Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

TN Tennessee State Government

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2017

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STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2017

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INTRODUCTORY SECTION

TN Department of Finance & Administration

December 21, 2017

The Honorable Bill Haslam, Governor,
Members of the Tennessee General Assembly,
Citizens of Tennessee

We are proud to present the Comprehensive Annual Financial Report (CAFR) for the State of Tennessee's fiscal year ended June 30, 2017.

The Department of Finance and Administration prepared this report in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board, and, 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.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the state government and this office. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects. We believe all disclosures necessary to enable you to gain an understanding of the state's financial activities have been included.

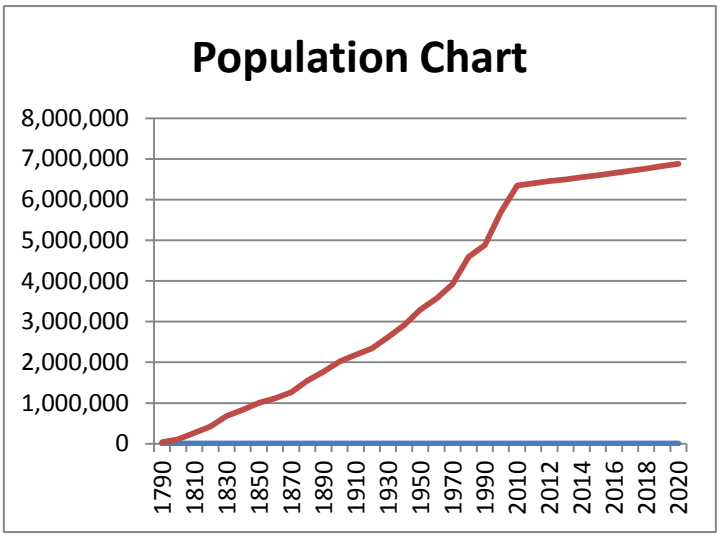
The aforementioned beliefs are based on a comprehensive framework of internal control that has been established by state government management to provide a reasonable basis for asserting Tennessee's financial statements are free of material misstatement. The concept of reasonable assurance recognizes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

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

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

State Profile

Situated in the southeastern sector of the United States, Tennessee is only the 36th largest state in the country by area, but it is the 20th most densely populated. The current estimated population for 2017 is 6.71 million, up from 6.34 million at the 2010 Census. Tennessee currently has a growth rate of 0.86%, which ranks 23rd in the country.



Tennessee has two major things it is known for: scenery and music. The first is due to the beautiful mountain ranges and valleys that crisscross the state, as well as its dozens of national and state parks. The second is thanks to the many musical innovations and singers that have come out of cities like Nashville and Memphis. From thriving metropolitan cities to isolated mountain getaways, Tennessee provides natural beauty, a mild climate, urban conveniences and rural peacefulness.

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

For financial reporting purposes, the state's reporting entity consists of (1) the primary government, (2) component unit organizations for which the primary government is financially accountable, and (3) other component unit organizations for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The funds and accounts of all agencies, boards, commissions, foundations, and authorities that have been identified as part of the primary government or a component unit have been included. 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, Agricultural Promotion Boards, and Tennessee Promise Endowment Scholarship Fund], and for the debt service fund.)

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

Information Useful in Assessing Tennessee's Economic Condition

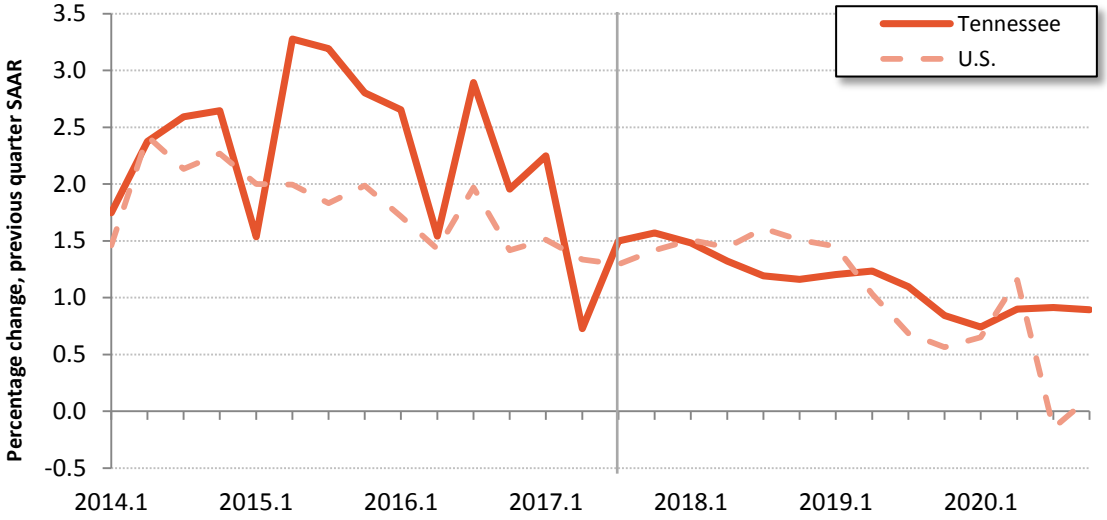
Local economy (*Prepared by The Boyd Center for Business and Economic Research at the University of Tennessee*)

The Tennessee economy has performed exceptionally well in the past several years, and by numerous measures has outperformed the national economy. In 2015, the state ranked first in the nation for job creation tied to foreign direct investment. Japan dominates overall foreign direct investment in Tennessee. In 2016, nominal personal income in Tennessee advanced 3.7 percent compared to 2.4 percent growth for the nation; nonfarm jobs were up 2.6 percent in Tennessee versus 1.8 percent growth for the nation; and manufacturing jobs in the state grew 3.1 percent while U.S. manufacturing jobs were up only 0.1 percent. These same measures show that Tennessee has continued to perform better than the nation in 2017. Especially significant is the state unemployment rate which averaged 3.2 percent in the third quarter of 2017 compared to a national unemployment rate of 4.3 percent.

While growth has been relatively robust, there are also signs of slowing growth for both the state and the nation. This is consistent with an economy that is enjoying one of the longest expansions on record and is confronting the practical constraints of *full employment*. One indicator of full employment in Tennessee is the state unemployment rate which rested at a record low 3.0 percent in both September and October of 2017. Another indicator is light vehicle sales which have been restored to pre-recession levels and are now expected to slow. The state economy relies on the transportation equipment sector for just over one in five jobs in manufacturing. Given the maturation of the business cycle, slower growth in the quarters ahead is to be expected.

The short-term outlook for the state economy calls for a continuation of the economic expansion, with moderated rates of growth. The figure below shows the outlook for job creation for both Tennessee and the U.S. Despite the volatility of the data, it is clear that employment growth is slowing and expected to slow further. It is important to emphasize that this is not a recessionary outlook, instead simply slower growth associated with an economy that is fully employed.

Nonfarm Job Growth: Tennessee and U.S.



Source: Bureau of Labor Statistics; IHS Markit™, U.S. Economic Outlook, December 2017 (copyright); and UT Boyd CBER.

Tennessee is expected to see jobs grow 1.4 percent and 1.2 percent in 2018 and 2019, slightly below the nation's rate of job creation. Slower state job growth is due to the very tight labor market in Tennessee which constrains growth potential. Nominal personal income in Tennessee will be up 4.3 percent in the next two years. The state unemployment rate should average 3.1 percent in 2018 and 2019, well below the 3.9 percent and 3.8 percent rates of unemployment expected for the national economy.

Tax expenditures (exemptions, deductions and abatements)

(*Prepared by Tennessee Departments of Revenue and Economic and Community Development*)

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

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

The state is proactive in its analysis of its incentive packages and the economic benefits. TNECD has developed a platform to provide current information measuring its strategic objectives that features an interactive dashboard, tracking economic data and strategic initiatives.

TNECD and DOR also introduced legislation that requires periodic review of business tax credits and jointly commissioned an outside consultant to complete the first review in 2016.

The consultant's report reinforced that Tennessee's primary business credits are working as intended. For example, Tennessee companies receiving the industrial machinery credit invested about $4.4 billion annually in qualified industrial machinery and equipment between 2011 and 2014. The evaluation attributes $86 million of the annual business investment exclusively to the industrial machinery credit, or in other words, in the absence of the credit, businesses would invest $86 million less each year. Wages at companies claiming the credit were five percent higher than those of peers who did not, suggesting the credit is also increasing productivity and income benefits to Tennesseans.

The analysis also found companies claiming the jobs tax credit created more than 41,000 new jobs from 2011 to 2014, and grew jobs at a faster rate than peer companies that did not. Companies claiming the headquarters tax credit made purchases of qualified items averaging $88.5 million each year, a significant return relative to the headquarter sales tax credits claimed each year.

Tennessee's broader job growth and economic development success also speak to the effectiveness of state incentives. Between 2011 and 2017 (year-to-date), TNECD has secured more than 152,000 job commitments and $30.0 billion of investment from companies. Job creation is taking place all across the state and the percentage of rural job commitments in rural counties has increased from 31.7 to 45.2 percent over the last five years.

