-	-	-
1,633	1,539	94	1,896	920	976
-	279	279	-	(89)	(89)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	279	279	-	(89)	(89)
500	500	-	1,103	1,103	-
$ 500	$ 779	$ 279	$ 1,103	$ 1,014	$ (89)

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, 2015
(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	**Actual (Budgetary Basis)**	**Variance - Favorable (Unfavorable)**
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	3,039	3,308	269
Investment income	-	2	2
Federal	-	-	-
Departmental services	120	-	(120)
Other	-	-	-
Total revenues	3,159	3,310	151
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	4,271	3,336	935
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	4,271	3,336	935
Excess (deficiency) of revenues over (under) expenditures	(1,112)	(26)	1,086
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(1,112)	(26)	1,086
Fund balances (budgetary basis), July 1	1,953	1,953	-
Fund balances (budgetary basis), June 30	$ 841	$ 1,927	$ 1,086

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, 2015

(Expressed in Thousands)

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ -	$ -	$ -	$ 43,309	$ 50,444	$ 7,135
6,272	5,462	(810)	214,331	200,174	(14,157)
-	-	-	-	236	236
833	614	(219)	67,511	33,255	(34,256)
831	867	36	15,904	12,768	(3,136)
-	-	-	7	36	29
7,936	6,943	(993)	341,062	296,913	(44,149)
-	-	-	4,951	4,796	155
-	-	-	27,500	648	26,852
-	-	-	16,350	11,943	4,407
7,951	6,389	1,562	7,951	6,389	1,562
-	-	-	791	449	342
-	-	-	10,859	6,949	3,910
-	-	-	110,784	85,880	24,904
-	-	-	114,606	90,426	24,180
-	-	-	103,910	89,780	14,130
-	-	-	1,633	1,539	94
7,951	6,389	1,562	399,335	298,799	100,536
(15)	554	569	(58,273)	(1,886)	56,387
-	-	-	5	5	-
-	-	-	2,624	2,624	-
-	-	-	(124)	(124)	-
-	-	-	2,505	2,505	-
(15)	554	569	(55,768)	619	56,387
4,524	4,524	-	268,409	268,409	-
$ 4,509	$ 5,078	$ 569	$ 212,641	$ 269,028	$ 56,387

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PERMANENT FUNDS

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

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

STATE OF TENNESSEE
Combining Balance Sheet
Permanent Funds
June 30, 2015
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
ASSETS			
Cash and cash equivalents	$ 7,740	$ 48,307	$ 56,047
Investments	288,501	-	288,501
Receivables, net	1,387	11	1,398
Due from component units	763	-	763
Total assets	$ 298,391	$ 48,318	$ 346,709
LIABILITIES			
Due to other funds	63	-	63
Due to component units	2,064	-	2,064
Total liabilities	2,127	-	2,127
FUND BALANCES			
Nonspendable			
Permanent fund and endowment corpus	$ 100,358	$ 48,274	$ 148,632
Restricted	195,906	44	195,950
Total fund balances	296,264	48,318	344,582
Total liabilities and fund balances	$ 298,391	$ 48,318	$ 346,709

STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

Permanent Funds

For the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
REVENUES			
Licenses, fines, fees, and permits	$ -	$ 4,868	$ 4,868
Investment income	9,443	39	9,482
Other	-	1	1
Total revenues	9,443	4,908	14,351
EXPENDITURES			
Education	7,733	-	7,733
Recreation and resources development	-	28	28
Total expenditures	7,733	28	7,761
Excess (deficiency) of revenues over (under) expenditures	1,710	4,880	6,590
Net change in fund balances	1,710	4,880	6,590
Fund balances, July 1	294,554	43,438	337,992
Fund balances, June 30	$ 296,264	$ 48,318	$ 344,582

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NONMAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2015
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
ASSETS				
Current assets:				
Cash and cash equivalents	$ 22,382	$ 204,762	$ 40,446	$ 80,133
Receivables:				
Accounts receivable	-	3,858	874	-
Loans receivable	772	-	-	5,895
Total current assets	23,154	208,620	41,320	86,028
Noncurrent assets:				
Loans receivable	26	-	-	86,058
Total noncurrent assets	26	-	-	86,058
Total assets	23,180	208,620	41,320	172,086
LIABILITIES				
Current liabilities:				
Accounts payable and accruals	-	30,962	6,502	2
Unearned revenue	-	103	28	-
Total current liabilities	-	31,065	6,530	2
Noncurrent liabilities:				
Others	-	-	-	2,420
Total noncurrent liabilities	-	-	-	2,420
Total liabilities	-	31,065	6,530	2,422
NET POSITION				
Unrestricted	23,180	177,555	34,790	169,664
Total net position	$ 23,180	$ 177,555	$ 34,790	$ 169,664

STATE OF TENNESSEE

Combining Statement of Net Position

Nonmajor Enterprise Funds
June 30, 2015
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 5,435	$ 20,640	$ 2,516	$ 376,314
-	-	-	4,732
-	6,257	-	12,924
5,435	26,897	2,516	393,970
-	42,936	-	129,020
-	42,936	-	129,020
5,435	69,833	2,516	522,990
-	-	2	37,468
-	17	-	148
-	17	2	37,616
-	-	-	2,420
-	-	-	2,420
-	17	2	40,036
5,435	69,816	2,514	482,954
$ 5,435	$ 69,816	$ 2,514	$ 482,954

STATE OF TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Nonmajor Enterprise Funds

For the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services	$ -	$ -	$ -	$ 1,584
Investment income	16	-	-	63
Premiums	-	471,207	108,830	-
Total operating revenues	16	471,207	108,830	1,647
Operating expenses				
Contractual services	-	26,765	6,071	237
Benefits	-	419,325	95,261	-
Other	-	7,572	1,484	-
Total operating expenses	-	453,662	102,816	237
Operating income (loss)	16	17,545	6,014	1,410
Nonoperating revenues (expenses)				
Operating grants	-	-	-	8,364
Interest income	-	147	29	-
Other	-	-	-	(2,533)
Total nonoperating revenues (expenses)	-	147	29	5,831
Income (loss) before contributions and transfers	16	17,692	6,043	7,241
Transfers in	3,296	-	-	1,758
Transfers out	(302)	-	-	-
Change in net position	3,010	17,692	6,043	8,999
Net position, July 1	20,170	159,863	28,747	160,665
Net position, June 30	$ 23,180	$ 177,555	$ 34,790	$ 169,664

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,399	$ 339	$ 230	$ 3,552
-	15	-	94
-	-	-	580,037
1,399	354	230	583,683
156	30	67	33,326
-	-	-	514,586
-	-	1	9,057
156	30	68	556,969
1,243	324	162	26,714
-	-	-	8,364
4	-	2	182
-	-	-	(2,533)
4	-	2	6,013
1,247	324	164	32,727
-	-	-	5,054
-	-	-	(302)
1,247	324	164	37,479
4,188	69,492	2,350	445,475
$ 5,435	$ 69,816	$ 2,514	$ 482,954

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	$ -	$ 478,627	$ 110,986	$ -
Payments to suppliers	-	(460,225)	(105,263)	-
Payments to employees	-	-	-	-
Payments for interfund services used	-	(533)	(100)	(237)
Net cash from (used for) operating activities	-	17,869	5,623	(237)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	-	-	-	8,364
Transfers in	3,296	-	-	1,758
Transfers out	(302)	-	-	-
Net cash from (used for) noncapital financing activities	2,994	-	-	10,122
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans issued and other disbursements to borrowers	-	-	-	(11,064)
Collection of loan principal	1,095	-	-	7,160
Interest received	16	147	29	1,649
Net cash from (used for) investing activities	1,111	147	29	(2,255)
Net increase (decrease) in cash and cash equivalents	4,105	18,016	5,652	7,630
Cash and cash equivalents, July 1	18,277	186,746	34,794	72,503
Cash and cash equivalents, June 30	$ 22,382	$ 204,762	$ 40,446	$ 80,133
Reconciliation of operating income to net cash provided (used by) operating activities				
Operating income (loss)	$ 16	$ 17,545	$ 6,014	$ 1,410
Adjustment to reconcile operating income (loss) to net cash from operating activities:				
Interest income	-	-	-	(1,584)
Investment income	(16)	-	-	(63)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
(Increase) decrease in receivables	-	(59)	(166)	-
Increase (decrease) in accounts payable	-	335	(237)	-
Increase (decrease) in unearned revenue	-	48	12	-
Total adjustments	(16)	324	(391)	(1,647)
Net cash provided by (used for) operating activities	$ -	$ 17,869	$ 5,623	$ (237)

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,399	$ 30	$ 230	$ 591,272
(156)	-	(65)	(565,709)
-	-	(1)	(1)
-	(30)	-	(900)
1,243	-	164	24,662
-	-	-	8,364
-	-	-	5,054
-	-	-	(302)
-	-	-	13,116
-	-	-	(11,064)
-	6,499	-	14,754
4	324	2	2,171
4	6,823	2	5,861
1,247	6,823	166	43,639
4,188	13,817	2,350	332,675
$ 5,435	$ 20,640	$ 2,516	$ 376,314
$ 1,243	$ 324	$ 162	$ 26,714
-	(309)	-	(1,893)
-	(15)	-	(94)
-	-	-	(225)
-	-	2	100
-	-	-	60
-	(324)	2	(2,052)
$ 1,243	$ -	$ 164	$ 24,662

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INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2015
(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
ASSETS						
Current assets:						
Cash and cash equivalents	$ 119,300	$ 127,937	$ 50,808	$ 2,287	$ 287,236	$ 303,941
Receivables, net	441	-	25	4	844	6,960
Due from other funds	636	-	-	-	83	-
Due from component units	-	-	-	-	-	-
Inventories, at cost	670	-	-	129	-	-
Prepayments	-	-	-	-	-	-
Total current assets	121,047	127,937	50,833	2,420	288,163	310,901
Noncurrent assets:						
Accounts receivable	-	10,055	-	-	-	-
Due from other funds	1,319	-	-	-	-	-
Net investment in capital leases	-	-	-	-	10,197	-
Capital assets:						
Land, at cost	-	-	-	-	59,396	-
Structures and improvements, at cost	-	-	-	-	528,264	-
Machinery and equipment, at cost	98,993	-	150,667	4,580	147	-
Less: Accumulated depreciation	(79,400)	-	(94,856)	(3,894)	(273,914)	-
Construction in progress	-	-	-	-	9,890	-
Software in development	-	-	-	-	-	-
Total noncurrent assets	20,912	10,055	55,811	686	333,980	-
Total assets	141,959	137,992	106,644	3,106	622,143	310,901
DEFERRED OUTFLOWS OF RESOURCES	3,274	-	149	295	8,140	-
LIABILITIES						
Current liabilities:						
Accounts payable	15,291	878	4,888	360	10,938	50,824
Accrued payroll and related deductions	2,232	-	98	182	-	-
Due to other funds	213	4	6	12	3,212	-
Due to component units	41	681	-	-	-	-
Lease obligations payable	-	-	-	-	350	-
Bond payable	-	-	-	-	16,418	-
Unearned revenue	-	8	-	-	5,000	40,988
Others	-	31,805	-	-	-	-
Total current liabilities	17,777	33,376	4,992	554	35,918	91,812
Noncurrent liabilities:						
Pension	5,512	-	264	484	-	-
Lease obligations payable	-	-	-	-	8,375	-
Commercial paper payable	-	-	-	-	9,044	-
Bonds payable	-	-	-	-	203,797	-
Others	5,113	111,888	427	501	-	-
Total noncurrent liabilities	10,625	111,888	691	985	221,216	-
Total liabilities	28,402	145,264	5,683	1,539	257,134	91,812
DEFERRED INFLOWS OF RESOURCES	7,943	-	380	698	-	-
NET POSITION						
Net investment in capital assets	19,593	-	55,811	686	93,939	-
Restricted for capital projects	-	-	-	-	8,285	-
Unrestricted	89,295	(7,272)	44,919	478	270,925	219,089
Total net position	$ 108,888	$ (7,272)	$ 100,730	$ 1,164	$ 373,149	$ 219,089