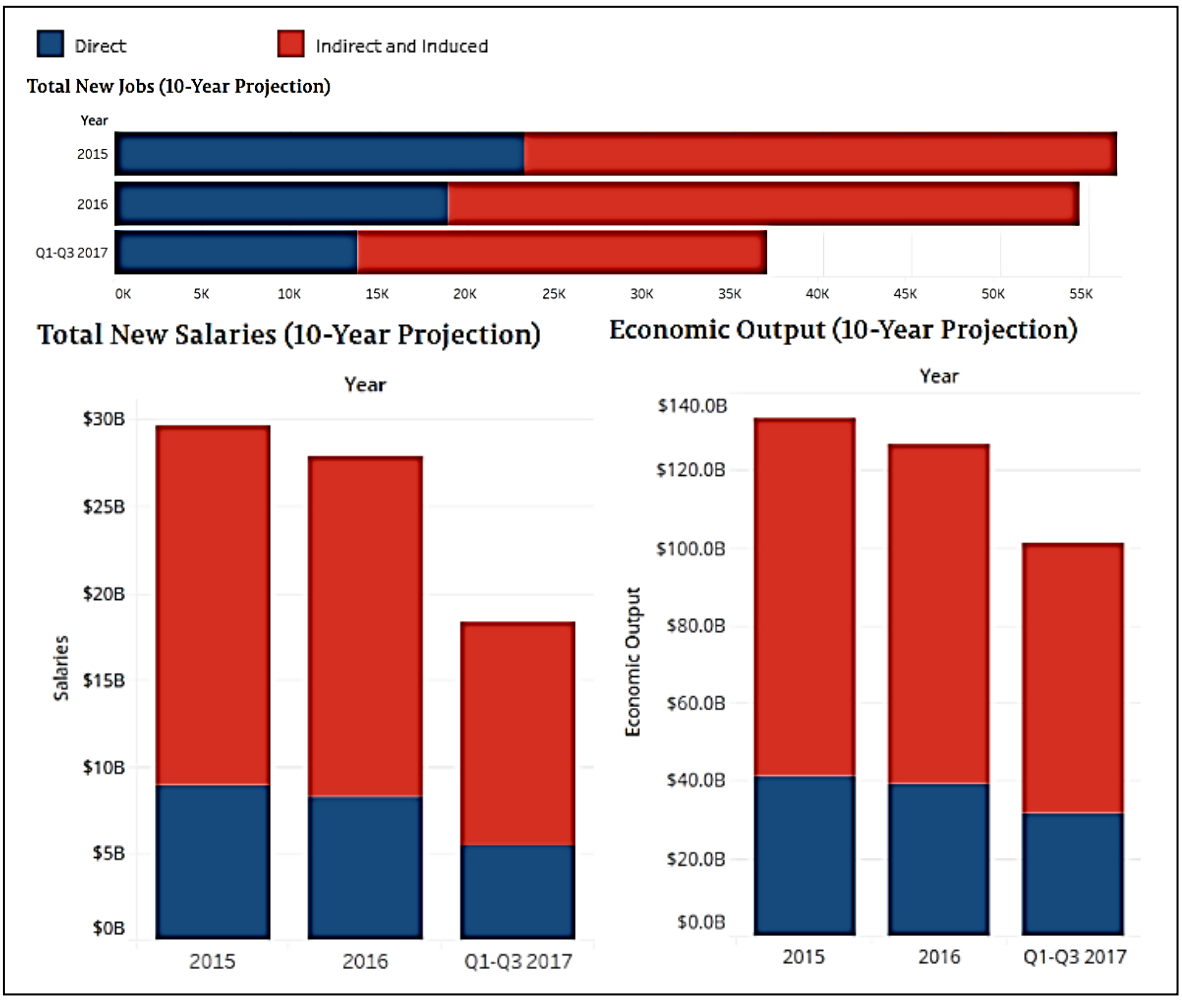
During the first three quarters of 2017, TNECD located 102 projects that received a FastTrack grant commitment to expand or re-locate in Tennessee. The department forecasts that over the next ten years, these projects will generate 36,867 new job opportunities across the state. This includes 13,775 jobs directly created by the company expansion and recruitment activity as well as 23,092 indirect and induced jobs from across the supplier network and other industries as a result of expanded economic growth.

Over the next ten years, TNECD forecasts these projects will increase Tennessee's economic output by nearly $70 billion and generate almost $13 billion in new salaries.

TNECD operates in a fiscally responsible way when recruiting new business and supporting existing business growth. Using a model built by an economic consulting firm, TNECD forecasts the fiscal benefits each project will generate over a ten year time period, and measures this return relative to the state's investment in the form of grants and tax credits.

The state's investments in these projects from Q1 through Q3 of 2017 have a projected annual rate of return of 28.8 percent. The cost of incentives is projected to be returned to the state in 3.2 years as a result of additional revenues the projects will generate. The model does take into consideration additional costs of providing state services as well as tax credits companies may be eligible for.

More information on the model and previous years' economic and fiscal impact results are available online at http://tn.gov/transparenttn/article/openecd-business-development-return-on-investment.



Tax credits and incentives are a critical component of Tennessee's long-run economic growth, business-friendly environment and strong record of job creation. More Tennesseans are working now than ever before. Statewide unemployment held steady at a record low 3 percent in October 2017, which was also the lowest jobless rate in the Southeast.

Tennessee's GDP totaled $342.5 billion in Q2 of 2017, the highest level in state history. During the past decade, Tennessee's economy has grown 17.2 percent, the largest growth rate in the Southeast and 10th in the country. Tennessee's real GDP growth rate during this time is more than double the rate of the Southeast as a whole.

Economic growth has led to higher household income levels in Tennessee. In the last five years, the median household income in Tennessee increased by an inflation-adjusted 9.1 percent, the second largest rate of growth in the Southeast and 11th in the nation. On a percentage basis, Tennessee ranks first in the Southeast and eighth in the nation for income per capita growth during 2016.

Long-term financial planning and relevant financial policies

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

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

- In an effort to modernize employee health insurance benefits for current, former and future employees, as well as to ensure the fiscal integrity and sustainability of these benefits, legislation was enacted that eliminated retiree insurance and the associated subsidies for state, higher education, local education and local government employees first hired, and elected officials first elected, after July 1, 2015. This legislation also included a requirement for the establishment of an investment trust for purposes of pre-funding other postemployment benefits (OPEB) accrued by employees of the state, with initial funding to be from appropriations made in the general appropriations act.

  As discussed in the "Facts, Decisions, or Conditions with Expected Future Impact" section of this report's MD&A, an OPEB pre-funding appropriation was included in the FY 2017-2018 budget, and the state currently plans on making full actuarially determined contributions to the trust beginning in FY 2019.

- 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.

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

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

- The state is authorized to issue general obligation tax revenue anticipation notes (TRANS) in anticipation of tax revenues in the then current fiscal year of the state. The state constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year. The state has not heretofore issued TRANS and has no current intent to do so.

- The state may issue general obligation bonds for one or more purposes authorized by the General Assembly of the state, however, the term of the bonds authorized and issued cannot exceed the expected life of the project being financed.

  Bond anticipation notes have been authorized to be issued for the purposes of all existing bond authorizations.

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

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

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

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

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

- Monthly financial data on revenues and expenditures (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.

- All state departments and institutions of higher education must under Tennessee law perform an annual management assessment of risk. Recently issued implementation guidance (effective for 2017) requires that this assessment utilize enterprise risk management practices that align with the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) enterprise risk management (ERM) framework, and, incorporate the Standards for Internal Control in the Federal Government's (known as the Green Book) adaption of COSO's Internal Control – Integrated Framework (2013). The guidance emphasizes the need to integrate and coordinate risk management and strong and effective internal control into existing business activities and as an integral part of managing a state department or institution of higher education.

Major initiatives

The 2017 session of the Tennessee General Assembly included the passage of legislation that will benefit Tennesseans for generations to come. Along with a balanced budget that for a second year in a row, and the second year in Tennessee recorded history, takes on no new debt, all four bills included in the Governor's NextTennessee plan, aimed at building and sustaining economic growth and the state's competitiveness for the next generation of Tennesseans, were passed into law.

(1) The Improving Manufacturing, Public Roads and Opportunities for a Vibrant Economy (IMPROVE) Act, which is also named the "2017 Tax Cut Act"

The purpose of this legislation is to rebuild a safe and reliable transportation network, while reallocating revenues to maximize taxpayers' return on that investment. While one category, highway user fees, increases by 6 cents on a gallon of gas and 10 cents on diesel phased in over three years, the legislation cuts $428 million in taxes which is the largest single tax cut in Tennessee history.

Additional details regarding the impact of the Improve Act are discussed in the "Facts, Decisions, or Conditions with Expected Future Impact" section of this report's MD&A.

(2) The Tennessee Broadband Accessibility Act

This measure to increase access to broadband through investment, deregulation and education, is designed to spur deployment in rural unserved areas, opening them up to economic investment and job growth.

Tennessee currently ranks 29th in the U.S. for broadband access, with 13 percent of the state lacking accessibility. While only two percent of the state's urban citizens lack access, 34 percent of rural residents are without coverage at recognized minimum standards due to low population density and challenging geography. The legislation calls for a three-year investment of $45 million in grants and tax credits that prioritize expansion in the state's unserved areas.

(3) The Tennessee Reconnect Act

With this legislation Tennessee becomes the first state in the nation to offer all citizens, both high school graduates and adults, the chance to earn a postsecondary degree or certificate free of tuition and fees.

The Tennessee Reconnect Act establishes a last-dollar scholarship for adults to attend a community college tuition-free by expanding a grant program launched in 2015 that especially aims to attract approximately 900,000 Tennesseans who have earned some college credit but no degree. The Reconnect expansion will be funded out of lottery reserves at no cost to taxpayers.

(4) The Support, Training, and Renewing Opportunity for National Guardsman (STRONG) Act

This Act establishes a pilot program to provide eligible members of the Tennessee National Guard tuition funding toward a first time bachelor degree for the next four years through a tuition reimbursement program. The STRONG Act provides educational opportunities for those who protect and serve our state and country, and supports the Governor's Drive to 55 initiative to increase the number of Tennesseans with a postsecondary degree or certificate to 55 percent by 2025.

As a last-dollar reimbursement, the amount of state tuition reimbursement is offset by any other funds received.

Other notable action during the 2017 legislative session included legislation protecting the elderly, enhancing the state's robust job growth, cracking down on crime, and boosting efforts as the fastest improving state in the nation in K-12 student achievement.

Awards and Acknowledgements

Certificate of Achievement Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2016. This was the thirty-seventh year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

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

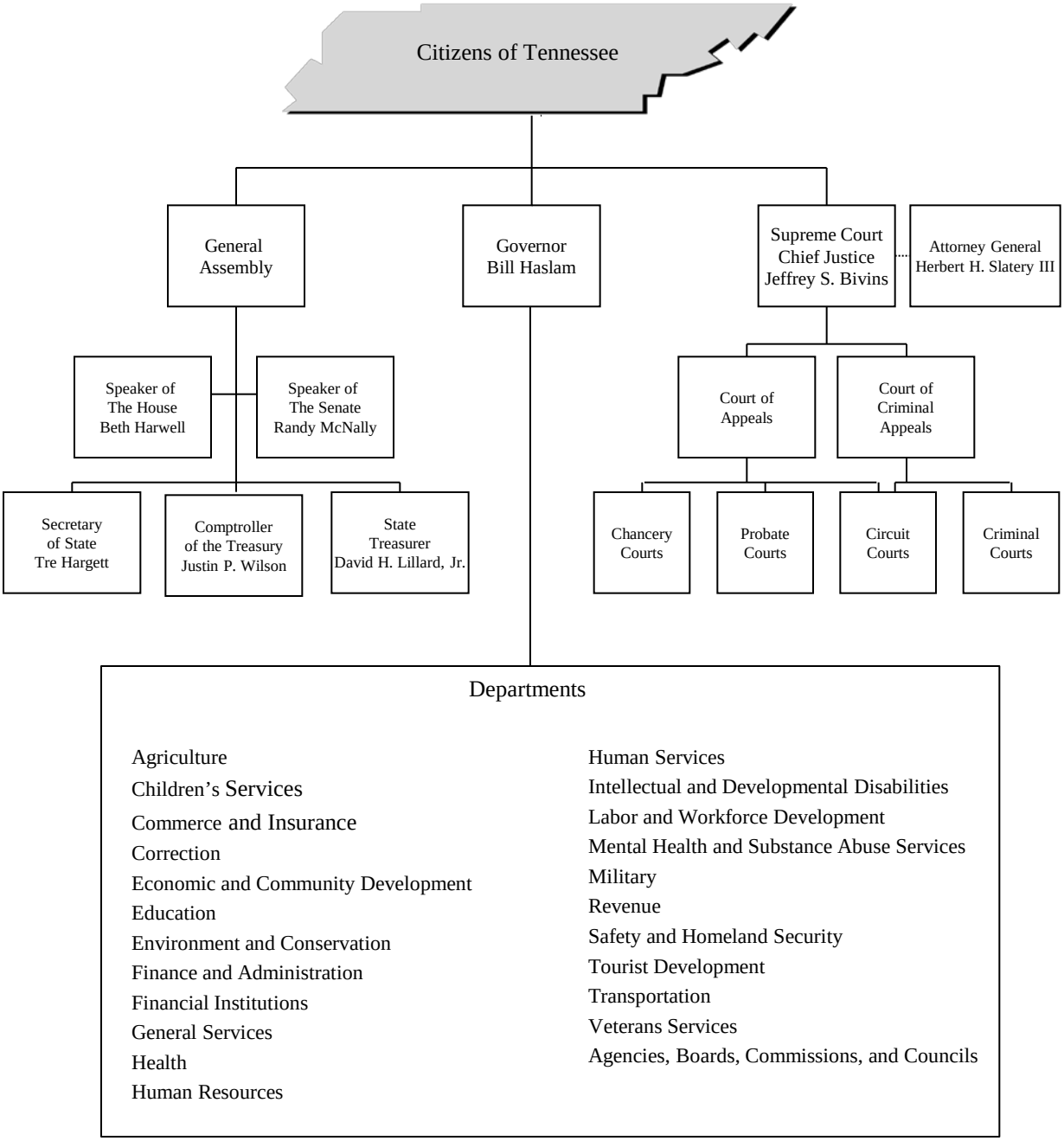
We express our sincere appreciation to these individuals, and, reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting.

Respectfully submitted,

Larry B. Martin
Commissioner

Mikel J. Corricelli
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2017



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, 2016

Executive Director/CEO

FINANCIAL SECTION

TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

Members of the General Assembly
The Honorable Bill Haslam, Governor

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee, as of and for the year ended June 30, 2017, 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, 2017, 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.

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Emphasis of Matter

As discussed in Note 5, the Tennessee Retiree Group Trust investment pool has investments valued at $7.8 billion, whose fair values have been estimated by management in the absence of readily determinable fair values. These investments make up 16.5% of net position of pension and other employee benefit trust funds, 0.08% of net position of investment trust funds, and 0.2% of total assets of agency funds. In addition, the financial statements of the University of Tennessee, a discretely presented component unit, include investments valued at $475 million (6.02% of total component unit net position), whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we will also issue our report dated December 21, 2017, 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 Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
December 21, 2017

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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, 2017. 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 2-12 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, 2017, by $35.8 billion (net position). Of this amount, $5.4 billion represents unrestricted net position, which may be used to meet the state's ongoing obligations to citizens and creditors while $28.6 billion represents net investment in capital assets.

Changes in Net Position–The state's net position increased by $1.9 billion. The increase was the result of a significant increase in tax revenue collections from business and sales tax as well as an increase in capital assets.

Component units–Component units reported total net position of $7.9 billion, an increase of $419.3 million.

Fund Level

At June 30, 2017, the state's governmental funds reported combined ending fund balances of $6.9 billion, an increase of $981.6 million (see discussion on page 24) compared to the prior year. Of the combined fund balance, approximately $5.1 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, $668 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 $14.6 million during the fiscal year to total $2.4 billion. This change is primarily the net results from the 2016A, 2016B and 2016C bond issuances that totaled $366.1 million and refunded bonds in the amount of $194.6 million. The commercial paper balance decreased by $52.6 million over the fiscal year. These increases and decreases combined with the payment of principal during the fiscal year accounts for the decrease in long-term debt.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 31-33) provide information about the activities of the state as a whole (government-wide statements) and present a longer-term view of the state's finances. Fund financial statements start on page 35. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the state's operations in more detail than the government-wide statements by providing information about the state's most significant funds. The remaining statements provide financial information about activities for which the state acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Position and the Statement of Activities

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

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

government operations. The state functions that are identified on this statement correspond to the functions used for budgetary purposes:

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

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

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

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the state's major funds begins on page 24. The fund financial statements begin on page 35 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 51-119.

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 inflows of resources by $35.8 billion as of June 30, 2017.

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

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	$10,042,623	$ 9,283,579	$ 2,767,334	$ 2,665,707	$ 12,809,957	$ 11,949,286
Capital assets	29,313,652	28,723,947			29,313,652	28,723,947
Total assets	39,356,275	38,007,526	2,767,334	2,665,707	42,123,609	40,673,233
Deferred outflows of resources	693,662	405,667			693,662	405,667
Current and other liabilities	1,906,904	2,337,046	108,676	114,553	2,015,580	2,451,599
Noncurrent liabilities	4,928,919	4,543,103	10,506	9,450	4,939,425	4,552,553
Total liabilities	6,835,823	6,880,149	119,182	124,003	6,955,005	7,004,152
Deferred inflows of resources	82,469	201,896			82,469	201,896
Net position:						
Net investment in capital assets	28,617,760	28,201,282			28,617,760	28,201,282
Restricted	1,777,806	1,595,049			1,777,806	1,595,049
Unrestricted	2,736,079	1,534,817	2,648,152	2,541,704	5,384,231	4,076,521
Total net position	$33,131,645	$ 31,331,148	$ 2,648,152	$ 2,541,704	$ 35,779,797	$ 33,872,852

An additional portion of the state's net position (5.0 percent) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net position ($5.3 billion) and may be used to meet the state's ongoing obligations to citizens and creditors not funded by resources that are restricted. Primarily as a result of a significant increase in tax revenue collections, unrestricted net position increased by $1.3 billion (32.1 percent).

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

State of Tennessee

Changes in Net Position

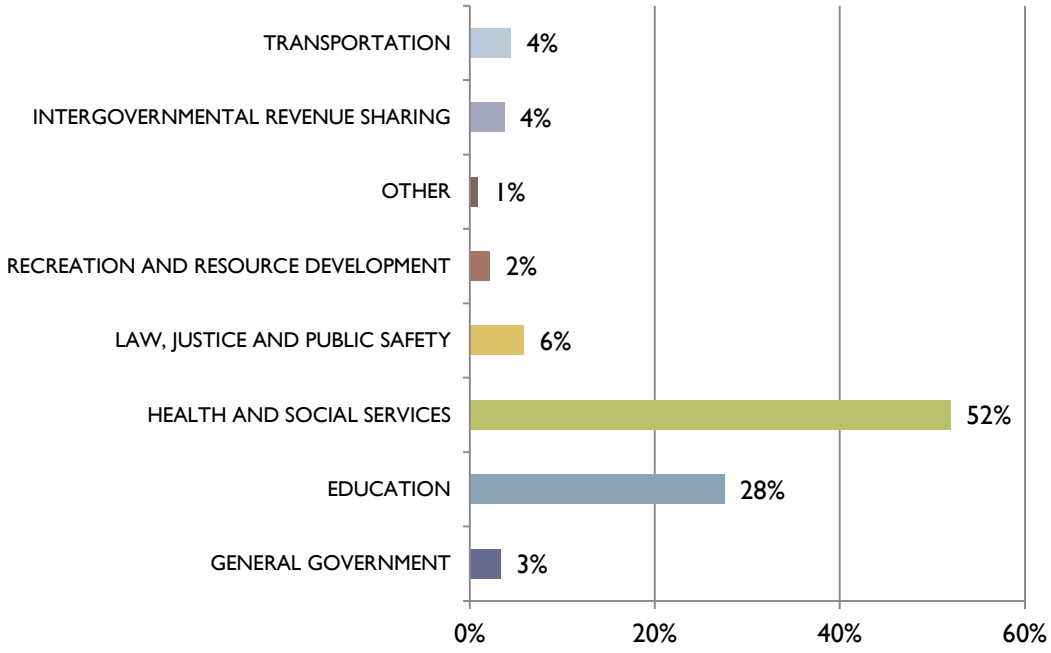
For the Fiscal Year Ended June 30

(Expressed in Thousands)

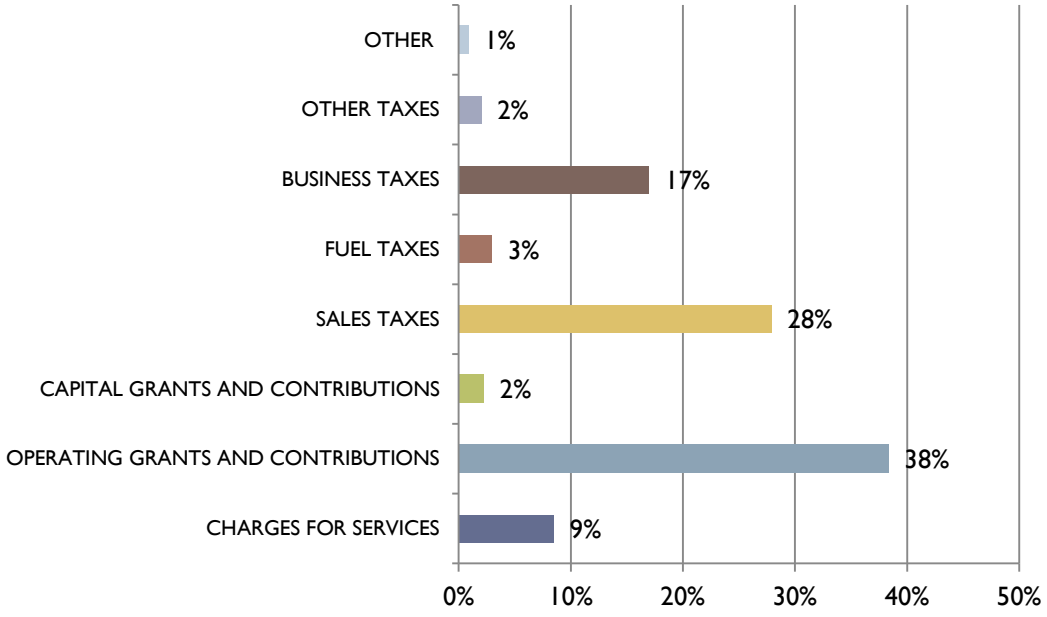
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 2,606,075	$ 2,459,068	$ 899,090	$ 864,632	$ 3,505,165	$3,323,700
Operating grants and contributions	11,742,175	11,930,270	57,418	85,287	11,799,593	12,015,557
Capital grants and contributions	695,029	686,774			695,029	686,774
General revenues:						
Sales Taxes	8,547,149	8,258,134			8,547,149	8,258,134
Other taxes	6,749,326	6,253,300			6,749,326	6,253,300
Other	270,734	258,508			270,734	258,508
Total revenues	30,610,488	29,846,054	956,508	949,919	31,566,996	30,795,973
Expenses:						
General government	961,058	981,862			961,058	981,862
Education	7,927,694	7,507,413			7,927,694	7,507,413
Health and social services	14,976,007	14,930,669			14,976,007	14,930,669
Law, justice and public safety	1,692,610	1,605,231			1,692,610	1,605,231
Recreation and resources development	628,906	665,491			628,906	665,491
Regulation of business and professions	205,684	194,662			205,684	194,662
Transportation	1,282,462	1,045,959			1,282,462	1,045,959
Intergovernmental revenue sharing	1,073,737	1,045,095			1,073,737	1,045,095
Interest on long-term debt	58,503	60,891			58,503	60,891
Payments to fiduciary funds	664	680			664	680
Employment security			232,690	241,852	232,690	241,852
Insurance programs			620,734	585,757	620,734	585,757
Loan programs			1,710	1,865	1,710	1,865
Other			216	367	216	367
Total expenses	28,807,325	28,037,953	855,350	829,841	29,662,675	28,867,794
Increase in net position before contributions and transfers	1,803,163	1,808,101	101,158	120,078	1,904,321	1,928,179
Transfers	(5,290)	(1,096)	5,290	1,096		
Contributions to permanent funds	2,624	170			2,624	170
Increase (decrease) in net position	1,800,497	1,807,175	106,448	121,174	1,906,945	1,928,349
Net position, July 1	31,331,148	29,523,973	2,541,704	2,420,530	33,872,852	31,944,503
Net position, June 30	$33,131,645	$31,331,148	$2,648,152	$2,541,704	$35,779,797	$33,872,852