STATE OF TENNESSEE

Combining Statement of Net Position

Internal Service Funds
June 30, 2015
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 885	$ 7,073	$ 750	$ 321	$ 19,969	$ 6,562	$ 3,474	$ 17,207	$ 947,750
-	-	83	-	-	2	735	1	9,095
-	-	-	-	-	-	-	-	719
-	-	1	-	-	-	-	-	1
182	-	519	-	-	-	4,376	-	5,876
256	-	-	-	-	-	-	-	256
1,323	7,073	1,353	321	19,969	6,564	8,585	17,208	963,697
-	-	-	-	-	-	-	-	10,055
-	-	-	-	-	-	-	-	1,319
-	-	-	-	-	-	-	-	10,197
-	-	-	-	-	-	961	-	60,357
-	-	-	-	-	-	17,804	-	546,068
4,953	15	99	12	136	416	12,826	108,717	381,561
(3,370)	(1)	(64)	(1)	(128)	(195)	(17,989)	(71,440)	(545,252)
-	-	-	-	-	-	-	-	9,890
-	-	-	-	-	-	-	215	215
1,583	14	35	11	8	221	13,602	37,492	474,410
2,906	7,087	1,388	332	19,977	6,785	22,187	54,700	1,438,107
152	568	134	43	822	991	802	975	16,345
113	141	121	28	113	93	2,810	188	86,786
97	383	94	11	577	661	499	718	5,552
6	25	6	-	45	43	33	41	3,646
-	-	-	-	41	-	8	-	771
-	-	-	-	-	-	-	-	350
-	-	-	-	-	-	-	-	16,418
-	-	-	-	-	-	-	-	45,996
-	-	-	-	-	-	-	-	31,805
216	549	221	39	776	797	3,350	947	191,324
269	941	220	67	1,321	1,730	1,517	1,641	13,966
-	-	-	-	-	-	-	-	8,375
-	-	-	-	-	-	-	17,520	26,564
-	-	-	-	-	-	-	-	203,797
669	410	512	135	733	1,039	1,421	1,474	124,322
938	1,351	732	202	2,054	2,769	2,938	20,635	377,024
1,154	1,900	953	241	2,830	3,566	6,288	21,582	568,348
387	1,355	317	97	1,904	2,492	2,186	2,365	20,124
1,583	14	35	11	8	221	13,602	19,972	205,475
-	-	-	-	-	-	-	-	8,285
(66)	4,386	217	26	16,057	1,497	913	11,756	652,220
$ 1,517	$ 4,400	$ 252	$ 37	$ 16,065	$ 1,718	$ 14,515	$ 31,728	$ 865,980

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 138,270	$ 59,396	$ 41,542	$ 7,549	$ 127,438	$ 1,000
Premiums	-	-	-	-	-	744,002
Total operating revenues	138,270	59,396	41,542	7,549	127,438	745,002
Operating expenses						
Personal services	28,320	-	1,461	2,802	-	-
Contractual services	106,970	10,699	5,964	2,276	113,622	37,872
Materials and supplies	6,297	-	18,228	1,470	1,869	-
Rentals and insurance	13	5,889	4,386	76	38,366	-
Depreciation and amortization	9,382	-	11,054	111	12,471	-
Benefits	-	36,087	192	-	-	663,872
Other	1,031	-	2,008	7	181	10,269
Total operating expenses	152,013	52,675	43,293	6,742	166,509	712,013
Operating income (loss)	(13,743)	6,721	(1,751)	807	(39,071)	32,989
Nonoperating revenues (expenses)						
Insurance claims recoveries	-	-	290	-	121	-
Interest income	-	87	-	-	256	223
Interest expense	-	-	-	-	(9,907)	-
Total nonoperating revenues (expenses)	-	87	290	-	(9,530)	223
Income (loss) before contributions and transfers	(13,743)	6,808	(1,461)	807	(48,601)	33,212
Capital contributions	-	-	1,403	-	-	-
Transfers in	4,579	3,200	4,882	317	13,065	-
Transfers out	-	-	-	-	-	-
Change in net position	(9,164)	10,008	4,824	1,124	(35,536)	33,212
Net position, July 1	118,052	(17,280)	95,906	40	408,685	185,877
Net position, June 30	$ 108,888	$ (7,272)	$ 100,730	$ 1,164	$ 373,149	$ 219,089

STATE OF TENNESSEE

Combining Statement of Revenues, Expenses, and Changes in Fund Net Position

Internal Service Funds

For the Fiscal Year Ended June 30, 2015

(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 17,964	$ 8,612	$ 3,604	$ 856	$ 15,739	$ 11,615	$ 49,238	$ 28,052	$ 510,875
-	-	-	-	-	-	-	-	744,002
17,964	8,612	3,604	856	15,739	11,615	49,238	28,052	1,254,877
1,524	5,055	1,387	401	10,177	8,828	7,489	8,176	75,620
1,732	2,665	1,044	503	2,441	3,068	12,041	10,395	311,292
13,560	404	1,138	9	220	188	32,725	110	76,218
9	12	4	2	49	8	1,028	4	49,846
752	1	17	1	3	78	1,011	12,352	47,233
-	100	-	-	-	-	-	-	700,251
371	10	7	4	168	13	640	17	14,726
17,948	8,247	3,597	920	13,058	12,183	54,934	31,054	1,275,186
16	365	7	(64)	2,681	(568)	(5,696)	(3,002)	(20,309)
-	-	-	-	-	-	-	-	411
-	-	-	-	-	-	-	-	566
-	-	-	-	-	-	-	(14)	(9,921)
-	-	-	-	-	-	-	(14)	(8,944)
16	365	7	(64)	2,681	(568)	(5,696)	(3,016)	(29,253)
-	-	-	-	-	-	-	-	1,403
-	-	-	-	-	1,804	-	-	27,847
-	(1,730)	-	-	-	(800)	-	-	(2,530)
16	(1,365)	7	(64)	2,681	436	(5,696)	(3,016)	(2,533)
1,501	5,765	245	101	13,384	1,282	20,211	34,744	868,513
$ 1,517	$ 4,400	$ 252	$ 37	$ 16,065	$ 1,718	$ 14,515	$ 31,728	$ 865,980

STATE OF TENNESSEE

Combining Statement of Cash Flows

Internal Service Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 3,430	$ 15,902	$ 618	$ 70	$ 1,407	$ 361,551
Receipts from interfund services provided	134,705	43,507	40,911	7,494	125,972	417,793
Payments to suppliers	(95,877)	(43,901)	(21,606)	(2,646)	(117,728)	(748,951)
Payments to employees	(30,637)	-	(1,534)	(3,051)	-	-
Payments for interfund services used	(11,836)	(7,134)	(5,945)	(1,062)	(34,005)	(1,832)
Net cash from (used for) operating activities	(215)	8,374	12,444	805	(24,354)	28,561
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Negative cash balance implicitly repaid	-	-	-	-	-	-
Transfers in	4,579	3,200	4,882	317	13,065	-
Transfers out	-	-	-	-	-	-
Net cash from (used for) noncapital financing activities	4,579	3,200	4,882	317	13,065	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(12,347)	-	(14,680)	(246)	(9,870)	-
Commercial paper proceeds	-	-	-	-	92,010	-
Proceeds from sale of capital assets	3,170	-	1,257	-	675	-
Insurance claims recoveries	-	-	290	-	121	-
Bond issuance cost	-	-	-	-	(177)	-
Principal payments	-	-	-	-	(76,867)	-
Interest paid	-	-	-	-	(9,052)	-
Capital contributions	-	-	1,345	-	-	-
Net cash from (used for) capital and related financing activities	(9,177)	-	(11,788)	(246)	(3,160)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	-	87	-	-	255	223
Net cash from (used for) investing activities	-	87	-	-	255	223
Net increase (decrease) in cash and cash equivalents	(4,813)	11,661	5,538	876	(14,194)	28,784
Cash and cash equivalents, July 1	124,113	116,276	45,270	1,411	301,430	275,157
Cash and cash equivalents, June 30	$ 119,300	$ 127,937	$ 50,808	$ 2,287	$ 287,236	$ 303,941
Reconciliation of operating income to net cash provided (used by) operating activities						
Operating income (loss)	$ (13,743)	$ 6,721	$ (1,751)	$ 807	$ (39,071)	$ 32,989
Adjustment to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	9,382	-	11,054	111	12,472	-
Loss/(gain) on disposal of capital assets	919	-	2,005	-	-	-
Bond issuance cost	-	-	-	-	177	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:						
(Increase) decrease in receivables	(49)	13	(13)	11	23	(1,623)
(Increase) decrease in due from other funds	(86)	-	-	-	(83)	-
(Increase) decrease in due from component units	-	-	-	4	-	-
(Increase) decrease in inventories	242	-	-	(10)	-	-
(Increase) decrease in prepaids	-	-	-	-	-	-
(Increase) decrease in deferred outflows of resources	6	-	8	(7)	-	-
Increase (decrease) in accounts payable	(4,813)	1,215	761	(809)	(475)	(2,126)
Increase (decrease) in due to other funds	(10)	(2)	-	-	2,603	-
Increase (decrease) in due to component units	(6)	427	-	-	-	-
Increase (decrease) in deferred inflows of resources	7,943	-	380	698	-	-
Increase (decrease) in unearned revenue	-	-	-	-	-	(679)
Total adjustments	13,528	1,653	14,195	(2)	14,717	(4,428)
Net cash provided by (used for) operating activities	$ (215)	$ 8,374	$ 12,444	$ 805	$ (24,354)	$ 28,561
Schedule of noncash capital and related financing activities						
Capital contributions	$ -	$ -	$ 58	$ -	$ -	$ -
Refunding bond premium	-	-	-	-	109	-
Refunding bond proceeds	-	-	-	-	11,789	-
Total noncash capital and related financing activities	$ -	$ -	$ 58	$ -	$ 11,898	$ -

Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 248	$ 2,471	$ 1,646	$ 14	$ 46	$ 145	$ 11,097	$ 160	$ 398,805
17,716	6,141	1,940	842	15,693	11,470	38,053	27,892	890,129
(13,939)	(1,722)	(1,196)	(334)	(1,367)	(1,390)	(43,777)	(5,046)	(1,099,480)
(1,602)	(5,465)	(1,430)	(428)	(10,850)	(9,529)	(8,363)	(8,872)	(81,761)
(1,220)	(1,335)	(896)	(178)	(1,344)	(1,810)	(2,629)	(5,416)	(76,642)
1,203	90	64	(84)	2,178	(1,114)	(5,619)	8,718	31,051
(23)	-	-	-	-	-	-	-	(23)
-	-	-	-	-	1,804	-	-	27,847
-	(1,730)	-	-	-	(800)	-	-	(2,530)
(23)	(1,730)	-	-	-	1,004	-	-	25,294
(295)	(15)	-	(12)	-	(269)	(1,087)	(1,224)	(40,045)
-	-	-	-	-	-	-	-	92,010
-	-	-	-	-	-	-	-	5,102
-	-	-	-	-	-	-	-	411
-	-	-	-	-	-	-	-	(177)
-	-	-	-	-	-	-	(4,380)	(81,247)
-	-	-	-	-	-	-	(14)	(9,066)
-	-	-	-	-	-	-	-	1,345
(295)	(15)	-	(12)	-	(269)	(1,087)	(5,618)	(31,667)
-	-	-	-	-	-	-	-	565
-	-	-	-	-	-	-	-	565
885	(1,655)	64	(96)	2,178	(379)	(6,706)	3,100	25,243
-	8,728	686	417	17,791	6,941	10,180	14,107	922,507
$ 885	$ 7,073	$ 750	$ 321	$ 19,969	$ 6,562	$ 3,474	$ 17,207	$ 947,750
$ 16	$ 365	$ 7	$ (64)	$ 2,681	$ (568)	$ (5,696)	$ (3,002)	$ (20,309)
752	1	17	1	3	78	1,011	12,352	47,234
371	-	-	-	-	-	22	-	3,317
-	-	-	-	-	-	-	-	177
-	1	(23)	-	-	-	(89)	-	(1,749)
-	-	-	-	-	-	-	-	(169)
-	-	5	-	-	-	-	-	9
74	-	94	-	-	-	66	-	466
66	-	-	-	-	-	-	-	66
7	(9)	(3)	(2)	(35)	38	101	1	105
(470)	(1,623)	(350)	(116)	(2,370)	(3,138)	(3,191)	(2,997)	(20,502)
-	-	-	-	(5)	(16)	(32)	(1)	2,537
-	-	-	-	-	-	3	-	424
387	1,355	317	97	1,904	2,492	2,186	2,365	20,124
-	-	-	-	-	-	-	-	(679)
1,187	(275)	57	(20)	(503)	(546)	77	11,720	51,360
$ 1,203	$ 90	$ 64	$ (84)	$ 2,178	$ (1,114)	$ (5,619)	$ 8,718	$ 31,051
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 58
-	-	-	-	-	-	-	-	109
-	-	-	-	-	-	-	-	11,789
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,956

FIDUCIARY FUNDS

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

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. The level of contributions is determined by actuarial valuation.

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

Investment Trust Funds:

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

Intermediate Term Investment Fund—This fund was created for deposits with the state treasurer to be a longer-term option for investment of funds as an alternative to the State Pooled Investment Fund, which includes the Local Government Investment Pool ("LGIP").