Governmental activities. Net position of the state's governmental activities increased by $1.8 billion (5.7 percent). This increase accounts for 94.6 percent of the total increase in net position of the primary government and is primarily the result of an increase in tax revenue as well as the capitalization of $414.4 million in expenses related to roadways and bridges and not recording depreciation expense for these assets. The state also had an increase in the state's net pension obligation of $359.5 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 $106.4 million (4.2 percent). This is primarily the result of the Sewer Treatment Loan program and Employment Security Trust fund experiencing an increase in net position of $110.8 million. The Employment Security Trust fund increase of $90.6 million is not considered to be significant and is generally due to a decrease in unemployment benefits paid as a result of a continued lower unemployment rate. This increase is in line with the previous year. The Sewer Treatment Loan program increase of $20.2 million is also not considered to be significant and is primarily due to increased operating grants received and loaned out during the year for clean water projects. The Nonmajor Enterprise funds' activity resulted in a $4.4 million decrease in net position which is primarily attributable to an increase in operating grants received and loaned out during the year in the Drinking Water Loan program and a decrease in net position of the Teacher and Local Government Group Insurance funds due to higher benefit payments during the year.

THE STATE'S FUNDS

At June 30, 2017, 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 $668 million or 3.5 percent of the general fund's expenditures.

The general fund reported a $463.8 million increase in fund balance. The majority of this increase in fund balance was attributable to an increase in revenues. The revenue increase occurred as a result of significant increases in the Sales and Business taxes, $128.5 million and $410.7 million respectively. These tax increases are the result of continued economic conditions and an increase in private company expansion commitments across the state.

The education fund reported an overall increase in total revenues and transfers of $414.1 million (5.6%) and an increase of expenditures of $455.4 million (6.2%). Most of the increase in expenditures was due to the increased funding for the state's Basic Education Program (K-12 funding), for the state's comprehensive assessment program, for compensation enhancements for teachers and other positions in the local education agencies, for rising healthcare costs for K-12 and higher education employees, for community colleges shared services initiative, and for higher education institutions' outcome-based formula growth.

The overall fund balance increased in the education fund by $42.3 million. The majority of the increase is restricted for student financial assistance. Of the $701.9 million fund balance in the education fund, $361.4 million is not available for future use because it is legally or contractually required to be maintained intact and $295.8 million is legally restricted or committed for specific purposes. Refer to Note 14, Governmental Fund Balances on page 93, for additional information regarding those specific purposes.

The highway fund revenues and transfers increased by $34.0 million and expenditures increased $61.1 million. Revenues increased primarily as a result of TDOT's requirement for local governments to provide a larger percentage of the match to federal grant funds. In the past, TDOT assisted with the federal match but now local governments are required to fully participate in providing the match. Expenditures increased by $28.8 million mainly because of two large capital projects, the new Region 2 complex in Chattanooga and the West Tennessee Solar Farm Information and Welcome Center located in Haywood County near Brownsville. Other expenditure increases included $14.8 million in vehicle purchases, $7.7 million in data processing services, and $9.6 million in purchasing land for the right of way phase of the project cycle. There were more projects in the right of way phase in fiscal year 2017 than in the prior year.

The capital projects fund had a $247 million increase in fund balance. The majority of this increase is due to an increase in revenues from appropriations transfers and the issuance of bonds to be used for anticipated future capital project expenditures. The increase in appropriations is due to improved economic conditions leading to an increase in general revenue collections. While revenues to the fund increased by $117.5 million, when compared to the previous year, expenditures only increased by $30 million. The increase in expenditures is due to the retirement of commercial paper increasing by $37.1 million and capital outlay expenditures decreasing by $7.2 million. The restricted fund balance of $93.2 million does not significantly affect the availability of fund resources for future use.

The total plan net position of the pension trust funds are $47 billion, an increase of approximately $3.7 billion from the prior year. The increase was primarily the result of improvements in the financial markets; the pension trust funds incurred a net investment gain of $4.9 billion.

General Fund Budgetary Highlights

Federal revenue collections were below estimated levels (approx. 10%) primarily due to a continuing decline in the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) program caseloads at the Department of Human Services (DHS). Because these programs are significantly funded by federal revenue, DHS's federal revenue saw a decrease of $304.2 million as a result of the decline in SNAP caseloads and $134.5 million as a result of the

decline in TANF caseloads. The decline in TANF caseloads also led to a $42.5 million decline in the Child Care Development Fund (CCDF). The Department of Economic and Community Development had an unexpected decline in federal revenue due to an unexpected decrease in participation in the Community development block grant program. Due to the drop in the unemployment rate, the divisions of Workforce Services and Unemployment Insurance in the Department of Labor had an unexpected decline in federal revenue. The Department of Health experienced a decrease in Women, Infant and Children (WIC) food participants which led to a $20.5 million dollar unexpected decline in federal revenue. Lastly, at TennCare, there was a $230 million dollar savings resulting from pharmacy rebates which were budgeted too high. These rebates offset federal revenue making the federal estimate too high also. In addition, TennCare also had a $21 million under-collection resulting from the Health Information Technology (HIT) incentive payments.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The state's investment in capital assets at June 30, 2017, of $29.3 billion, net of $2 billion accumulated depreciation, consisted of the following:

Capital Assets-Primary Government
(Expressed in Thousands)

	Governmental Activities	
	2017	2016
Land	$2,333,917	$2,240,287
Infrastructure	24,132,251	23,891,312
Construction in progress	1,051,208	833,365
Structures and improvements	2,496,895	2,492,401
Machinery and equipment	1,150,630	1,091,489
Software in development	114,506	63,077
Subtotal	31,279,407	30,611,931
Accumulated depreciation	(1,965,755)	(1,887,984)
Total	$29,313,652	$28,723,947

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

Capital assets, including those under construction, increased from fiscal year 2016 to 2017 by approximately 2.1 percent. The change was primarily due to purchases of land for highway right-of-ways and increases in construction in progress related to infrastructure (highways and bridges) projects. Infrastructure increased in total by $240.9 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $496.4 million and decreased (projects completed and capitalized) by $414.4 million. Infrastructure right-of-way acreage increased the land classification by $59.4 million. The change in machinery and equipment of $59.1 million resulted largely from a $25 million mobile equipment upgrade for the Department of Transportation. The state had several system projects in the application development stage, resulting in the capitalization of $92.4 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 8,401 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 122), indicated that bridges were rated at 10 points above the state's established condition level and roadways were 10 points above the state's benchmark level. Bridges are assessed biennially and roadways annually.

The state's capital outlay budget for the fiscal year 2016-2017 reflects a $136.9 million decrease from the previous year. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included $274.7 million for higher education projects, $20.0 million for Drive to 55 capital projects and $54.7 million for state parks and various upgrades to state facilities.

Debt Administration

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

Purpose	Unissued 6/30/17
Highway	$ 808,900
Higher Education	370,329
Environment and Conservation	9,755
Economic and Community Development	22,000
General Government	202,652
Total	$ 1,413,636

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

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

	Governmental Activities	
	6/30/2017	6/30/2016
Bonds, net	$2,162,881	$2,124,897
Commercial Paper	192,956	245,526
Total	$2,355,837	$2,370,423

The state issued $175.9 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 $124.9 million of tax-exempt and $65.4 million of taxable general obligation refunding bonds to provide for the advance refunding of $194.6 million of general obligation bonds. Nearly three-fourths of the outstanding debt has been issued either for capital projects of two of the state's major component units-University of Tennessee and State University and Community College System-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The state has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 12A to the financial statements.

The state's bonds are rated AAA, Aaa, and AAA by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current state statutes, the general obligation debt issuances are subject to a maximum allowable debt service limitation based on a percentage of tax revenues allocated to the general fund, highway fund and debt service fund. As of June 30, 2017, the state's maximum allowable debt service of $1.2 billion was well above the maximum annual debt service of $240.7 million, with a legal debt service margin of $999.7 million.

FACTS, DECISIONS, OR CONDITIONS WITH EXPECTED FUTURE IMPACT

Historic Low Unemployment

In October 2017, for the fifth month in a row, the state's seasonally adjusted unemployment rate was lower than it has been in recorded history. At 3.0 percent, Tennessee's October 2017 unemployment rate was two percentage points lower than it was one year ago and continued to outpace the national average. In addition, in September 2017, for the first time ever, the unemployment rate was below five percent in every county across the state. This

was the second consecutive month that rates declined in each of Tennessee's 95 counties.

Continued Growth of Economic Impact of Tourism
Tennessee tourism's direct domestic and international travel expenditures reached an all-time record high of $19.3 billion in 2016, up 4.7 percent over the previous year. For the 11th consecutive year, tourism generated over $1 billion in state and local sales tax revenue. This was a 6.7 percent increase over 2015 and higher than the national growth of travel related sales tax revenues. In addition, 110 million people visited the state in 2016, up 4.4 percent from 2015.

IMPROVE Act
Effective July 1, 2017, the IMPROVE Act, "Improving Manufacturing, Public Roads and Opportunities for a Vibrant Economy", is a wide-ranging plan to update the transportation infrastructure in Tennessee by increasing fuel taxes for the first time since 1989, while at the same time cutting other taxes and creating the largest tax cut in Tennessee history. Provisions of the legislation include:

- A reduction in the sales tax on food (from five percent to four percent).
- A corporate tax change beneficial to Tennessee manufacturers, the phasing out of the Hall Tax on interest and dividend income and the restoration of state aid on local property taxes for seniors and disabled veterans.
- An increase in gas and diesel taxes by six cents and ten cents, respectively, over a three year period, as well as several fees, including a $5 increase on annual car registrations, with all new revenue used only to address transportation needs.
- A listing of 962 specific road and bridge projects across the state that will be funded in whole or in part by sources within the Act.

Other Postemployment Benefits (OPEB)
The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. For reporting periods beginning after June 15, 2017, Tennessee will be required to recognize its unfunded accrued other postemployment benefits (OPEB) obligation on the face of its financial statements. More information about the state's current other postemployment benefits can be found in the Notes to the Financial Statements.

Tennessee's FY 2017-2018 budget includes a $153 million dollar appropriation for purposes of beginning to address its OPEB liability.

Reserve for Revenue Fluctuation (Rainy Day) Fund
Tennessee's rainy day fund will reach an all-time record high of $800 million by June 30, 2018. The statutory guideline for the fund is $1 billion, and the FY 2017-2018 budget includes an additional $132 million dollar investment in the fund.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

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STATE OF TENNESSEE
Statement of Net Position
June 30, 2017
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Total Component Units
ASSETS				
Cash and cash equivalents	$ 6,524,162	$ 771,860	$ 7,296,022	$ 2,279,650
Cash on deposit with fiscal agent	-	1,108,826	1,108,826	-
Investments	628,885	-	628,885	362,696
Receivables, net	2,249,591	149,346	2,398,937	339,616
Internal balances	1,625	(1,625)	-	-
Due from primary government	-	-	-	53,354
Due from component units	135,580	5	135,585	-
Inventories, at cost	25,613	-	25,613	11,341
Prepayments	5,257	-	5,257	21,627
Loans receivable, net	14,004	738,922	752,926	3,887,631
Net investment in capital leases	8,522	-	8,522	-
Fair value of derivatives	-	-	-	756
Other	-	-	-	6,122
Restricted assets:				
Cash and cash equivalents	82,077	-	82,077	691,250
Investments	361,381	-	361,381	1,870,822
Receivables, net	-	-	-	342,029
Net pension assets	5,926	-	5,926	9,753
Capital assets:				
Land, at cost	2,333,917	-	2,333,917	259,181
Infrastructure	24,132,251	-	24,132,251	644,194
Structures and improvements, at cost	2,496,895	-	2,496,895	6,191,862
Machinery and equipment, at cost	1,150,630	-	1,150,630	1,104,561
Less-accumulated depreciation	(1,965,755)	-	(1,965,755)	(3,339,390)
Construction in progress	1,051,208	-	1,051,208	708,068
Software in development	114,506	-	114,506	-
Total assets	39,356,275	2,767,334	42,123,609	15,445,123
DEFERRED OUTFLOWS OF RESOURCES	693,662	-	693,662	382,629
LIABILITIES				
Accounts payable and other current liabilities	1,500,509	86,436	1,586,945	562,520
Due to primary government	-	-	-	135,585
Due to component units	51,604	-	51,604	-
Unearned revenue	335,505	22,240	357,745	153,750
Payable from restricted assets	17,536	-	17,536	-
Due to component units from restricted assets	1,750	-	1,750	-
Other	-	-	-	32,028
Noncurrent liabilities:				
Due within one year	289,962	-	289,962	320,095
Due in more than one year	4,638,957	10,506	4,649,463	6,702,668
Total liabilities	6,835,823	119,182	6,955,005	7,906,646
DEFERRED INFLOWS OF RESOURCES	82,469	-	82,469	34,507
NET POSITION				
Net investment in capital assets	28,617,760	-	28,617,760	3,854,775
Restricted for:				
Highway projects	492,768	-	492,768	-
Student financial assistance	157,891	-	157,891	-
Natural and wildlife resources	63,917	-	63,917	-
Capital projects	62,792	-	62,792	90,997
Single family bond programs	-	-	-	418,137
Regulatory activities	56,407	-	56,407	-
Pensions	5,926	-	5,926	9,753
Other	99,585	-	99,585	792,595
Permanent and endowment funds				
Expendable	318,174	-	318,174	157,433
Nonexpendable	520,346	-	520,346	1,172,293
Unrestricted	2,736,079	2,648,152	5,384,231	1,390,616
Total net position	$ 33,131,645	$ 2,648,152	$ 35,779,797	$ 7,886,599

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, 2017
(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	$ 961,058	$ 784,087	$ 63,331	$ 2,156
Education	7,927,694	40,849	1,632,869	-
Health and social services	14,976,007	1,189,026	9,546,962	4,105
Law, justice and public safety	1,692,610	168,808	151,234	3,078
Recreation and resources development	628,906	169,896	141,610	9,113
Regulation of business and professions	205,684	194,108	1,033	-
Transportation	1,282,462	59,301	205,136	676,577
Intergovernmental revenue sharing	1,073,737	-	-	-
Interest	58,503	-	-	-
Payments to fiduciary fund	664	-	-	-
Total governmental activities	28,807,325	2,606,075	11,742,175	695,029
Business-type activities:				
Employment security	232,690	288,964	34,352	-
Insurance programs	620,734	599,635	766	-
Loan programs	1,710	10,255	22,287	-
Other	216	236	13	-
Total business-type activities	855,350	899,090	57,418	-
Total primary government	$ 29,662,675	$ 3,505,165	$ 11,799,593	$ 695,029
Component units:				
Higher education institutions	$ 4,770,365	$ 1,784,064	$ 1,787,881	$ 221,294
Loan programs	580,770	185,614	279,686	-
Lottery programs	1,500,060	1,499,564	48	-
Other	59,203	50,678	4,007	1,211
Total component units	$ 6,910,398	$ 3,519,920	$ 2,071,622	$ 222,505
General revenues:				
Taxes:				
Sales and use				
Fuel				
Business				
Other				
Payments from primary government				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Miscellaneous				
Contributions to permanent funds				
Transfers				
Total general revenues, contributions, and transfers				
Change in net position				
Net position, July 1, restated				
Net position, June 30				

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

STATE OF TENNESSEE
Statement of Activities
For the Year Ended June 30, 2017
(Expressed in Thousands)

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total Primary Government	Component Units
$ (111,484)	$ -	$ (111,484)	$ -
(6,253,976)	-	(6,253,976)	-
(4,235,914)	-	(4,235,914)	-
(1,369,490)	-	(1,369,490)	-
(308,287)	-	(308,287)	-
(10,543)	-	(10,543)	-
(341,448)	-	(341,448)	-
(1,073,737)	-	(1,073,737)	-
(58,503)	-	(58,503)	-
(664)	-	(664)	-
(13,764,046)	-	(13,764,046)	-
-	90,626	90,626	-
-	(20,333)	(20,333)	-
-	30,832	30,832	-
-	33	33	-
-	101,158	101,158	-
(13,764,046)	101,158	(13,662,888)	-
-	-		
-	-		
-	-	-	(977,126)
-	-	-	(115,470)
-	-	-	(448)
-	-	-	(3,307)
-	-	-	(1,096,351)
8,547,149	-	8,547,149	-
915,415	-	915,415	-
5,206,841	-	5,206,841	-
627,070	-	627,070	-
-	-	-	1,400,223
-	-	-	42,667
36,148	-	36,148	11,508
234,586	-	234,586	2,468
2,624	-	2,624	58,743
(5,290)	5,290	-	-
15,564,543	5,290	15,569,833	1,515,609
1,800,497	106,448	1,906,945	419,258
31,331,148	2,541,704	33,872,852	7,467,341
$ 33,131,645	$ 2,648,152	$ 35,779,797	$ 7,886,599

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

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

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

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

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

STATE OF TENNESSEE
Balance Sheet
Governmental Funds
June 30, 2017
(Expressed in Thousands)

	General	Education	Highway	Capital Projects
ASSETS				
Cash and cash equivalents	$ 3,180,831	$ 15,801	$ 928,657	$ 898,829
Investments	152,561	98,608	-	-
Receivables, net	1,375,622	620,880	201,325	6,465
Due from other funds	315,037	4,223	91	18,284
Due from component units	945	110,950	-	22,673
Inventories, at cost	10,763	123	11,512	-
Loans receivable, net	4,943	-	1,107	-
Prepayments and others	1,697	-	-	-
Restricted assets:				
Cash and cash equivalents	-	-	-	82,077
Investments	-	361,381	-	-
Total assets	$ 5,042,399	$ 1,211,966	$ 1,142,692	$ 1,028,328
LIABILITIES				
Accounts payable and accruals	927,720	133,633	186,921	69,830
Due to other funds	16,287	311,601	3,984	1,835
Due to component units	19,465	14,106	1,238	12,929
Payable from restricted assets	-	-	-	17,536
Due to component units from restricted assets	-	-	-	1,750
Unearned revenue	283,084	619	3,641	-
Total liabilities	1,246,556	459,959	195,784	103,880
DEFERRED INFLOWS OF RESOURCES	90,973	50,051	22,305	-
FUND BALANCES				
Nonspendable				
Inventories	$ 10,762	$ 123	$ 11,512	$ -
Long term portion of accounts receivable	14,355	-	-	-
Permanent fund and endowment corpus	-	361,381	-	-
Restricted	73,855	287,766	492,768	62,792
Committed	334,316	8,080	192,813	-
Assigned	2,263,154	44,606	227,510	861,656
Unassigned	1,008,428	-	-	-
Total fund balances	3,704,870	701,956	924,603	924,448
Total liabilities, deferred inflows of resources and fund balances	$ 5,042,399	$ 1,211,966	$ 1,142,692	$ 1,028,328

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

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

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

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

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

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

Net position of governmental activities

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

STATE OF TENNESSEE
Balance Sheet
Governmental Funds
June 30, 2017
(Expressed in Thousands)

Nonmajor Governmental Funds	Total Governmental Funds
$ 326,499	$ 5,350,617
377,716	628,885
24,720	2,229,012
223	337,858
804	135,372
-	22,398
7,954	14,004
12	1,709
-	82,077
-	361,381
$ 737,928	$ 9,163,313
53,045	1,371,149
729	334,436
2,602	50,340
-	17,536
-	1,750
14	287,358
56,390	2,062,569
8,556	171,885
$ -	$ 22,397
-	14,355
158,965	520,346
364,126	1,281,307
135,519	670,728
14,372	3,411,298
-	1,008,428
672,982	6,928,859
$ 737,928	
	28,774,385
	173,620
	1,203,923
	(675,117)
	(3,274,025)
	$ 33,131,645