Private-Purpose Trust Funds:

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

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

Oak Ridge Monitoring—Created in 2000 through a consent order won by the state with the United States Department of Energy (DOE), this fund is used to account for monies paid annually through fiscal year 2015 by the federal government to the state for future expenses at the Environmental Management Waste Management Facility at Oak Ridge. After the federal landfill is closed, the income generated from the corpus is to be used for monitoring and maintenance of the facility to ensure there is no radioactive leakage.

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

Insurance Receiverships—The Commissioner of Commerce and Insurance is designated the statutory receiver of insurers ordered into receivership and is charged with the duty to secure and distribute the assets for the benefit of policy holders, creditors, and other claimants under court supervision.

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

Agency Funds:

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

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

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

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2015
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
ASSETS						
Cash and cash equivalents	$ 226,338	$ 219,310	$ 163	$ 445,811	$ 882	$ 446,693
Cash collateral on loaned securities	2,990,874	2,899,795	2,275	5,892,944	-	5,892,944
Receivables:						
Interest and dividends	73,422	71,186	56	144,664	-	144,664
Investments sold	379,983	368,413	289	748,685	-	748,685
Derivative instruments	267,616	259,467	204	527,287	-	527,287
Employer contributions	19,068	35,919	902	55,889	-	55,889
Member contributions	5,443	19,519	1,127	26,089	-	26,089
Real estate income	1,217	1,180	1	2,398	-	2,398
Due from other funds	9,748	-	-	9,748	196	9,944
Due from component units	9,229	-	-	9,229	4	9,233
Investments, at fair value:						
Short-term securities	104,688	101,500	80	206,268	-	206,268
Government bonds	4,371,589	4,238,463	3,325	8,613,377	-	8,613,377
Corporate bonds	2,802,686	2,717,337	2,132	5,522,155	-	5,522,155
Corporate stocks	12,019,535	11,653,511	9,142	23,682,188	-	23,682,188
Strategic lending	475,264	460,791	361	936,416	-	936,416
Private equities	539,096	522,679	410	1,062,185	-	1,062,185
Real estate	1,362,625	1,321,130	1,036	2,684,791	-	2,684,791
Capital assets, at cost:						
Machinery and equipment	18,849	18,275	14	37,138	-	37,138
Less - accumulated depreciation	(2,736)	(2,653)	(2)	(5,391)	-	(5,391)
Total assets	25,674,534	24,905,822	21,515	50,601,871	1,082	50,602,953
LIABILITIES						
Accounts payable and accruals	475,013	461,055	356	936,424	13	936,437
Derivative instruments	268,264	260,095	204	528,563	-	528,563
Securities lending collateral	2,990,874	2,899,795	2,275	5,892,944	-	5,892,944
Total liabilities	3,734,151	3,620,945	2,835	7,357,931	13	7,357,944
NET POSITION						
Restricted for						
Pensions	21,940,383	21,284,877	18,680	43,243,940	-	43,243,940
Employees' flexible benefits	-	-	-	-	1,069	1,069
Total net position	$ 21,940,383	$ 21,284,877	$ 18,680	$ 43,243,940	$ 1,069	$ 43,245,009

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
ADDITIONS						
Contributions:						
Members	$ 77,020	$ 187,122	$ 10,390	$ 274,532	$ 6,047	$ 280,579
Employers	664,834	338,301	8,310	1,011,445	-	1,011,445
Other	384	-	-	384	-	384
Total contributions	742,238	525,423	18,700	1,286,361	6,047	1,292,408
Investment income:						
Net increase in fair value of investments	40,523	39,444	17	79,984	-	79,984
Interest and dividends	596,689	580,579	266	1,177,534	-	1,177,534
Real estate income	37,488	36,490	16	73,994	-	73,994
Securities lending income	17,331	16,870	8	34,209	-	34,209
Total investment income	692,031	673,383	307	1,365,721	-	1,365,721
Less: Investment expenses	(23,667)	(23,036)	(10)	(46,713)	-	(46,713)
Securities lending expense	(3,924)	(3,820)	(2)	(7,746)	-	(7,746)
Net investment income	664,440	646,527	295	1,311,262	-	1,311,262
Total additions	1,406,678	1,171,950	18,995	2,597,623	6,047	2,603,670
DEDUCTIONS						
Annuity benefits	1,118,386	1,071,903	-	2,190,289	-	2,190,289
Death benefits	3,154	2,371	-	5,525	-	5,525
Other	-	-	-	-	6,054	6,054
Refunds	25,791	22,136	35	47,962	-	47,962
Administrative expenses	9,148	5,636	280	15,064	122	15,186
Total deductions	1,156,479	1,102,046	315	2,258,840	6,176	2,265,016
Change in net position	250,199	69,904	18,680	338,783	(129)	338,654
Net position, July 1	21,690,184	21,214,973	-	42,905,157	1,198	42,906,355
Net position, June 30	$ 21,940,383	$ 21,284,877	$ 18,680	$ 43,243,940	$ 1,069	$ 43,245,009

STATE OF TENNESSEE

Combining Statement of Fiduciary Net Position

Investment Trust Funds
June 30, 2015
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	Total Investment Trust Funds
ASSETS			
Cash and cash equivalents	$ 680,863	$ 102,160	$ 783,023
Receivables:			
Interest and dividends	2,778	277	3,055
Investments, at fair value:			
Short-term securities	1,041,425	-	1,041,425
Government bonds	-	59,411	59,411
Total assets	1,725,066	161,848	1,886,914
NET POSITION			
Amounts held in trust for:			
Pool participants	1,725,066	161,848	1,886,914
Total net position	$ 1,725,066	$ 161,848	$ 1,886,914

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Investment Trust Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	Total Investment Trust Funds
ADDITIONS			
Investment income:			
Interest	$ 2,269	$ 847	$ 3,116
Total investment income	2,269	847	3,116
Less: Investment expenses	(824)	(87)	(911)
Net investment income	1,445	760	2,205
Capital share transactions:			
Shares sold	2,526,867	-	2,526,867
Less: Shares redeemed	(2,371,025)	(39,993)	(2,411,018)
Net capital share transactions	155,842	(39,993)	115,849
Total additions	157,287	(39,233)	118,054
Change in net position	157,287	(39,233)	118,054
Net position, July 1	1,567,779	201,081	1,768,860
Net position, June 30	$ 1,725,066	$ 161,848	$ 1,886,914

STATE OF TENNESSEE

Combining Statement of Fiduciary Net Position

Private-Purpose Trust Funds
June 30, 2015
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ASSETS				
Cash and cash equivalents	$ 5,287	$ 1,226	$ 17,583	$ 19,210
Receivables:				
Taxes	-	-	-	-
Interest and dividends	136	-	-	-
Due from other funds	3	-	-	-
Investments, at fair value:				
Mutual funds	107,042	-	-	-
Government bonds	-	-	-	-
Corporate bonds	-	-	-	-
Total assets	112,468	1,226	17,583	19,210
LIABILITIES				
Accounts payable and accruals	105	90	-	50
Due to other funds	8	-	-	-
Total liabilities	113	90	-	50
NET POSITION				
Restricted for:				
Individuals, organizations and other governments	112,355	1,136	17,583	19,160
Total net position	$ 112,355	$ 1,136	$ 17,583	$ 19,160

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2015
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ 12,743	$ 3,210	$ 59,259
-	37	37
6	-	142
-	-	3
182	-	107,224
387	-	387
1,271	-	1,271
14,589	3,247	168,323
14,589	1	14,835
-	-	8
14,589	1	14,843
-	3,246	153,480
$ -	$ 3,246	$ 153,480

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ADDITIONS				
Contributions:				
Federal	$ -	$ 5,142	$ 2,000	$ -
Private	14,466	-	-	-
State	474	-	-	-
Other	-	13,946	-	17,251
Total contributions	14,940	19,088	2,000	17,251
Investment income:				
Net increase/(decrease) in fair value of investments	(407)	-	-	-
Interest	3,491	2	14	16
Total investment income	3,084	2	14	16
Total additions	18,024	19,090	2,014	17,267
DEDUCTIONS				
Payments made under trust agreements	9,323	3,745	-	15,066
Refunds	1,013	1,704	-	-
Administrative expenses	296	13,946	-	2,546
Total deductions	10,632	19,395	-	17,612
Change in net position	7,392	(305)	2,014	(345)
Net position, July 1	104,963	1,441	15,569	19,505
Net position, June 30	$ 112,355	$ 1,136	$ 17,583	$ 19,160

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ -	$ -	$ 7,142
-	371	14,837
-	-	474
-	140	31,337
-	511	53,790
(8)	-	(415)
74	2	3,599
66	2	3,184
66	513	56,974
66	367	28,567
-	-	2,717
-	-	16,788
66	367	48,072
-	146	8,902
-	3,100	144,578
$ -	$ 3,246	$ 153,480

STATE OF TENNESSEE

Combining Statement of Fiduciary Net Position

Agency Funds
June 30, 2015
(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency
ASSETS				
Cash and cash equivalents	$ 363,902	$ 123,148	$ 30,646	$ 517,696
Receivables:				
Account	-	7	2,696	2,703
Taxes	420,772	-	-	420,772
Due from other funds	-	9	-	9
Total assets	784,674	123,164	33,342	941,180
LIABILITIES				
Accounts payable and accruals	784,674	12,348	17,230	814,252
Amount held in custody for others	-	110,816	16,112	126,928
Total liabilities	$ 784,674	$ 123,164	$ 33,342	$ 941,180

STATE OF TENNESSEE

Combining Statement of Changes in Assets and Liabilities

All Agency Funds
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Local Government Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 323,393	$ 3,443,888	$ (3,403,379)	$ 363,902
Accounts receivable	394,928	604,113	(578,269)	420,772
Total assets	718,321	4,048,001	(3,981,648)	784,674
Liabilities				
Accounts payable and accruals	718,321	4,972,578	(4,906,225)	784,674
Total liabilities	$ 718,321	$ 4,972,578	$ (4,906,225)	$ 784,674

Contingent Revenue Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 130,324	$ 2,343,941	$ (2,351,117)	$ 123,148
Accounts receivable	-	41	(34)	7
Due from other funds	24	9	(24)	9
Total assets	130,348	2,343,991	(2,351,175)	123,164
Liabilities				
Accounts payable and accruals	12,394	324,501	(324,547)	12,348
Amounts held in custody for others	117,954	617,542	(624,680)	110,816
Total liabilities	$ 130,348	$ 942,043	$ (949,227)	$ 123,164

Retiree Health Plans	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 28,753	$ 241,312	$ (239,419)	$ 30,646
Accounts receivable	1,442	12,505	(11,251)	2,696
Total assets	30,195	253,817	(250,670)	33,342
Liabilities				
Accounts payable and accruals	17,791	26,518	(27,079)	17,230
Amounts held in custody for others	12,404	244,283	(240,575)	16,112
Total liabilities	$ 30,195	$ 270,801	$ (267,654)	$ 33,342

Total - All Agency Funds	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 482,470	$ 6,029,141	$ (5,993,915)	$ 517,696
Accounts receivable	396,370	616,659	(589,554)	423,475
Due from other funds	24	9	(24)	9
Total assets	878,864	6,645,809	(6,583,493)	941,180
Liabilities				
Accounts payable and accruals	748,506	5,323,597	(5,257,851)	814,252
Amounts held in custody for others	130,358	861,825	(865,255)	126,928
Total liabilities	$ 878,864	$ 6,185,422	$ (6,123,106)	$ 941,180

COMPONENT UNITS

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

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

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

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

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

UNIVERSITIES

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

COMMUNITY COLLEGES

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

COLLEGES OF APPLIED TECHNOLOGY

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

The purpose of these colleges 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.

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

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

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

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

Access Tennessee—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.

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STATE OF TENNESSEE
Combining Statement of Net Position
Component Units
June 30, 2015
(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee
ASSETS						
Cash and cash equivalents	$ 6,005	$ 583	$ 275,439	$ 92,403	$ 733,291	$ 746,336
Investments	-	-	77,659	-	159,221	74,857
Receivables, net	6,366	764	71,204	61,994	71,681	148,771
Due from primary government	-	512	-	-	11,819	25,592
Inventories, at cost	-	-	-	-	2,933	7,194
Prepayments	-	2	10	6,900	6,166	4,017
Loans receivable	-	-	1,935,927	-	-	-
Fair value of derivatives	-	-	-	-	-	-
Other	-	-	-	-	1,164	4,926
Restricted assets:						
Cash and cash equivalents	-	-	25,478	39	277,868	240,116
Investments	-	-	178,624	6,403	500,708	951,544
Receivables, net	-	-	1,573	-	106,224	214,936
Net pension assets	-	9,888	-	-	-	-
Capital assets:						
Land, at cost	-	-	-	-	139,478	85,673
Infrastructure	-	-	-	-	418,512	165,008
Structures and improvements, at cost	-	-	-	2,546	2,971,994	2,416,258
Machinery and equipment, at cost	76	190	1,561	5,250	471,297	590,678
Less accumulated depreciation	(8)	(60)	(1,049)	(5,038)	(1,597,239)	(1,389,115)
Construction in progress	-	-	-	-	264,496	450,227
Total assets	12,439	11,879	2,566,426	170,497	4,539,613	4,737,018
DEFERRED OUTFLOWS OF RESOURCES	435	49	2,653	-	86,442	77,731
LIABILITIES						
Accounts payable and accruals	6,057	355	44,285	62,043	141,392	171,451
Due to primary government	19	15	71	96,282	10,998	5,095
Unearned revenue	-	-	1,165	1,013	72,545	115,296
Other	-	-	-	-	16,044	13,577
Noncurrent liabilities:						
Due within one year	193	85	145,783	1,130	45,011	80,612
Due in more than one year	1,331	247	1,859,097	9,990	995,304	1,140,555
Total liabilities	7,600	702	2,050,401	170,458	1,281,294	1,526,586
DEFERRED INFLOWS OF RESOURCES	1,078	3,356	4,271	-	161,254	126,894
NET POSITION						
Net investment in capital assets	68	130	512	2,758	1,962,435	1,502,155
Restricted for:						
Debt service	-	-	-	-	3,951	67
Capital projects	-	-	-	-	42,872	52,891
Single family bond programs	-	-	426,741	-	-	-
Pensions	-	6,581	-	-	-	-
Other	6,366	-	14,455	39	241,725	371,620
Permanent and endowment:						
Expendable	-	-	-	-	18,648	168,880
Nonexpendable	-	-	-	-	328,969	711,521
Unrestricted	(2,238)	1,159	72,699	(2,758)	584,907	354,135
Total net position	$ 4,196	$ 7,870	$ 514,407	$ 39	$ 3,183,507	$ 3,161,269

STATE OF TENNESSEE

Combining Statement of Net Position

Component Units
June 30, 2015
(Expressed in Thousands)

Proprietary Fund Types: Local Development Authority	Tennessee Veterans' Homes Board	Federal Family Education Loan Program	Tennessee State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 15,746	$ 12,052	$ 42,560	$ 298,110	$ 344	$ 53,736	$ 2,276,605
-	-	-	-	4,095	-	315,832
-	7,160	360	14,671	38	31	383,040
-	1,042	-	-	-	-	38,965
-	165	-	-	-	-	10,292
-	188	-	-	-	-	17,283
3,708	-	-	1,777,600	-	-	3,717,235
-	-	-	832	-	-	832
-	28	-	-	10	-	6,128
988	3,304	11,942	20,560	-	-	580,295
-	-	-	153,635	-	-	1,790,914
-	-	-	-	-	-	322,733
-	2,870	-	-	-	-	12,758
-	1,655	-	-	-	-	226,806
-	2,035	-	-	-	-	585,555
-	30,558	-	-	-	-	5,421,356
-	6,771	-	-	-	-	1,075,823
-	(15,247)	-	-	-	-	(3,007,756)
-	26,484	-	-	-	-	741,207
20,442	79,065	54,862	2,265,408	4,487	53,767	14,515,903
218	1,932	-	45,569	-	-	215,029
118	1,767	1,467	81,900	112	58	511,005
-	2,841	-	-	-	-	115,321
-	-	-	2,163	-	-	192,182
-	108	-	-	-	-	29,729
785	935	-	60,385	-	-	334,919
3,953	5,967	-	2,157,161	-	-	6,173,605
4,856	11,618	1,467	2,301,609	112	58	7,356,761
-	1,193	-	833	-	-	298,879
-	46,570	-	-	-	-	3,514,628
-	356	-	-	-	-	4,374
-	-	-	-	-	-	95,763
-	-	-	-	-	-	426,741
-	3,609	-	-	-	-	10,190
-	7,520	11,941	-	-	-	653,666
-	-	-	-	-	-	187,528
-	-	-	-	-	-	1,040,490
15,804	10,131	41,454	8,535	4,375	53,709	1,141,912
$ 15,804	$ 68,186	$ 53,395	$ 8,535	$ 4,375	$ 53,709	$ 7,075,292

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2015
(Expressed in Thousands)

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Component units					
Higher education institutions:					
Tennessee Board of Regents	$ 2,370,273	$ 984,414	$ 773,346	$ 142,827	$ (469,686)
University of Tennessee	2,025,546	728,088	804,797	66,459	(426,202)
Total higher education institutions	4,395,819	1,712,502	1,578,143	209,286	(895,888)
Loan programs:					
Tennessee Student Assistance Corporation	68,158	2,782	6,982	-	(58,394)
Tennessee Housing Development Agency	432,786	113,511	313,518	-	(5,757)
Local Development Authority	371	258	15	-	(98)
Federal Family Education Loan Program	154,924	22,168	125,374	-	(7,382)
Tennessee State School Bond Authority	80,438	66,092	5,697	-	(8,649)
Total loan programs	736,677	204,811	451,586	-	(80,280)
Tennessee Education Lottery	1,372,537	1,372,424	34	-	(79)
Other programs:					
Tennessee Community Services Agency	4,611	1,571	3,481	-	441
Access Tennessee Insurance Plan	5,658	1,360	-	-	(4,298)
Tennessee Veterans' Homes Board	40,899	42,471	14	13,899	15,485
Certified Cotton Growers'	572	380	-	-	(192)
Total other programs	51,740	45,782	3,495	13,899	11,436
Total	$ 6,556,773	$ 3,335,519	$ 2,033,258	$ 223,185	$ (964,811)

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2015
(Expressed in Thousands)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change in Net Position	Net Position July 1	Net Position June 30
$ 659,484	$ 17,454	$ 4,504	$ 1,037	$ 8,996	$ 221,789	$ 2,961,718	$ 3,183,507
500,003	2,743	13,342	-	84,537	174,423	2,986,846	3,161,269
1,159,487	20,197	17,846	1,037	93,533	396,212	5,948,564	6,344,776
57,560	-	-	-	-	(834)	5,030	4,196
-	-	29	-	-	(5,728)	520,135	514,407
-	-	-	-	-	(98)	15,902	15,804
52	-	59	-	-	(7,271)	60,666	53,395
-	9,549	-	-	-	900	7,635	8,535
57,612	9,549	88	-	-	(13,031)	609,368	596,337
-	-	97	-	-	18	21	39
-	-	-	-	-	441	7,429	7,870
-	-	48	-	-	(4,250)	57,959	53,709
-	38	-	-	-	15,523	52,663	68,186
-	-	16	-	-	(176)	4,551	4,375
-	38	64	-	-	11,538	122,602	134,140
$ 1,217,099	$ 29,784	$ 18,095	$ 1,037	$ 93,533	$ 394,737	$ 6,680,555	$ 7,075,292

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STATE OF TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Type Component Units
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Total Governmental Fund Type Component Units
REVENUES			
Interest on investments	$ 299	$ -	$ 299
Departmental services	67,021	5,052	72,073
Other	4	-	4
Total revenues	67,324	5,052	72,376
EXPENDITURES			
Education	68,517	-	68,517
Health and social services	-	5,249	5,249
Total expenditures	68,517	5,249	73,766
Excess (deficiency) of revenues over (under) expenditures	(1,193)	(197)	(1,390)
Fund balances, July 1	7,488	1,688	9,176
Fund balances, June 30	$ 6,295	$ 1,491	$ 7,786
Reconciliation to net position:			
Fund balances per above	$ 6,295	$ 1,491	$ 7,786
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	68	130	198
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(776)	(332)	(1,108)
Resources and obligations related to pension are not available nor due and payable, respective, in the current period and therefore are not reported in the fund.	(1,391)	6,581	5,190
Net position on statement of net position	$ 4,196	$ 7,870	$ 12,066

STATE OF TENNESSEE

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 113,511	$ 1,371,768	$ 1,155,251	$ 1,213,476	$ 258
Investment income	6,535	-	5,152	7,196	15
Grants and contributions	-	-	-	-	-
Other	-	656	57,636	81,859	-
Total operating revenues	120,046	1,372,424	1,218,039	1,302,531	273
Operating expenses					
Personal services	15,147	14,281	1,432,432	1,311,930	-
Contractual services	6,478	128,809	-	-	110
Mortgage service fees	7,076	-	-	-	-
Materials and supplies	657	-	544,084	500,124	-
Rentals and insurance	30	1,563	-	-	-
Interest	66,389	-	-	-	261
Depreciation and amortization	3,883	789	100,109	114,132	-
Lottery prizes	-	869,256	-	-	-
Nursing home services	-	-	-	-	-
Scholarships and fellowships	-	-	265,690	60,792	-
Benefits	-	-	-	-	-
Other	10,661	10,041	-	-	-
Total operating expenses	110,321	1,024,739	2,342,315	1,986,978	371
Operating income (loss)	9,725	347,685	(1,124,276)	(684,447)	(98)
Nonoperating revenues (expenses)					
Grant income	307,012	-	540,207	190,046	-
Grant expense	(322,465)	-	-	-	-
Interest expense	-	-	(24,214)	(30,401)	-
Interest income	-	97	9,589	25,951	-
Payments from primary government	-	-	659,484	500,003	-
Grants and contributions	-	-	-	5,974	-
Gifts	-	-	16,377	12,539	-
Payments to primary government	-	(347,786)	-	-	-
Other	-	22	(1,283)	(8,167)	-
Total nonoperating revenues (expenses)	(15,453)	(347,667)	1,200,160	695,945	-
Income (loss) before capital grants and contributions	(5,728)	18	75,884	11,498	(98)
Capital payments from primary government	-	-	124,059	48,283	-
Capital grants and gifts	-	-	12,850	18,176	-
Additions to permanent endowments	-	-	8,996	84,537	-
Other	-	-	-	11,929	-
Change in net position	(5,728)	18	221,789	174,423	(98)
Net position, July 1	520,135	21	2,961,718	2,986,846	15,902
Net position, June 30	$ 514,407	$ 39	$ 3,183,507	$ 3,161,269	$ 15,804

STATE OF TENNESSEE

Combining Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Tennessee Veterans' Homes Board	Federal Family Education Loan Program	Tennessee State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 38,095	$ 22,168	$ 66,092	$ 380	$ 1,360	$ 3,982,359
-	-	5,697	-	-	24,595
-	125,374	-	-	-	125,374
42	-	-	-	-	140,193
38,137	147,542	71,789	380	1,360	4,272,521
25,779	-	-	-	-	2,799,569
-	144,915	2,473	572	663	284,020
-	-	-	-	-	7,076
-	-	-	-	-	1,044,865
-	-	-	-	1,027	2,620
-	-	64,624	-	-	131,274
1,374	-	-	-	-	220,287
-	-	-	-	-	869,256
13,572	-	-	-	-	13,572
-	9	-	-	-	326,491
-	-	-	-	3,968	3,968
-	-	13,341	-	-	34,043
40,725	144,924	80,438	572	5,658	5,737,041
(2,588)	2,618	(8,649)	(192)	(4,298)	(1,464,520)
4,334	-	9,549	-	-	1,051,148
-	-	-	-	-	(322,465)
(180)	-	-	-	-	(54,795)
14	59	-	16	48	35,774
-	52	-	-	-	1,159,539
-	-	-	-	-	5,974
38	-	-	-	-	28,954
-	(10,000)	-	-	-	(357,786)
7	-	-	-	-	(9,421)
4,213	(9,889)	9,549	16	48	1,536,922
1,625	(7,271)	900	(176)	(4,250)	72,402
8,496	-	-	-	-	180,838
5,402	-	-	-	-	36,428
-	-	-	-	-	93,533
-	-	-	-	-	11,929
15,523	(7,271)	900	(176)	(4,250)	395,130
52,663	60,666	7,635	4,551	57,959	6,668,096
$ 68,186	$ 53,395	$ 8,535	$ 4,375	$ 53,709	$ 7,063,226