STATE OF TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	General	Education	Highway	Capital Projects
REVENUES				
Taxes:				
Sales and use	$ 3,547,922	$ 4,923,312	$ 24,841	$ -
Fuel	13,671	-	789,914	-
Business	4,500,298	278,963	7,413	-
Other	602,644	145	-	-
Licenses, fines, fees, and permits	482,890	2,672	249,427	-
Investment income	36,866	21,638	-	-
Federal	9,858,146	1,130,620	874,320	6,904
Departmental services	2,101,522	137,770	52,102	78,634
Other	219,420	395,047	5,711	-
Total revenues	21,363,379	6,890,167	2,003,728	85,538
EXPENDITURES				
General government	631,148	-	-	-
Education	-	7,769,492	-	-
Health and social services	15,655,566	-	-	-
Law, justice and public safety	1,684,147	-	-	-
Recreation and resources development	523,759	-	-	-
Regulation of business and professions	98,953	-	-	-
Transportation	-	-	1,728,331	-
Intergovernmental revenue sharing	759,450	-	314,287	-
Debt service:				
Principal	-	-	-	147,282
Interest	-	-	-	-
Debt issuance costs	-	-	-	-
Capital outlay	-	-	-	462,231
Total expenditures	19,353,023	7,769,492	2,042,618	609,513
Excess (deficiency) of revenues over (under) expenditures	2,010,356	(879,325)	(38,890)	(523,975)
OTHER FINANCING SOURCES (USES)				
Bonds and commercial paper issued	-	-	-	274,348
Bond premium	-	-	-	41,958
Refunding bond proceeds	-	-	-	-
Refunding payment to escrow	-	-	-	-
Insurance claims recoveries	718	-	-	-
Transfers in	89,424	921,685	239,736	454,650
Transfers out	(1,636,707)	(40)	(2,416)	-
Total other financing sources (uses)	(1,546,565)	921,645	237,320	770,956
Net change in fund balances	463,791	42,320	198,430	246,981
Fund balances, July 1	3,241,079	659,636	726,173	677,467
Fund balances, June 30	$ 3,704,870	$ 701,956	$ 924,603	$ 924,448

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, 2017
(Expressed in Thousands)

Nonmajor Governmental Funds	Total Governmental Funds
$ 60,699	$ 8,556,774
111,830	915,415
252,251	5,038,925
37,378	640,167
238,821	973,810
30,727	89,231
45,977	11,915,967
22,151	2,392,179
2,512	622,690
802,346	31,145,158
23,206	654,354
8,651	7,778,143
-	15,655,566
9,014	1,693,161
213,125	736,884
116,780	215,733
-	1,728,331
-	1,073,737
149,162	296,444
71,817	71,817
2,225	2,225
-	462,231
593,980	30,368,626
208,366	776,532
-	274,348
377	42,335
214,452	214,452
(214,016)	(214,016)
7	725
6,167	1,711,662
(185,296)	(1,824,459)
(178,309)	205,047
30,057	981,579
642,925	5,947,280
$ 672,982	$ 6,928,859

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, 2017
(Expressed in Thousands)

Net change in fund balances - total governmental funds	$	981,579
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.		683,625
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.		153,504
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.		(20,675)
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.		(156,252)
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.		158,716
Changes in net position of governmental activities	$	1,800,497

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

PROPRIETARY FUNDS FINANCIAL STATEMENTS

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

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

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

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

STATE OF TENNESSEE
Statement of Net Position
Proprietary Funds
June 30, 2017
(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	$ 433,866	$ -	$ 337,994	$ 771,860	$ 1,173,545
Cash on deposit with fiscal agent	-	1,108,826	-	1,108,826	-
Receivables:					
Accounts receivable	-	141,316	8,030	149,346	13,151
Loans receivable	26,301	-	15,564	41,865	-
Due from other funds	-	331	-	331	905
Due from component units	-	5	-	5	208
Inventories, at cost	-	-	-	-	3,215
Prepayments	-	-	-	-	242
Total current assets	460,167	1,250,478	361,588	2,072,233	1,191,266
Noncurrent assets:					
Accounts receivable	-	-	-	-	5,328
Loans receivable	532,262	-	164,795	697,057	-
Due from other funds	-	-	-	-	959
Prepayments	-	-	-	-	4,985
Net investment in capital leases	-	-	-	-	8,522
Restricted net pension assets	-	-	-	-	98
Capital assets:					
Land, at cost	-	-	-	-	58,801
Structures and improvements, at cost	-	-	-	-	532,456
Machinery and equipment, at cost	-	-	-	-	395,144
Less: Accumulated depreciation	-	-	-	-	(558,820)
Construction in progress	-	-	-	-	108,995
Software in development	-	-	-	-	2,691
Total noncurrent assets	532,262	-	164,795	697,057	559,159
Total assets	992,429	1,250,478	526,383	2,769,290	1,750,425
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	29,386
LIABILITIES					
Current liabilities:					
Accounts payable and accruals	34	44,702	41,700	86,436	94,350
Due to other funds	-	1,956	-	1,956	13,256
Due to component units	-	-	-	-	1,264
Lease obligations payable	-	-	-	-	317
Bond payable	-	-	-	-	15,698
Unearned revenue	-	22,101	139	22,240	48,147
Others	-	-	-	-	34,782
Total current liabilities	34	68,759	41,839	110,632	207,814
Noncurrent liabilities:					
Pension	-	-	-	-	39,937
Lease obligations payable	-	-	-	-	7,769
Commercial paper payable	-	-	-	-	12,788
Bonds payable	-	-	-	-	176,057
Others	6,872	-	3,634	10,506	128,262
Total noncurrent liabilities	6,872	-	3,634	10,506	364,813
Total liabilities	6,906	68,759	45,473	121,138	572,627
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	3,261
NET POSITION					
Net investment in capital assets	-	-	-	-	332,354
Restricted for:					
Capital projects	-	-	-	-	351
Pensions	-	-	-	-	98
Unrestricted	985,523	1,181,719	480,910	2,648,152	871,120
Total net position	$ 985,523	$ 1,181,719	$ 480,910	$ 2,648,152	$ 1,203,923

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

STATE OF TENNESSEE
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2017
(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	$ 8,123	$ -	$ 3,526	$ 11,649	$ 556,493
Investment income	2,372	-	662	3,034	-
Premiums	-	288,964	598,477	887,441	758,818
Total operating revenues	10,495	288,964	602,665	902,124	1,315,311
Operating expenses					
Personal services	-	-	-	-	97,759
Contractual services	1,066	-	36,018	37,084	273,182
Materials and supplies	-	-	-	-	62,095
Rentals and insurance	-	-	-	-	59,128
Depreciation and amortization	-	-	-	-	50,175
Benefits	-	232,690	579,982	812,672	719,626
Other	-	-	5,594	5,594	7,189
Total operating expenses	1,066	232,690	621,594	855,350	1,269,154
Operating income (loss)	9,429	56,274	(18,929)	46,774	46,157
Nonoperating revenues (expenses)					
Taxes	-	-	-	-	2
Grants	7,438	11,331	18,279	37,048	-
Insurance claims recoveries	-	-	-	-	870
Gain on sales of capital assets	-	-	-	-	137
Interest income	-	23,021	779	23,800	4,108
Interest expense	-	-	-	-	(4,972)
Other	(3,038)	-	(3,426)	(6,464)	100
Total nonoperating revenues (expenses)	4,400	34,352	15,632	54,384	245
Income (loss) before contributions and transfers	13,829	90,626	(3,297)	101,158	46,402
Capital contributions	-	-	-	-	15,454
Transfers in	6,421	-	1,727	8,148	106,828
Transfers out	-	-	(2,858)	(2,858)	(9,968)
Change in net position	20,250	90,626	(4,428)	106,448	158,716
Net position, July 1	965,273	1,091,093	485,338	2,541,704	1,045,207
Net position, June 30	$ 985,523	$ 1,181,719	$ 480,910	$ 2,648,152	$ 1,203,923

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, 2017
(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	$ -	$ 287,281	$ 609,306	$ 896,587	$ 433,114
Receipts from interfund services provided	-	1,354	-	1,354	925,397
Payments to suppliers	-	-	(626,279)	(626,279)	(1,014,232)
Payments to employees	-	-	-	-	(98,065)
Payments for unemployment benefits	-	(209,307)	-	(209,307)	-
Payments for interfund services used	(1,066)	-	(1,369)	(2,435)	(135,528)
Net cash provided by (used for) operating activities	(1,066)	79,328	(18,342)	59,920	110,686
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Operating grants received	7,438	320	18,279	26,037	-
Negative cash balance implicitly financed	-	1,956	-	1,956	-
Transfers in	6,421	-	1,727	8,148	106,678
Transfers out	-	-	(2,858)	(2,858)	-
Tax revenues received	-	-	-	-	2
Net cash provided by (used for) noncapital financing activities	13,859	2,276	17,148	33,283	106,680
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchase of capital assets	-	-	-	-	(129,361)
Bond and commercial paper proceeds	-	-	-	-	1,696
Proceeds from sale of capital assets	-	-	-	-	2,734
Insurance claims recoveries	-	-	-	-	870
Bond issuance cost	-	-	-	-	(23)
Principal payments	-	-	-	-	(21,608)
Interest paid	-	-	-	-	(9,217)
Capital contributions	-	-	-	-	2,057
Net cash provided by (used for) capital and related financing activities	-	-	-	-	(152,852)
CASH FLOWS FROM INVESTING ACTIVITIES					
Loans issued and other disbursements to borrowers	(119,179)	-	(42,284)	(161,463)	-
Collection of loan principal	27,867	-	14,417	42,284	-
Interest received	10,529	23,021	3,527	37,077	4,108
Net cash provided by (used for) investing activities	(80,783)	23,021	(24,340)	(82,102)	4,108
Net increase (decrease) in cash and cash equivalents	(67,990)	104,625	(25,534)	11,101	68,622
Cash and cash equivalents, July 1	501,856	1,004,201	363,528	1,869,585	1,104,923
Cash and cash equivalents, June 30	$ 433,866	$ 1,108,826	$ 337,994	$ 1,880,686	$ 1,173,545

(continued on next page)

STATE OF TENNESSEE
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

(continued from previous page)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided by (used for) operating activities					
Operating income (loss)	$ 9,429	$ 56,274	$ (18,929)	$ 46,774	$ 46,157
Adjustment to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	-	-	-	-	50,175
Loss on disposal of capital assets	-	-	-	-	642
Bond issuance costs	-	-	-	-	23
Interest income	(8,123)	-	(2,102)	(10,225)	-
Investment income	(2,372)	-	(662)	(3,034)	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:					
(Increase) decrease in receivables	-	22,455	(1,121)	21,334	1,456
(Increase) decrease in due from other funds	-	(78)	-	(78)	513
(Increase) decrease in due from component units	-	1	-	1	(208)
(Increase) decrease in inventories	-	-	-	-	890
(Increase) decrease in prepaids	-	-	-	-	(4,995)
(Increase) decrease in net pension assets	-	-	-	-	(59)
(Increase) decrease in deferred outflows of resources	-	-	-	-	(11,928)
Increase (decrease) in accounts payable	-	2,871	4,455	7,326	19,873
Increase (decrease) in due to other funds	-	-	-	-	7,065
Increase (decrease) in due to component units	-	-	-	-	925
Increase (decrease) in deferred inflows of resources	-	-	-	-	(2,550)
Increase (decrease) in unearned revenue	-	(2,195)	17	(2,178)	2,707
Total adjustments	(10,495)	23,054	587	13,146	64,529
Net cash provided by (used for) operating activities	$ (1,066)	$ 79,328	$ (18,342)	$ 59,920	$ 110,686
Schedule of noncash capital and related financing activities					
Contributions of capital assets	$ -	$ -	$ -	$ -	$ 3,679
Refunding bond premium	-	-	-	-	2,825
Refunding bond proceeds	-	-	-	-	8,755
Total noncash capital and related financing activities	$ -	$ -	$ -	$ -	$ 15,259

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, 2017
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents	$ 25,073	$ 1,185,276	$ 55,051	$ 517,336
Cash collateral on loaned securities	4,990,488	-	-	-
Receivables:				
Account	-	-	-	3,756
Taxes	-	-	46	437,382
Interest and dividends	-	2,116	3	-
Investments sold	-	-	10,127	-
Due from other governments	59,547	-	-	-
Other	30,166	-	56	-
Due from other funds	9,582	-	5	12
Due from component units	10,054	-	-	-
Investments, at fair value:				
Government bonds	-	45,181	378	-
Corporate bonds	-	-	1,119	-
Mutual funds	-	-	120,203	-
TRGT pooled funds	46,886,335	7,201	-	112,436
Investments, at amortized cost:				
Short-term investments	-	829,297	-	-
Capital assets, at cost:				
Machinery and equipment	37,139	-	-	-
Less - accumulated depreciation	(12,818)	-	-	-
Total assets	52,035,566	2,069,071	186,988	1,070,922
LIABILITIES				
Accounts payable and accruals	30,321	-	15,792	830,481
Due to other funds	-	-	4	-
Due to component units	-	-	1	-
Securities lending collateral	4,990,488	-	-	-
Amount held in custody for others	-	-	-	240,441
Total liabilities	5,020,809	-	15,797	1,070,922
NET POSITION				
Restricted for				
Pensions	47,014,252	-	-	
Employees' flexible benefits	505	-	-	
Individuals, organizations and other governments	-	-	171,191	
Amounts held in trust for				
Pool participants	-	2,069,071	-	
Total net position	$ 47,014,757	$ 2,069,071	$ 171,191	

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, 2017
(Expressed in Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Members	$ 323,040	$ -	$ -
Employers	1,008,397	-	-
Federal	-	-	8,456
Private	-	-	31,458
State	-	-	829
Other	2,458	-	16,141
Total contributions	1,333,895	-	56,884
Investment income:			
Net increase/(decrease) in fair value of investments	4,877,586	-	8,136
Interest and dividends	-	12,288	3,777
Securities lending income	57,709	-	-
Total investment income	4,935,295	12,288	11,913
Less: Investment expenses	(54,003)	(834)	-
Securities lending expense	(32,345)	-	-
Net investment income	4,848,947	11,454	11,913
Capital share transactions:			
Shares sold	-	3,543,534	-
Less: Shares redeemed	-	(3,553,567)	-
Net capital share transactions	-	(10,033)	-
Total additions	6,182,842	1,421	68,797
DEDUCTIONS			
Annuity benefits	2,404,730	-	-
Death benefits	5,871	-	-
Other	6,291	-	38,005
Refunds	39,944	-	8,505
Administrative expenses	18,683	-	2,172
Total deductions	2,475,519	-	48,682
Change in net position	3,707,323	1,421	20,115
Net position, July 1	43,307,434	2,067,650	151,076
Net position, June 30	$ 47,014,757	$ 2,069,071	$ 171,191

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

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Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

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NOTE 1

Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

Discretely Presented Component Units

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

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

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

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

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

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

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

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

9. **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. In 2015, the board voted to wind down guarantee agency loan activities and transfer the related portfolio to the U.S. Department of Education.

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

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

B. Related Organizations

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

C. Jointly Governed Organizations

1. **The Southern Regional Education Compact** has 16 member states. Tennessee paid $222,400 for 2017 membership dues.

2. **The Compact for Education** has 49 member states, plus Puerto Rico, the Virgin Islands, American Samoa, and the District of Columbia. Tennessee paid $77,300 for 2017 membership dues.

3. **The Interstate Mining Compact** has 24 member states. Tennessee paid $17,676 for 2017 membership dues.

4. **The Southern States Nuclear Compact** (also known as the Southern States Energy Compact) has 16 member states, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 for 2017 membership dues.

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

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

7. **The Interstate Compact for Juveniles** is comprised of 50 states, plus the District of Columbia and the Virgin Islands. Tennessee paid $17,000 for 2017 membership dues.

8. **The Interstate Compact for Supervision of Adult Offenders** is comprised of all 50 states, plus the District of Columbia, Puerto Rico, and the Virgin Islands. Tennessee paid $36,674 for 2017 membership dues.

9. **The Interstate Compact on Educational Opportunities for Military Children** is comprised of all 50 states, plus the District of Columbia. Tennessee paid $13,526 for 2017 membership dues.

10. **The Nurse Licensure Compact** is comprised of 25 states. Tennessee paid $6,000 for 2017 membership dues.

11. **The Physical Therapy Licensure Compact** is comprised of 13 states. Tennessee paid $2,500 for 2017 membership dues.

12. **The Interstate Commission of Emergency Medical Services Personnel Practice** is comprised of 11 states.

D. Joint Ventures

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

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

Tennessee-Tombigbee Waterway Development Compact	2016	2015
Current assets	$ 533	$ 545
Capital assets, less depreciation	315	328
Total assets	848	873
Total liabilities	189	216
Net position	659	657
Total liabilities and net position	$ 848	$ 873
Revenues	$ 421	$ 440
Expenses	419	354
Excess of revenues over expenses	2	86
Beginning net position	657	571
Ending net position	$ 659	$ 657

E. Government-wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Earned revenues are recognized when they become measurable

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

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

The state reports the following major governmental funds:

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

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

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

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

The state reports the following major proprietary funds:

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

- **Employment Security Fund.** This fund accounts for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Additionally, the state reports the following fund types:

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

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

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

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

  3. **Private Purpose Trust Funds** – account for contributions made to 1) *College Savings Plans* – funds created under Section 529 of the Internal Revenue Code; 2) *Children in State Custody* – funds held from various sources to benefit children in state custody; 3) *Oak Ridge Monitoring* – a trust funded by the federal government for the purpose of monitoring the Oak Ridge landfill for radioactive leakage; 4) *TNInvestco* – accounts for proceeds held and used to carry

out the provisions of the Tennessee Small Business Investment Company Credit Act; 5) *Insurance Receiverships* – account for the distribution of assets to claimants as ordered by the court, and 6) *Other* small funds.

4. **The Agency Funds** – account for assets the state holds on behalf of others. Agency funds are custodial in nature and do not involve measurement of operations.

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

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

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

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

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.

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

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

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

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

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

Inventories and Prepaid Items—Inventories of materials and supplies are determined by physical count and are valued at cost, principally using the first-in/first-out (FIFO) method. The average cost method is used for the Highway Fund (a special revenue fund) and Strategic Technology Solutions, Postal Services, Warehousing and Distribution, and General Services Printing (internal service funds). Standard cost is used by TRICOR (an internal service fund). However, at June 30, 2017, their inventory balance reasonably reflects approximate cost under FIFO. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when

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

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

Component units that issue revenue bonds – Tennessee Housing Development Authority, Tennessee State School Bond Authority, and Tennessee Local Development Authority – report restricted cash to 1) satisfy bond covenant requirements, 2) reflect unspent bond, commercial paper, or note proceeds, and 3) reflect resources set aside to meet future debt service payments. In addition to restricted cash, Tennessee Housing Development Authority also report restricted investments and receivable for the same purposes previously mentioned. The State University and Community College System and the University of Tennessee report restricted cash, investments, and receivables for those that come with certain restrictions from donors, lenders, or grantors. Tennessee Education Lottery Corporation has restricted cash to cover losses incurred as a result of the nonfeasance, malfeasance, or misfeasance of the retailers. Tennessee Veterans' Homes Board has restricted assets related to loan agreements and other restricted assets that are the property of the homes' residents.

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

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

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

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

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

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

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

Deferred Outflows/Inflows—Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until

then. The primary government has two items that qualify for reporting in this category. The first is the result of four pension related factors. The first factor is contributions made subsequent to the measurement date, the second factor is the difference between the actual and expected economic and demographic factors that were less favorable than anticipated, the third factor is investment returns were better than projected, and the fourth factor is the change in proportionate share of net pension liabilities and assets. The second is refunding of debt. In the governmental activities column of the government-wide statement of net position, the state reported $49.7 million for refunding of debt, $266.3 million for employer contributions made after the measurement date, $71.3 million for differences between expected and actual experience, $306.4 million for differences between projected and actual earnings on pension plan investments, and $12 thousand for the changes in proportionate shares.

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 three items that qualify for reporting in this category. The first item is the result of two pension related factors. The first factor is the difference between the actual and expected economic and demographic factors that were more favorable than anticipated and the second factor is the change in proportionate share of net pension liabilities and assets. In the governmental activities column of the government-wide statement of net position, the state reported $80.5 million for these two pension related factors mentioned.

The other two items are related to debt refunding and capital lease activities in which the state reported $1.6 million and $361 thousand, respectively, in its governmental activities column of the government-wide statement of net position. In addition, the state has one item which arises only under modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds reported unavailable revenues from various taxes ($127 million), federal grants ($30.4 million), and other sources ($14.5 million) as deferred inflows of resources.

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

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

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

Pensions−For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the state's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the state's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value. For the year ended June 30, 2017, the state reported $1.3 billion of net pension liability, $5.9 million of net pension asset, $644 million of deferred outflows of resources, $80.5 million of deferred inflows of resources, and $217.1 million of pension expenses.

Net Position—Consists of the following three components:

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

- **Restricted net position** - consists of net position in which constraints are placed on the use of net position either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or

regulations of other governments; or by constitutional provisions or enabling legislation of the state. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $1.8 billion restricted by the primary government, $295.3 million was by enabling legislation.