SUPPLEMENTARY SCHEDULES

STATE OF TENNESSEE

Schedule 1

Debt Service Requirements to Maturity

General Obligation Bonds
June 30, 2015
(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt Principal	General Long-Term Debt Interest	General Long-Term Debt Total Requirements	Facilities Revolving Fund Debt Principal	Facilities Revolving Fund Debt Interest	Facilities Revolving Fund Debt Total Requirements
2016	$ 135,407	$ 65,377	$ 200,784	$ 16,418	$ 8,419	$ 24,837
2017	130,411	59,533	189,944	15,554	7,715	23,269
2018	121,926	53,464	175,390	15,344	7,033	22,377
2019	113,944	48,302	162,246	14,031	6,382	20,413
2020	111,420	43,459	154,879	13,540	5,772	19,312
2021	105,497	38,702	144,199	12,643	5,161	17,804
2022	105,632	34,007	139,639	12,678	4,560	17,238
2023	98,683	29,480	128,163	11,932	3,976	15,908
2024	98,454	25,446	123,900	11,896	3,462	15,358
2025	90,202	21,846	112,048	11,538	3,003	14,541
2026	89,551	18,117	107,668	11,404	2,510	13,914
2027	83,210	14,656	97,866	9,590	2,070	11,660
2028	79,642	11,524	91,166	9,003	1,663	10,666
2029	73,880	8,089	81,969	7,785	1,270	9,055
2030	49,969	4,951	54,920	6,321	943	7,264
2031	40,228	3,031	43,259	4,867	694	5,561
2032	32,372	1,344	33,716	3,393	479	3,872
2033	9,557	470	10,027	2,993	328	3,321
2034	2,975	223	3,198	2,575	193	2,768
2035	2,975	74	3,049	2,575	64	2,639
Totals	$ 1,575,935	$ 482,095	$ 2,058,030	$ 196,080	$ 65,697	$ 261,777

STATE OF TENNESSEE

Schedule 2

Schedule of Outstanding Debt

All Fund Types
For the Last Five Fiscal Years
(Expressed in Thousands)

	June 30				
	2011	**2012**	**2013**	**2014**	**2015**
Internal service funds:					
General obligation commercial paper	$ 48,060	$ 51,318	$ 40,591	$ 59,930	$ 26,564
Facilities Revolving Fund general obligation bonds	209,858	198,512	180,516	161,299	196,080
	257,918	249,830	221,107	221,229	222,644
General long-term debt:					
General obligation bonds	$ 1,544,350	$ 1,914,090	$ 1,797,894	$ 1,656,651	$ 1,575,935
General obligation commercial paper	166,157	146,452	174,555	264,436	171,122
	1,710,507	2,060,542	1,972,449	1,921,087	1,747,057
Totals for primary government	$ 1,968,425	$ 2,310,372	$ 2,193,556	$ 2,142,316	$ 1,969,701

STATE OF TENNESSEE

Schedule 3

Schedule of General Obligation Commercial Paper Outstanding - By Purpose

All Fund Types
June 30, 2015
(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 171,823
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	25,863
Purpose: To finance improvements to mental health and mental retardation facilities and grants to local governments.	
Total Outstanding	$ 197,686

STATE OF TENNESSEE

Schedule 4

Schedule of Outstanding Debt

Component Units
For the Last Five Fiscal Years
(Expressed in Thousands)

	June 30				
	2011	**2012**	**2013**	**2014**	**2015**
Component Units:					
Local Development Authority bonds	$ 8,586	$ 7,406	$ 6,585	$ 5,674	$ 4,737
Tennessee Housing Development Agency bonds	2,140,486	2,015,181	2,116,905	1,962,990	1,948,970
Tennessee Housing Development Agency notes	3,250	-	-	-	-
Veterans' Homes Board loan	5,657	5,310	5,089	6,157	5,685
Tennessee State School Bond Authority bonds	1,487,945	1,423,166	1,601,480	1,780,558	2,155,864
Tennessee State School Bond Authority revolving credit	162,653	253,676	209,429	157,584	61,682
University of Tennessee notes	184	167	150	133	113
University of Tennessee Bonds	82,089	80,449	80,365	77,171	75,269
Tennessee Board of Regents notes	2,098	1,987	1,866	2,492	1,063
Tennessee Board of Regents bonds	600	500	400	300	200
Tennessee Board of Regents commercial paper	4,363	4,271	4,085	3,955	3,801
	$ 3,897,911	$ 3,792,113	$ 4,026,354	$ 3,997,014	$ 4,257,384

Schedule 5

STATE OF TENNESSEE

Comparative Schedules of Revenues by Source

General Fund
For the Fiscal Years Ended June 30, 2015 and 2014
(Expressed in Thousands)

Revenue by Source	For the Year Ended June 30, 2015	For the Year Ended June 30, 2014
Taxes:		
Sales and use	$ 3,176,796	$ 2,989,699
Gasoline	9,702	9,005
Motor fuel	3,136	3,086
Gasoline inspection	693	670
Total fuel taxes	13,531	12,761
Franchise	728,787	642,721
Excise	1,207,661	968,051
Gross receipts	372,812	355,213
Beer	14,761	14,916
Alcoholic beverage	56,993	45,321
Mixed drink	42,994	38,574
Tobacco	30,777	29,683
Business	153,341	114,808
Insurance companies premium	790,608	727,943
Retaliatory	14,135	21,818
Workers compensation premium	44,122	47,470
Enhanced coverage	448,340	449,137
Medicaid provider	11,720	11,701
Other	2,443	2,804
Total business tax	3,919,494	3,470,160
Income	303,353	239,316
Privilege	313,177	258,708
Inheritance and estate	70,173	107,722
Other	1	407
Total other taxes	686,704	606,153
Total taxes	7,796,525	7,078,773
Licenses, fines, fees and permits:		
Motor vehicle registration	44,500	43,730
Motor vehicle title registration fees	9,398	8,716
Drivers licenses	26,342	26,004
Arrests, fines and fees	8,210	8,329
Regulatory board fees	154,321	125,235
Other	115,159	108,675
Total licenses, fines, fees and permits	357,930	320,689
Investment income	10,173	11,536
Federal	9,542,772	9,464,501
Departmental services:		
Charges to the public	359,090	329,673
Interdepartmental charges	782,399	799,637
Charges to cities, counties, etc.	724,962	568,534
Total departmental services	1,866,451	1,697,844
Other	220,923	210,267
Total revenues by source	$ 19,794,774	$ 18,783,610

STATE OF TENNESSEE

Schedule 6

Comparative Schedules of Expenditures by Function and Department

General Fund

For the Fiscal Years Ended June 30, 2015 and 2014

(Expressed in Thousands)

	For the Year Ended	
Expenditures by Function and Department	**June 30, 2015**	**June 30, 2014**
General government:		
Legislative	$ 38,028	$ 38,163
Secretary of State	38,789	38,556
Comptroller	97,366	97,657
Treasurer	76,649	60,441
Governor	4,891	4,704
Commissions	65,813	65,363
Finance and Administration	96,926	92,174
General Services	24,623	25,860
Revenue	101,713	101,389
Miscellaneous Appropriations	98	16
Total general government	544,896	524,323
Health and social services:		
Veterans Affairs	6,455	7,521
Labor and Workforce Development	164,303	167,876
TennCare	10,224,764	9,639,248
Mental Health	306,181	303,267
Intellectual Disabilities	191,003	199,812
Health	559,803	563,710
Human Services	2,692,907	2,880,185
Children's Services	760,997	731,991
Total health and social services	14,906,413	14,493,610
Law, justice and public safety:		
Judicial	313,582	310,185
Correction	864,352	878,563
Probation and Paroles	7,105	7,102
Military	97,330	94,677
Bureau of Criminal Investigation	75,436	77,682
Safety	188,319	181,029
Total law, justice and public safety	1,546,124	1,549,238
Recreation and resource development:		
Agriculture	80,428	78,062
Tourist Development	22,922	24,258
Environment and Conservation	239,192	200,630
Economic and Community Development	230,283	226,577
Total recreation and resources development	572,825	529,527
Regulation of business and professions:		
Commerce and Insurance	79,902	77,054
Financial Institutions	17,678	15,491
Total regulation of business and professions	97,580	92,545
Intergovernmental revenue sharing	683,485	606,979
Total expenditures by function and department	$ 18,351,323	$ 17,796,222

STATISTICAL SECTION

STATISTICAL SECTION

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

Contents **Page**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. No adjustments have been made for prior period adjustments.

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

	FOR THE FISCAL YEAR ENDED JUNE 30, 2006	2007	2008	2009
Expenses				
Governmental activities:				
General government	$ 705,897	$ 738,897	$ 837,250	$ 988,309
Education	5,449,613	5,884,841	6,464,564	6,520,569
Health and social services (4)	10,170,957	10,448,373	11,125,967	11,697,900
Law, justice, and public safety	1,214,957	1,221,175	1,325,500	1,338,869
Recreation and resources development (1)	466,689	485,852	613,902	538,386
Regulation of business and professions	86,945	129,107	123,391	126,003
Transportation	671,641	835,751	808,591	979,454
Intergovernmental revenue sharing	738,349	815,832	842,096	810,063
Interest on long-term debt	49,460	50,003	51,086	51,977
Payments to fiduciary fund		25,950		
Total governmental activities expenses	19,554,508	20,635,781	22,192,347	23,051,530
Business-type activities:				
Employment security (2)	452,043	467,327	541,573	1,427,713
Insurance programs	471,032	413,483	469,491	514,065
Loan programs	1,487	1,473	1,655	1,345
Other	2,496	2,595	2,744	2,265
Total business-type activities expenses	927,058	884,878	1,015,463	1,945,388
Total primary government expenses	$ 20,481,566	$ 21,520,659	$ 23,207,810	$ 24,996,918
Program Revenues				
Governmental activities:				
Charges for services:				
General government	$ 375,640	$ 524,306	$ 672,892	$ 753,066
Education	26,785	34,819	35,405	35,124
Health and social services	692,186	521,508	548,570	615,871
Law, justice, and public safety	374,715	130,885	117,536	122,064
Recreation and resources development	138,970	153,048	142,128	142,657
Regulation of business and professions	124,435	142,805	143,646	151,095
Transportation	15,118	22,542	18,778	15,936
Operating grants and contributions (3)	8,314,981	8,481,473	8,612,838	9,758,691
Capital grants and contributions	615,584	708,384	600,404	592,719
Total governmental activities program revenues	10,678,414	10,719,770	10,892,197	12,187,223
Business-type activities:				
Charges for services:				
Employment security	381,600	356,064	413,741	585,668
Insurance programs	479,515	438,275	480,803	504,130
Loan programs	12,970	13,803	15,137	15,684
Other	2,803	2,644	2,324	1,543
Operating grants and contributions (3)	131,043	116,569	124,576	508,249
Total business-type activities program revenues	1,007,931	927,355	1,036,581	1,615,274
Total primary government program revenues	$ 11,686,345	$ 11,647,125	$ 11,928,778	$ 13,802,497
Net (Expense)/Revenue				
Governmental activities	$ (8,876,094)	$ (9,916,011)	$ (11,300,150)	$ (10,864,307)
Business-type activities	80,873	42,477	21,118	(330,114)
Total primary government net expense	$ (8,795,221)	$ (9,873,534)	$ (11,279,032)	$ (11,194,421)

Schedule 1

(continued on next page)

FOR THE FISCAL YEAR ENDED JUNE 30,					
2010	2011	2012	2013	2014	2015
$ 1,078,294	$ 1,048,423	$ 942,465	$ 987,800	$ 959,641	$ 858,569
6,893,801	7,127,705	7,018,189	7,083,806	7,383,077	7,302,492
12,849,335	13,739,733	13,952,342	14,079,899	13,912,421	14,258,216
1,365,134	1,436,045	1,567,730	1,539,288	1,612,248	1,522,333
499,080	606,317	646,494	554,421	646,781	666,997
132,784	127,887	126,395	158,228	158,644	175,667
1,010,029	911,666	1,012,399	1,062,091	1,126,744	1,126,447
874,094	825,777	851,535	844,628	897,312	980,258
60,566	63,555	62,119	71,933	67,520	60,622
19747	63,114	58,453	22,386	827	400
24,782,864	25,950,222	26,238,121	26,404,480	26,765,215	26,952,001
2,135,537	1,613,716	1,232,324	750,529	451,470	289,415
557,371	552,626	540,746	544,250	541,205	556,634
1,406	1,561	1,757	1,577	1,469	1,493
1,385	25	620	163	76	68
2,695,699	2,167,928	1,775,447	1,296,519	994,220	847,610
$ 27,478,563	$ 28,118,150	$ 28,013,568	$ 27,700,999	$ 27,759,435	$ 27,799,611
$ 778,352	$ 856,264	$ 673,945	$ 775,135	$ 812,528	$ 787,280
44,813	50,052	56,898	85,722	73,276	58,961
499,694	724,971	772,850	714,788	756,038	957,133
121,201	120,137	125,879	139,622	140,123	137,905
141,278	139,302	151,545	155,422	145,675	153,788
148,788	149,090	168,590	154,896	165,611	182,959
28,322	29,769	29,601	35,470	31,863	45,840
12,076,579	12,677,291	11,897,517	11,697,733	11,355,859	11,291,412
782,188	901,798	903,281	772,061	762,251	727,573
14,621,215	15,648,674	14,780,106	14,530,849	14,243,224	14,342,851
710,113	754,108	769,446	632,408	370,752	343,808
525,662	547,207	542,756	569,982	598,209	581,436
16,584	17,350	15,600	12,450	8,897	8,865
1,043	206	133	231	221	230
1,482,113	1,035,693	749,005	327,928	134,026	64,053
2,735,515	2,354,564	2,076,940	1,542,999	1,112,105	998,392
$ 17,356,730	$ 18,003,238	$ 16,857,046	$ 16,073,848	$ 15,355,329	$ 15,341,243
$ (10,161,649)	$ (10,301,548)	$ (11,458,015)	$ (11,873,631)	$ (12,521,991)	$ (12,609,150)
39,816	186,636	301,493	246,480	117,885	150,782
$ (10,121,833)	$ (10,114,912)	$ (11,156,522)	$ (11,627,151)	$ (12,404,106)	$ (12,458,368)

STATE OF TENNESSEE

FINANCIAL TRENDS - CHANGES IN NET POSTION (continued)

LAST TEN FISCAL YEARS

(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2006	**2007**	**2008**	**2009**
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Sales and use	$ 6,540,224	$ 6,819,570	$ 6,851,481	$ 6,326,857
Fuel	851,362	867,520	865,181	817,873
Business (5)	2,507,653	2,799,751	2,913,227	2,671,226
Other	598,827	734,026	734,029	563,501
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings	81,287	113,940	120,523	42,883
Miscellaneous	185,466	250,344	275,499	226,907
Contributions to permanent funds	369	270	239	217
Transfers	(22,783)	(5,028)	(4,110)	(3,541)
Total governmental activities	10,742,405	11,580,393	11,756,069	10,645,923
Business-type activities:				
Transfers	22,783	5,028	4,110	3,541
Total business-type activities	22,783	5,028	4,110	3,541
Total primary government general revenues and other changes in net position	$ 10,765,188	$ 11,585,421	$ 11,760,179	$ 10,649,464
Changes in Net Position				
Governmental activities	$ 1,866,311	$ 1,664,382	$ 455,919	$ (218,384)
Business-type activities	103,656	47,505	25,228	(326,573)
Total primary government	$ 1,969,967	$ 1,711,887	$ 481,147	$ (544,957)

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

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

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

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

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

Schedule 1

FOR THE FISCAL YEAR ENDED JUNE 30,					
2010	**2011**	**2012**	**2013**	**2014**	**2015**
$ 6,170,977	$ 6,461,461	$ 6,884,762	$ 7,018,128	$ 7,276,443	$ 7,713,695
874,511	846,384	842,133	834,956	843,164	862,156
2,944,465	3,536,200	3,926,566	4,122,814	3,948,253	4,336,333
504,750	525,192	608,762	648,193	641,244	719,370
7,245	4,602	772	4,144	7,079	6,121
195,414	217,630	253,489	282,705	221,138	224,064
196	180	174	180	547	136
(3,608)	(2,134)	(4,655)	(4,256)	(4,622)	(8,046)
10,693,950	11,589,515	12,512,003	12,906,864	12,933,246	13,853,829
3,608	2,134	4,655	4,256	4,622	8,046
3,608	2,134	4,655	4,256	4,622	8,046
$ 10,697,558	$ 11,591,649	$ 12,516,658	$ 12,911,120	$ 12,937,868	$ 13,861,875
$ 532,301	$ 1,287,967	$ 1,053,988	$ 1,033,233	$ 411,255	$ 1,244,679
43,424	188,770	306,148	250,736	122,507	158,828
$ 575,725	$ 1,476,737	$ 1,360,136	$ 1,283,969	$ 533,762	$ 1,403,507

STATE OF TENNESSEE
FINANCIAL TRENDS - NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS

(accrual basis of accounting, expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,			
	2006	**2007**	**2008**	**2009**
Governmental activities				
Net investment in capital assets	$ 20,204,007	$ 21,078,481	$ 21,796,151	$ 22,575,852
Restricted	725,209	792,542	864,270	965,292
Unrestricted (1)(2)	2,204,315	2,964,957	2,631,478	1,495,656
Total governmental activities net position	23,133,531	24,835,980	25,291,899	25,036,800
Business-type activities				
Net investment in capital assets			51	
Unrestricted	1,614,845	1,643,706	1,668,883	1,342,361
Total business-type activities net position	1,614,845	1,643,706	1,668,934	1,342,361
Primary Government				
Net investment in capital assets	20,204,007	21,078,481	21,796,202	22,575,852
Restricted	725,209	792,542	864,270	965,292
Unrestricted	3,819,160	4,608,663	4,300,361	2,838,017
Total primary government net position	$ 24,748,376	$ 26,479,686	$ 26,960,833	$ 26,379,161

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

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

Schedule 2

FOR THE FISCAL YEAR ENDED JUNE 30,					
2010	**2011**	**2012**	**2013**	**2014**	**2015**
$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234
924,902	1,179,519	1,172,812	1,193,341	1,242,324	1,150,817
1,284,192	1,330,947	1,183,704	1,458,291	1,299,446	940,922
25,569,101	26,856,959	27,985,116	28,978,083	29,397,293	29,523,973
1,385,785	1,574,664	1,880,812	2,134,924	2,264,747	2,420,530
1,385,785	1,574,664	1,880,812	2,134,924	2,264,747	2,420,530
23,360,007	24,346,493	25,628,600	26,326,451	26,855,523	27,432,234
924,902	1,179,519	1,172,812	1,193,341	1,242,324	1,150,817
2,669,977	2,905,611	3,064,516	3,593,215	3,564,193	3,361,452
$ 26,954,886	$ 28,431,623	$ 29,865,928	$ 31,113,007	$ 31,662,040	$ 31,944,503

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,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund										
Nonspendable	N/A	N/A	N/A	N/A	N/A	$ 19,343	$ 18,609	$ 21,349	$ 21,075	$ 20,184
Restricted	N/A	N/A	N/A	N/A	N/A	100,942	63,192	73,346	68,331	69,540
Committed	N/A	N/A	N/A	N/A	N/A	235,301	286,918	355,546	281,969	302,603
Assigned	N/A	N/A	N/A	N/A	N/A	1,179,652	1,250,677	1,585,964	1,138,496	1,285,945
Unassigned	N/A	N/A	N/A	N/A	N/A	507,501	698,663	476,264	567,286	885,215
Total general fund						$ 2,042,739	$ 2,318,059	$ 2,512,469	$ 2,077,157	$ 2,563,487
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	N/A	N/A	$ 144,426	$ 147,468	$ 150,579	$ 153,004	$ 519,590
Restricted	N/A	N/A	N/A	N/A	N/A	951,222	980,972	990,317	1,024,350	575,853
Committed	N/A	N/A	N/A	N/A	N/A	191,557	344,696	398,864	396,298	389,401
Assigned	N/A	N/A	N/A	N/A	N/A	710,582	672,610	575,300	759,845	736,691
Unassigned	N/A	N/A	N/A	N/A	N/A					
Total all other governmental funds						$ 1,997,787	$ 2,145,746	$ 2,115,060	$ 2,333,497	$ 2,221,535

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

Schedule 4

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Revenues										
Taxes	$ 10,488,650	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171	$ 12,762,694	$ 13,717,684
Licenses, fines, fees, and permits	637,522	660,888	672,486	677,766	675,009	693,702	731,752	725,785	727,158	799,462
Interest on investments	102,075	178,080	127,152	23,964	36,443	45,089	17,411	35,987	67,117	27,865
Federal [2]	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185	11,750,878	11,601,522
Departmental services	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141	1,994,334	2,108,043
Other	491,064	537,816	570,634	535,534	519,936	513,919	595,305	630,355	604,336	584,672
Total revenues	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624	27,906,517	28,839,248
Expenditures										
Current:										
General government	530,637	555,545	617,056	581,364	558,013	563,195	575,919	538,243	553,807	565,415
Education	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325	7,182,444	7,140,936
Health and social services	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483	14,493,610	14,906,413
Law, justice, and public safety	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252	1,555,028	1,552,156
Recreation and resources development	544,744	525,885	707,866	599,885	555,717	682,531	705,043	655,168	711,526	757,166
Regulation of business and professions	92,888	134,955	129,688	131,614	139,200	136,644	135,877	164,673	165,238	187,360
Transportation	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946	1,753,581	1,708,328
Intergovernmental revenue sharing	738,349	815,832	842,096	810,063	874,094	825,777	851,535	844,628	897,312	980,258
Debt service:										
Principal	86,532	81,790	79,107	83,960	101,804	112,234	115,935	274,858	142,643	313,050
Interest	49,319	50,363	51,872	52,110	64,344	68,496	65,471	76,041	75,155	68,325
Debt issuance costs	1,082	1,173	980	4,362	4,837	4,363	4,793	2,659	1,452	1,741
Capital outlay	253,229	343,712	359,118	472,451	485,937	391,519	483,279	515,999	491,077	406,396
Total expenditures	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275	28,022,873	28,587,544
Revenues over (under) expenditures	909,119	858,963	(291,067)	(871,915)	(257,496)	153,526	(19,772)	35,349	(116,356)	251,704
Other Financing Sources (Uses)										
Bonds and commercial paper issued	228,409	196,290	340,021	601,664	415,033	307,318	637,868	290,178	91,281	143,200
Commercial paper redeemed	(109,908)	(103,498)	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)			
Insurance claim recoveries	1,670	4,013	2,361	251			2,734	1,061	1,335	1,597
Premium on bond sale	2,485	2,049	2,760	30,147	26,358	11,132	37,069			10,308
Refunding bonds issued [3][4]				91,536	43,985	43,014	464,809	25,713		
Refunding bond premium [3][4]				10,670		2,122	88,775	11,672		81,321
Refunding payment to escrow [3][4]				(101,707)	(43,985)	(44,816)	(552,898)	(25,473)		(81,092)
Other					21,146	52,741				
Proceeds from pledged revenue							58,453	22,183	472	
Transfers in [1]	733,813	898,244	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860	1,561,780	1,173,753
Transfers out [1][5]	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)	(1,763,423)	(1,206,423)
Total other financing sources (uses)	48,391	13,680	169,015	299,864	259,814	108,907	454,876	142,126	(108,555)	122,664
Net Change in Fund Balances	$ 957,510	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475	$ (224,911)	$ 374,368
Debt Service as a Percentage of Noncapital Expenditures	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%	0.8036%	1.3784%

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

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

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

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

(5) The decrease in transfers out between 2014 and 2015 was due primarily to a reduction of transfers out from the General Fund to the Capital Projects fund, to the Debt Service fund, and transfers out for the leasing of buildings.

Schedule 5

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Auto dealers	$ 9,430	$ 9,389	$ 9,503	$ 7,938	$ 6,726	$ 7,672	$ 8,433	$ 9,281	$ 9,840	$ 10,480
Purchases from manufacturers	4,803	4,679	4,745	4,497	3,492	3,656	4,012	4,051	4,175	4,346
Miscellaneous durable goods	15,845	17,208	17,441	16,347	13,747	14,495	15,586	16,376	16,812	17,508
Eating and drinking places	7,960	8,464	8,880	8,974	8,841	9,058	9,509	10,200	10,577	11,160
Food stores	8,196	8,419	8,731	8,601	8,822	8,885	9,217	9,690	10,083	10,354
Liquor stores	495	548	594	636	657	685	728	793	836	888
Hotels and motels	2,044	2,218	2,355	2,313	2,038	2,067	2,333	2,489	2,539	2,896
Other retail and service	25,806	27,134	28,303	28,237	26,804	27,315	28,758	30,187	31,004	32,404
Miscellaneous nondurable goods	7,024	7,293	7,758	7,784	7,364	7,646	7,989	8,426	8,694	9,027
Transportation, communication	6,682	7,353	7,690	7,910	7,729	6,923	7,089	6,564	6,399	6,248
Total taxable sales	$ 88,285	$ 92,705	$ 96,000	$ 93,237	$ 86,220	$ 88,402	$ 93,654	$ 98,057	$ 100,959	$ 105,311

Source: University of Tennessee Economic Report to the Governor

Schedule 6

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX RATES
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%	5.00%
Energy fuels used by manufacturers and nurserymen	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Cable and wireless TV (between $15 and $27.50) and satellite services	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Additional tax added to the general rate for single article sales of personal property ($1,601 to $3,200)	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%

Source: State of Tennessee Budget; Department of Finance and Administration, Division of Budget

Schedule 7

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,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Retail:										
Building materials	$ 405,812	$ 423,160	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513	$ 371,086	$ 392,853
General merchandise	767,584	820,549	829,576	810,503	799,387	817,350	840,896	836,055	845,407	854,971
Food stores	508,497	526,981	529,977	520,280	510,104	517,420	539,402	546,972	555,692	579,660
Auto dealers and service stations	817,689	856,109	835,035	672,112	690,797	760,119	830,875	869,748	933,751	1,013,333
Apparel and accessory stores	194,946	200,131	200,745	191,132	191,110	194,172	205,480	215,308	217,170	228,680
Furniture and home furnishings	238,475	246,569	244,312	215,352	207,398	214,575	224,096	221,025	228,231	250,667
Eating and drinking places	547,547	585,490	605,544	596,893	598,562	615,741	653,210	681,255	706,095	757,929
Miscellaneous retail stores	550,340	580,936	597,649	568,197	560,527	578,884	613,097	637,761	664,927	736,728
Total retail	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637	4,522,359	4,814,821
Services:										
Hotels and lodging places	142,333	154,081	160,909	146,253	137,973	144,129	160,868	164,403	175,227	198,123
Personal services	49,375	51,099	51,151	46,564	46,777	46,923	47,932	49,145	49,724	52,239
Business services	234,810	245,387	254,506	239,143	224,044	236,982	249,083	260,000	273,397	276,961
Auto repair, services, and parking	163,710	174,680	173,481	157,972	153,781	160,268	176,923	172,698	178,693	189,611
Miscellaneous repair services	27,100	28,387	28,441	25,321	22,801	23,189	24,384	25,636	26,807	27,823
Motion pictures	22,282	22,178	21,498	21,512	19,803	17,794	18,972	18,323	18,900	18,160
Amusement services	54,629	59,578	59,636	58,225	57,636	60,071	63,922	69,280	73,891	81,249
Health services	11,710	13,123	13,676	14,228	14,305	13,683	15,122	10,750	15,463	14,956
Other services	34,282	34,400	37,740	43,434	36,802	40,752	42,200	37,140	40,659	45,803
Total services	740,231	782,913	801,038	752,652	713,922	743,791	799,406	807,375	852,761	904,925
Non-retail, non-services:										
Agriculture, forestry, fishing	6,920	7,261	7,451	7,381	7,312	7,259	7,257	7,096	7,304	7,189
Mining	5,635	6,302	7,117	6,126	5,933	5,741	6,491	5,814	6,765	6,822
Construction	48,540	54,075	59,119	52,415	44,038	48,503	49,782	51,094	54,483	56,717
Manufacturing	312,570	305,558	299,223	256,995	225,530	241,844	255,062	256,157	264,955	289,940
Transportation	42,825	46,688	53,866	69,930	34,556	38,345	43,525	40,728	29,009	35,272
Communications	442,837	457,116	475,675	477,281	443,576	430,847	416,347	387,780	379,013	393,980
Electric, gas, and sanitary services	194,574	203,789	215,552	236,692	215,020	237,479	239,531	239,441	245,644	252,014
Wholesale trade	418,607	451,777	450,898	393,100	361,217	398,111	438,113	436,411	447,524	460,079
Finance, insurance, real estate	12,899	17,830	17,908	12,981	17,766	14,027	13,847	14,620	15,207	18,676
Total non-retail, non-services	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141	1,449,904	1,520,689
County Clerk	114,767	126,081	125,355	101,136	110,328	120,986	134,188	133,101	143,818	152,856
Consumer Use Tax	7,545	5,071	4,641	5,250	4,322	4,695	6,334	4,293	5,636	6,006
Flood Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	(2,649)	N/A	N/A	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	N/A	N/A	(121)	N/A	N/A	N/A
Unclassified	N/A	N/A	N/A	N/A	N/A	N/A	208,275	258,465	279,555	278,851
Grand Total	$ 6,378,840	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012	$ 7,254,033	$ 7,678,148

Source: Revenue Collections Reports, Tennessee Department of Revenue

Notes: N/A means not available.

Disaster relief includes May 2010 flood tax rebate, April 2011 disaster relief, and sales tax rebate on storm shelters.

The 2012 report differed from the 2013 report in that it did not include Unclassified as a category. However, the 2013 report included the amount for 2012 and 2013. FY 2012 grand total was revised to include this amount.

Schedule 8

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Governmental activities debt:										
General obligation bonds	$ 1,096,765	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437
General obligation commercial paper	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366	197,686
Capital leases	3,619	3,943	11,743	10,810	16,301	15,503	14,666	13,790	21,798	20,599
Total governmental activities debt	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566	2,342,622	2,178,722
Business-type activities debt:										
General obligation bonds	3,378	2,534	1,655							
Total business-type activities debt	3,378	2,534	1,655							
Total primary government debt	$ 1,248,387	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566	$ 2,342,622	$ 2,178,722
Debt Ratios										
Personal income	$ 195,085,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	N/A
Ratio of total debt to personal income	0.64%	0.61%	0.67%	0.79%	0.87%	0.85%	0.96%	0.94%	0.88%	
Population	6,039	6,157	6,215	6,296	6,346	6,403	6,456	6,496	6,549	N/A
Net general bonded debt per capita	$ 206	$ 203	$ 228	$ 270	$ 304	$ 307	$ 358	$ 368	$ 358	
General Bonded Debt:										
General obligation bonds	$ 1,100,143	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437
General obligation commercial paper	144,625	130,824	240,626	176,308	241,390	214,217	197,770	215,146	324,366	197,686
Assets restricted for debt principal				(14,509)						
Total net bonded debt	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776	$ 2,320,824	$ 2,158,123
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	75.68%	80.92%	71.22%	46.38%	38.01%	41.09%	41.65%	43.11%	42.55%	50.24%

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)

Debt Capacity(1)

State tax revenues allocated for FYE June 30, 2014 to:		
General fund	$ 5,284,020 *	
Debt service fund	412,200 *	
Highway fund	678,022 *	
Total allocated revenues		$ 6,374,242
Legal debt service limit (10% of total allocated revenues)		637,424
Less: maximum annual debt service at June 30, 2015		225,620
Legal debt service margin		$ 411,804

* Obtained from State of Tennessee Budget , Fiscal Year 2015-2016

Debt Capacity- Ten Year Trend(1)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Debt limit	$ 628,010	$ 673,748	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288	$ 648,934	$ 637,424
Total net debt service applicable to limit	148,033	145,975	145,721	154,803	186,684	203,866	209,820	243,779	227,401	225,620
Legal debt service margin	$ 479,977	$ 527,773	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509	$ 421,533	$ 411,804
Legal debt service margin as a percentage of the debt limit	76.43%	78.33%	78.35%	70.56%	61.83%	63.41%	67.30%	64.48%	64.96%	64.60%

(1) Prior to July 1, 2013, in order to issue debt, the state had to have accumulated 150% of the amount necessary to pay annual interest and principal on debt obligations. As of July 1, 2013, the debt capacity test will be calculated as shown under the debt capacity heading. The debt capacity test is based on the allocated tax revenues of the immediately preceding fiscal year.

Pledged Revenues(2)

	Collections for Fiscal Year 2015		
	Portion Pledged	All Governmental Fund Types	Fiscal Year 2015 Pledged Amount
Gasoline tax	25%	$ 631,281	$ 157,820
Petroleum products fee	100%	64,828	64,828
Motor vehicle registration fee	50%	229,791	114,896
Franchise tax	100%	746,787	746,787
		$ 1,672,687	$ 1,084,331

(2) This pledge of "Special Taxes" is made for general obligation bonds issued prior to July 1, 2013. The final maturity of such bonds is October 1, 2032. Thereafter (or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013) this pledge of special taxes will expire. All state general obligation bonds and notes constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state.

Schedule 10

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST TEN CALENDAR YEARS
(expressed in thousands; except per capita)

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Population	5,963	6,039	6,157	6,215	6,296	6,346	6,403 (est)	6,456 (est)	6,496 (est)	6,549 (est)
Total personal income	$ 184,567,000	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000
Per capita personal income	$ 31,127	$ 32,474	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682	$ 40,734	$ 42,241
Unemployment rate	5.6%	4.5%	5.3%	7.9%	10.9%	9.4%	9.1%	8.0%	8.2%	6.9%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor

Schedule 11

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

	2014			2005		
Industry	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment	Number of Employees	Rank	Percentage of Total Nonagricultural Wage and Salary Employment
Trade, Transportation, and Utilities	593,100	1	21.16%	598,000	1	21.80%
Government	415,900	2	14.84%	412,700	2	15.05%
Education and Health Services	399,900	3	14.27%	330,300	4	12.04%
Professional and Business Services	369,400	4	13.18%	312,500	5	11.39%
Manufacturing	323,100	5	11.53%	408,800	3	14.90%
Leisure and Hospitality	298,800	6	10.66%	262,100	6	9.55%
Financial Activities	139,400	7	4.97%	143,300	7	5.22%
Natural Resources, Mining, and Construction	112,900	8	4.03%	125,300	8	4.57%
Other Services	106,900	9	3.81%	100,700	9	3.67%
Information	43,200	10	1.54%	49,400	10	1.80%
Total	2,802,600		100.00%	2,743,100		100.00%
	Calendar Year 2014			Calendar Year 2005		
Total State Employment	2,810,850			2,778,540		

Source: An Economic Report to the Governor of the State of Tennessee January 2015
and the Tennessee Department of Labor and Workforce Development Website

Note: TCA 50-7-701 states, "Information thus obtained pursuant to the administration hereof shall be held confidential and shall not be published or be open to public inspection in any manner revealing the individual's or the employing unit's identity." This TCA prohibits the release of principal employer information from the Tennessee Department of Labor and Workforce Development. The above schedule is being presented as an alternative to the principal employer schedule.

Schedule 12

STATE OF TENNESSEE
OPERATING INFORMATION - FULL TIME EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government	4,671	4,964	5,040	4,947	4,866	4,786	4,705	4,703	4,327	4,299
Education	1,025	1,070	1,206	1,157	1,193	1,154	1,128	1,259	1,118	1,122
Health and social services	21,246	21,208	20,990	19,704	19,241	17,917	17,453	17,036	16,735	16,209
Law, justice and public safety	10,987	10,843	11,004	10,530	10,629	10,534	10,592	10,940	11,249	10,826
Recreation and resources development	3,846	3,885	3,901	3,698	3,640	3,564	3,515	3,458	3,431	3,441
Regulation of business and professions	738	776	754	708	717	714	706	711	724	716
Transportation	4,448	4,380	4,294	4,167	4,326	3,940	3,809	3,678	3,439	3,355
Total	46,961	47,126	47,189	44,911	44,612	42,609	41,908	41,785	41,023	39,968

Source: Department of Human Resources

Schedule 13

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

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government										
Motor pool vehicles	7,067	7,276	7,392	7,562	7,536	7,621	6,530	6,280	6,181 (1)	4,462
Buildings	107	107	107	107	107	109	110	110	97	81
Machinery and equipment	3,637	3,586	3,528	3,166	3,888	4,061	4,121	5,895	6,772	6,745
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	219	209	240	242	260	249	307	229	222	187
Health and social services										
Buildings	340	339	329	320	320	316	314	330	346	340
Machinery and equipment	2,142	2,303	2,443	2,462	2,856	2,600	2,862	3,020	3,357	3,499
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	20	20	20
Armories	86	86	83	83	83	83	83	83	83	82
Machinery and equipment	2,532	2,586	3,103	3,156	3,732	4,424	4,506	5,246	6,441	6,452
Recreation and resources development										
Acreage of state parks	164,399	164,537	165,486	173,878	163,032	173,382	191,563	184,521	188,573	189,102
Machinery and equipment	2,476	2,543	2,729	2,736	2,949	2,912	3,075	3,220	3,198	3,245
Regulation of business and professions										
Machinery and equipment	104	138	147	140	148	146	151	169	230	240
Transportation										
State highways (in miles)	14,163	13,835	13,887	13,882	13,871	13,867	13,877	13,884	13,898	13,884
Bridges, state and local highways	19,432	19,515	19,563	19,536	19,595	19,595	19,659	19,729	19,746	19,776
Facilities	122	122	122	122	122	122	122	122	122	122
Buildings	713	717	708	708	708	754	754	754	755	754

Note: (1) In previous years this number included equipment in addition to vehicles. Equipment should not be included.

Schedule 14

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

Function	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General government										
Tax returns processed (1)	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798	3,538,518	3,670,716	3,914,540	4,682,702	4,519,309
New corporate charters registered	11,807	11,726	10,745	11,073	11,724	9,717	9,618	9,702	9,781	10,325
Investment return on total portfolio	4.11%	5.30%	2.00%	0.40%	0.25%	0.12%	0.12%	0.11%	0.12%	0.25%
Residential and commercial property reappraisals completed	554,798	336,050	255,250	511,050	677,720	525,516	185,965	1,495,789	640,264	338,538
Education										
Number of public schools (K-12)	1,699	1,714	1,718	1,736	1,736	1,736	1,784	1,797	1,823	1,811
Enrollment of public schools (K-12)	991,489	925,898	929,543	930,525	933,703	934,246	935,317	993,256	993,841	995,892
Number of high school graduates from public schools	53,960	54,191	57,486	60,371	62,526	62,147	62,157	62,019	61,838	N/A
Health and social services										
TennCare enrollees	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611	1,208,527	1,213,521	1,187,082	1,271,151	1,429,411
Food stamp recipients	870,304	861,979	902,500	1,094,500	1,044,900	1,290,200	1,200,000	1,200,000	1,280,000	1,191,500
Percentage of population (4)	14.41%	14.00%	14.52%	17.38%	16.60%	20.33%	18.74%	18.59%	19.70%	18.19%
Temporary assistance recipients	70,108	64,684	60,000	60,000	58,000	61,500	57,000	57,000	57,000	37,041
Percentage of population (4)	1.16%	1.05%	0.97%	0.95%	0.92%	0.97%	0.89%	0.88%	0.88%	0.57%
Children in state custody (2)	9,700	9,048	8,149	7,202	7,336	7,870	8,533	8,960	8,552	8,558
Percentage of population (4)	0.16%	0.15%	0.13%	0.11%	0.12%	0.12%	0.13%	0.14%	0.13%	0.13%
Mental health institutes average daily census	845	808	780	688	575	538	517	480	479	493
Law, justice and public safety										
Correctional institutions average daily census	19,119	26,573	26,998	27,325	27,164	27,782	29,231	29,654	29,758	29,571
Department of Safety citations issued	472,465	403,363	380,586	358,104	347,571	301,394	340,575	381,588	419,122	414,310
Drivers licenses issued	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722	1,409,342	1,714,905	1,734,205	1,741,379	1,732,106
Recreation and resources development										
Hunting/fishing licenses and boats registered	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935	547,660	586,839	538,971	569,447	577,577
Wetland acres acquired	3,308 (est.)	891 (est.)	3,602	2,327	79	559	1,604	1,127	1,598	102,938
Number of visitors to state parks	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662	30,282,836	31,036,603	29,881,059	32,063,100	33,452,320
Air pollution monitoring sites	87	86	78	89	93	32	32	41	40	33
Regulation of business and professions										
Fire safety inspections	18,418	34,976	39,518	34,241	37,920	34,539	27,058	25,601	27,724	16,508
Consumer affairs written complaints	5,528	5,420	5,797	5,481	6,240	5,818	5,541	5,407	5,447	4,654
Transportation										
Lane miles resurfaced (3)	1,632	2,408	1,968	2,893	2,261	2,317	2,298	2,596	2,447	2,239
HELP program services provided	154,362	128,006	130,062	108,460	112,438	116,865	130,941	118,773	124,823	113,429

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, or unruly.
(3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
(4) Population figures used in calculating percentages are from schedule 10.
(5) N/A indicates that data is unavailable.

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

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 484,786	$ 440,014	$ 56	$ 23,896
2007	532,582	471,730	45	26,652
2008	565,963	510,261	35	33,177
2009	599,973	476,333	35	43,577
2010	648,298	493,304	12	43,998
2011	685,003	548,787		51,079
2012	584,147	411,729		49,835
2013	619,399	432,636		52,859
2014	650,337	467,845		56,462
2015	650,337	487,295		70,543

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 166,652	$ 108,395		$ 4,993
2007	177,082	116,006		6,013
2008	188,462	123,719		6,280
2009	195,365	114,524		8,914
2010	214,426	122,480		8,914
2011	237,768	133,514		8,839
2012	259,510	97,773		8,589
2013	265,206	94,419		8,511
2014	183,140	91,398		8,469
2015	240,892	95,118		10,655

Austin Peay State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 50,818	$ 32,684		$ 2,104
2007	56,119	34,977		2,253
2008	57,821	36,371		2,581
2009	62,358	33,427		3,512
2010	70,128	39,157		3,512
2011	78,214	36,102		3,531
2012	85,043	26,502		3,330
2013	85,725	28,733		4,343
2014	74,084	34,272		6,014
2015	78,013	36,968		6,096

Middle Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 149,759	$ 86,971		$ 6,455
2007	158,641	94,005		7,875
2008	168,872	100,859		8,011
2009	182,576	92,908		12,962
2010	199,352	101,836		12,962
2011	180,529	100,110		14,928
2012	218,283	74,071		14,780
2013	232,344	77,254		17,575
2014	180,748	82,919		19,641
2015	199,239	85,855		19,122

East Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 101,586	$ 85,040	$ 2,242	$ 2,221
2007	108,864	90,643	2,070	2,895
2008	122,334	98,105	1,889	5,172
2009	137,173	91,775	1,699	9,489
2010	159,993	85,322	1,399	9,502
2011	169,479	97,996	1,399	9,229
2012	177,436	77,520	1,399	9,142
2013	192,055	79,860		9,926
2014	115,941	83,259		12,028
2015	139,579	87,764		11,439

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 59,847	$ 37,864		$ 2,893
2007	60,537	39,913		2,911
2008	85,505	41,775		3,506
2009	80,016	38,085		4,041
2010	85,831	44,400		4,041
2011	91,919	40,831		4,071
2012	97,171	28,782		4,056
2013	97,174	29,959		4,237
2014	75,307	38,271		4,241
2015	92,297	39,191		3,600

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

(expressed in thousands)

Tennessee Technological University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 56,568	$ 43,370		$ 1,042
2007	61,679	46,012		1,242
2008	70,801	48,812		1,273
2009	76,045	47,577		1,786
2010	81,475	48,133		1,786
2011	89,100	50,616		3,104
2012	100,915	35,747		3,102
2013	110,217	36,914		3,479
2014	93,241	38,454		4,079
2015	112,938	39,302		4,052

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)
2006	$ 5,451	$ 6,490		
2007	6,032	7,118		$ 117
2008	6,141	7,612		116
2009	6,945	7,276		116
2010	9,027	7,758		116
2011	9,988	7,985		
2012	10,626	6,570		
2013	10,647	6,900		
2014	9,151	7,328		
2015	8,992	7,842		

Chattanooga State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 19,084	$ 22,336		$ 69
2007	20,832	23,697		280
2008	22,190	25,074		489
2009	26,466	23,937		489
2010	29,512	24,926		489
2011	34,021	26,901		285
2012	36,319	20,643		285
2013	36,895	21,983		351
2014	32,676	26,000		374
2015	33,207	27,449		301

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)
2006	$ 9,280	$ 11,480		
2007	10,614	12,383		$ 168
2008	11,512	13,147		166
2009	12,383	13,264		166
2010	14,749	11,710		166
2011	15,739	13,193		
2012	16,009	10,652		
2013	14,918	10,871		
2014	13,749	11,105		
2015	15,088	11,401		

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)
2006	$ 6,249	$ 9,683		
2007	6,422	10,317		$ 169
2008	7,360	10,856		168
2009	8,336	10,379		213
2010	9,958	10,992		213
2011	10,979	11,432		45
2012	11,373	9,088		45
2013	11,377	8,887		45
2014	11,513	8,849		45
2015	11,264	9,336		44

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)
2006	$ 9,943	$ 12,204		$ 17
2007	10,077	13,194		17
2008	10,903	13,986		18
2009	11,755	13,824		14
2010	14,406	12,463		18
2011	15,413	14,098		18
2012	15,296	11,467		18
2013	15,792	11,326		112
2014	15,232	12,340		127
2015	16,058	12,842		127

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

(expressed in thousands)

Motlow State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 7,678	$ 9,434		
2007	8,661	10,290		$ 171
2008	9,780	10,951		170
2009	11,148	12,890		170
2010	13,121	9,143		170
2011	13,983	11,023		
2012	14,494	9,774		
2013	14,062	10,359		
2014	14,036	10,643		
2015	15,314	11,007		

Nashville State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 15,615	$ 14,045		$ 13
2007	15,828	15,185		13
2008	17,657	16,370		85
2009	19,900	15,619		70
2010	24,984	14,585		85
2011	30,011	16,451		85
2012	30,181	13,965		73
2013	30,199	14,592		73
2014	28,533	15,861		73
2015	30,694	16,936		73

Roane State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 12,528	$ 16,660		
2007	13,510	17,892		$ 330
2008	14,478	18,976		323
2009	15,366	18,104		323
2010	18,411	16,997		323
2011	20,532	19,098		153
2012	21,580	15,571		153
2013	21,902	15,619		145
2014	21,902	17,384		141
2015	20,819	18,012		142

Northeast State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 8,471	$ 11,147		
2007	9,191	12,256		$ 212
2008	9,423	13,199		209
2009	10,140	12,678		209
2010	10,798	13,247		209
2011	12,141	13,291		43
2012	13,934	12,069		43
2013	12,654	12,970		41
2014	17,593	13,237		40
2015	18,701	14,594		40

Southwest Tennessee Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 18,166	$ 36,905		$ 169
2007	22,042	38,723		174
2008	30,403	40,131		175
2009	36,691	38,230		389
2010	39,546	40,340		389
2011	42,093	40,168		390
2012	41,966	32,359		357
2013	39,705	31,281		357
2014	36,221	24,669		358
2015	37,400	25,279		363

Pellissippi State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 19,184	$ 19,252		
2007	20,801	20,657		$ 293
2008	23,917	22,037		375
2009	25,530	20,983		376
2010	32,052	19,105		376
2011	35,757	22,100		179
2012	36,322	18,910		178
2013	44,992	20,887		178
2014	35,680	23,430		171
2015	18,775	25,599		172

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

(expressed in thousands)

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 14,224	$ 16,548		$ 17
2007	14,974	17,995		140
2008	16,565	19,245		139
2009	17,802	18,351		139
2010	22,240	18,944		139
2011	24,326	20,729		17
2012	26,812	15,650		17
2013	25,995	15,577		16
2014	25,256	16,230		
2015	26,223	17,198		

Walters State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2006	$ 12,740	$ 16,860		
2007	14,097	18,249		$ 294
2008	15,810	19,429		289
2009	17,859	19,601		289
2010	21,454	19,180		289
2011	21,821	19,986		102
2012	23,034	16,078		102
2013	23,157	17,227		97
2014	21,112	20,351		94
2015	22,796	20,968		94

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

STATE OF TENNESSEE **Schedule 16**

STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 348	$ 11,785	$ 30,205	$ 3,862	$ 6,064
University of Tennessee- Chattanooga	300	8,356	24,474	3,200	5,900
University of Tennessee- Martin	380	8,326	22,270	2,624	4,570
Austin Peay State University	274	7,801	23,371	2,643	5,526
East Tennessee State University	350	8,332	26,002	3,317	4,602
Middle Tennessee State University	408	8,404	25,972	3,055	5,049
Tennessee State University	178	7,417	20,773	2,978	3,255
Tennessee Technological University	258	8,353	24,559	5,200	3,000
University of Memphis	490	9,269	20,981	3,660	5,401
Chattanooga State Community College		4,153	19,951		
Cleveland State Community College		4,127	19,925		
Columbia State Community College		4,099	19,897		
Dyersburg State Community College		4,127	19,925		
Jackson State Community College		4,113	19,911		
Motlow State Community College		4,129	19,927		
Nashville State Community College		4,053	19,851		
Northeast State Community College		4,115	19,913		
Pellissippi State Community College	30	4,167	19,965		
Roane State Community College		4,131	19,929		
Southwest Tennessee Community College		4,143	19,941		
Volunteer State Community College		4,105	19,903		
Walters State Community College		4,116	19,914		

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

STATE OF TENNESSEE **Schedule 17**

PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2015
(expressed in thousands)

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 678,767	$ 7,861	$ 686,628
Austin Peay State University	91,679		91,679
East Tennessee State University	132,628	2,940	135,568
Middle Tennessee State University	205,455	18,150	223,605
Tennessee State University	29,766		29,766
Tennessee Technological University	38,819	13,597	52,416
University of Memphis	117,502	4,372	121,874
Chattanooga State Community College	2,584		2,584
Cleveland State Community College	244		244
Columbia State Community College	1,165		1,165
Nashville State Community College	407		407
Northeast State Community College	207		207
Pellissippi State Community College	977		977
Roane State Community College	729		729
Southwest Tennessee Community College	1,755		1,755
Walters State Community College	485	814	1,299
	$ 1,303,169	$ 47,734	$ 1,350,903

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

SECURITIES & EXCHANGE COMMISSION DISCLOSURES

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, Commissioner
Eugene Neubert, Deputy Commissioner, F&A Operations
Mikel J. Corricelli, Chief of Accounts

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

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

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