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

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

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

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

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

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

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

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

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

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

NOTE 2

Reconciliation of Government-wide and Fund Financial Statements

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

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

The details of this $3.3 billion difference are as follows (expressed in thousands):

Bonds payable	$ 1,738,002
Plus: premium on bonds issued (to be amortized as interest expense)	233,125
Net deferred outflows/inflows of resources for bond refundings (to be amortized as interest expense)	(42,352)
Commercial paper payable	180,167
Accrued interest payable	28,809
Capital leases payable	11,308
Claims and judgments	35,633
Compensated absences	253,920
Other postemployment benefits	733,421
Pollution remediation	62,013
Other long-term liabilities and accounts payable	39,979
Net adjustment to reduce fund balance—total governmental funds to arrive at net position—governmental activities	$ 3,274,025

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

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

The details of this $683.6 million difference are as follows (expressed in thousands):

Capital outlay	$ 784,059
Depreciation expense	(100,434)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 683,625

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 $20.7 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	
Issuance of general obligation refunding bonds	$ 181,531
Issuance of general obligation bonds	175,124
Issuance of commercial paper	99,224
Bond premium capitalized	75,256
Debt reduced:	
General obligation bonds/payments to escrow	(214,016)
General obligation debt	(149,162)
Commercial paper redeemed	(147,282)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 20,675

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 $156.2 million difference are as follows (expressed in thousands):

Pension	$ (48,626)
Compensated absences	11,813
Claims and judgments	(9,546)
Accrued interest	3,025
Capital lease	(1,339)
Other postemployment benefits	55,467
Pollution remediation	(1,904)
Pledged tax credits	(14,118)
Amortization of other charges	
Loss on disposal of capital assets	177,819
Amortization of bond premiums	(24,811)
Amortization of deferred outflows/inflows of resources	8,472
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	$ 156,252

NOTE 3

Deficit Fund Equity

The purchasing fund, an internal service fund, has a total net position deficit of $171 thousand. The records management fund, an internal service fund, has a total net position deficit of $165 thousand. These deficits were caused primarily as a result of the reporting of other postemployment benefits at the fund level in accordance with GASBS 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

NOTE 4

Accounting and Reporting Changes

A. Prior Period Adjustments

Component Units

- The University of Tennessee recorded a prior period adjustment of an increase in net position of $9.9 million for an understatement of net position.

- The State University and Community College System and its foundations recorded prior period adjustments for a net decrease to net position of $1.3 million for unreported revenue, write-off of

uncollectible accounts from prior years, and various other misstatements.

- The Tennessee Veterans' Home Board recorded a change in accounting principle adjustment for a net decrease in net position of $2.9 million for a change in capitalization threshold and prior period adjustment for $368 thousand for overstatement in capital assets.

The following schedule enumerates adjustments for the fiscal year ended June 30, 2017, (expressed in thousands):

	6/30/16 Net Position as Reported	Adjustments to Net Position	6/30/16 Net Position as Restated
Component Units	$ 7,462,042	$ 5,299	$ 7,467,341
Total Component Units	$ 7,462,042	$ 5,299	$ 7,467,341

B. Reporting Changes

During the fiscal year ended June 30, 2017, the state implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

- GASBS 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, establishes requirements for defined benefit and defined contribution pensions that were not within the scope of GASB Statement 68, *Accounting and Financial Reporting for Pensions*. The implementation of this standard did not have an impact on the financial statements or note disclosures.

- GASBS 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes financial reporting standards for defined benefit OPEB plans and defined contribution OPEB plans that are administered through trust or equivalent arrangements. The implementation of this standard amended the accounting for state Retiree healthcare costs and amended existing note disclosures.

- GASBS 77, *Tax Abatement Disclosures,* establishes disclosure requirements for tax abatement agreements entered into by state and local governments. The implementation of this standard required additional note disclosures.

- GASBS 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,* narrows the scope and applicability of GASB Statement 68, *Accounting and Financial Reporting for Pensions,* by adding additional criteria thereby excluding certain cost-sharing multiple-employer defined benefit pension plans from the requirements of GASB statement 68. The implementation of this standard did not have an impact on the financial statements or note disclosures.

- GASBS 80, *Blending Requirements for Certain Component Units,* amends paragraph 53 of GASB Statement 14, *The Financial Reporting Entity*. This statement establishes an additional blending requirement for component units. The implementation of this standard did not have an impact on the financial statements or note disclosures.

NOTE 5

Deposits and Investments

A. Primary Government

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

The State Pooled Investment Fund is authorized by statute to invest funds in accordance with policy guidelines approved by the Funding Board. The current resolution of the Funding Board gives the Treasurer approval to invest in U.S. Direct Obligations, U.S. Agency Securities, U.S. Instrumentality Securities, repurchase or reverse repurchase agreements, collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers'

acceptances and securities lending agreements. Investments in derivatives type securities and investments of high risk are prohibited. There are no limitations or restrictions on participant withdrawals with the exception of a 24-hour notice for withdrawals exceeding $5 million.

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

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

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

As of June 30, 2017, the state's investments for all funds were as follows (expressed in thousands):

POOLED INVESTMENT AND OTHER FUNDS INVESTMENTS

Credit Quality Rating	SPIF	TRGT	ITIF	State Funds Investment Portfolios	Education Fund	COE	College Savings Plans	Insurance Receiverships Fund	Other private purpose trust funds	Total
AAA		$ 489,032			$ 1,853	$ 8,103				$ 498,988
AA	$ 72,584	389,599			254	7,878				470,315
A		881,900			24,046	8,852				914,798
BBB		2,338,128			26,863	10,122				2,375,113
BB		274,236			8	236				274,480
B		63,729								63,729
CCC		55,459			8	258				55,725
CC		871								871
D		25,659								25,659
NR	6,643,581	3,529,507	$ 45,181		23,320	19,906	$ 84,226	$1,497	$3,266	10,350,484
P1		3,059								3,059
A1 (Commercial paper)	399,920									399,920
	7,116,085	8,051,179	45,181		76,352	55,355	84,226	1,497	3,266	15,433,141
Government agencies and obligations[1]	1,044,612	6,116,004		$ 218,466	18,402	61,342				7,458,826
Total debt investments	8,160,697	14,167,183	45,181	218,466	94,754	116,697	84,226	1,497	3,266	22,891,967
Non Fixed Income Assets										
Equity		24,805,713			365,235	194,432				25,365,380
Equity mutual funds							46,524	203	1,985	48,712
Preferred stock		64,219								64,219
Real estate		4,049,446								4,049,446
Private equities		1,862,282								1,862,282
Strategic lending		1,860,382								1,860,382
Derivatives (not rated)		393								393
Certificate of deposit classified as short term	826,620									826,620
Short-term investment fund at custodian		(3,005)								(3,005)
Accrued income included in assets				682						682
Less: short term	(4,574,800)	(567,825)								(5,142,625)
Total investments	$ 4,412,517	$ 46,238,788	$ 45,181	$ 219,148	$ 459,989	$ 311,129	$ 130,750	$ 1,700	$ 5,251	$ 51,824,453
Net noninvestment assets		767,184								
Pool's net position		$ 47,005,972								

1. Includes obligations of the US government or obligations explicitly guaranteed by the US government

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, 2017, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the state.

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

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

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

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

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

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

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

Concentration of Credit Risk

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

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. The TCRS' investment policy limits the maximum amount of securities in cash equivalents issued by any one issuer to $100 million, excluding those securities with the express or implied backing of the United States government. There are no other specific investment policies that limit the investments of the TCRS, the COE Trust, the College Savings Plans, the Education Fund or other State funds in any one issuer.

As of June 30, 2017, SPIF and Intermediate Term Investment Fund separately held investments in certain organizations representing five percent (5%) or more of its total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

State Pooled Investment Fund (SPIF)		
Issuer Organization	Carry Value	Percentage
Federal Home Loan Bank	$ 1,948,905	23.88
International Bank for Recon & Dev	2,781,978	34.09
Federal Farm Credit Banks	1,739,980	21.32

Intermediate Term Investment Fund (ITIF)		
Issuer Organization	Fair Value	Percentage
Federal National Mortgage	$ 7,893	17.50
Federal Home Loan Bank	21,390	47.30
Federal Home Loan Mortgage	15,898	35.20

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the weighted average maturity of the pool shall not exceed sixty days (60) calculated using Maturity Shortening Features for securities with a variable or floating interest rate. The weighted average life of the SPIF cannot exceed one hundred twenty days (120) calculated using Stated Maturity and without using Maturity Shortening Features. No security or investment may be purchased with a remaining maturity of greater than three hundred ninety seven (397) calendar days. At June 30, 2017, the weighted average maturity of the pool was forty-three (43) days and the weighted average life of the pool was sixty-four (64) days. It is the intent of the Funding Board that the fair value of the SPIF not deviate more than one-half percent (0.5%) from amortized cost. If it does, actions may include, but not be limited to, selling securities whose fair value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity.

As of June 30, 2017, the combined SPIF portfolio and other state cash deposits and investments had the following weighted average maturities (expressed in thousands):

State Pooled Investment Fund Weighted Average Maturity

Deposit/Investment Type	Carry Value	Weighted Average Maturity (Months)
U.S. Government Agencies	$6,716,165	1.47
U.S. Government Treasuries	1,044,612	2.36
Commercial paper	399,920	0.28

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, 2017, 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	$45,181	2.61

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

Tennessee Retiree Group Trust Debt Investments
June 30, 2017 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Debt Investments:		
Government Fixed Income		
Government Agencies	$ 413,913	1.92
Government Bonds	3,690,363	13.87
Government Inflation Indexed	1,618,067	7.88
Government Mortgage-Backed	3,473,525	4.46
Government Asset-Backed	46,243	5.19
Municipal Bonds	124,409	9.95
Corporate Fixed Income		
Commercial Mortgage Backed	297,445	1.94
Asset Backed Securities	479,670	1.07
Corporate Bonds	3,753,110	9.08
Short Term		
Short Term Bills and Notes	270,438	0.00
Total Debt Investments	$ 14,167,183	

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

Chairs of Excellence Debt Investments
June 30, 2017 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 27,511	7.82
U.S. TIPS	31,289	8.13
U.S. Agencies	3,813	2.95
Government Mortgage-Backed	18,285	4.30
Government Asset-Backed	1,311	4.27
Municipal Bonds	4,975	3.49
Corporate Fixed Income		
Corporate Mortgage-Backed	2,181	0.24
Corporate Bonds	25,414	6.26
Corporate Asset-Backed	1,918	1.91
Total Debt Investments	$116,697	

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

Education Fund
Debt Investments
June 30, 2017 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$10,838	6.61
U.S. TIPS	1,009	8.13
U.S. Agencies	124	2.95
Government Mortgage-Backed	21,645	4.59
Government Asset-Backed	4,924	3.84
Municipal Bonds	160	3.49
Corporate Fixed Income		
Corporate Mortgage-Backed	3,805	2.73
Corporate Bonds	52,187	2.76
Corporate Asset-Backed	62	1.91
Total Debt Investments	$94,754	

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

College Savings Plans Debt Investments
June 30, 2017 (expressed in thousands)

Fund Name Blended	Fair Value	Effective Duration (Years)
Vanguard Wellington Investor Shares	$ 17,499	6.55
Vanguard LifeStrategy Conservative Growth Fund	11,455	6.60
Vanguard LifeStrategy Income Fund	7,244	6.60
Fixed Income		
Vanguard Total Bond Market Institutional Shares	6,148	6.09
Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares	1,263	5.50
DFA Inflation-Protected Securities Portfolio Institutional Class	572	7.85
Vanguard Intermediate-Term Treasury Admiral Shares	466	5.26
Vanguard Total Bond Market Index Fund	25,260	6.10
Total Debt Investments	$ 69,907	

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

Insurance Receiverships Fund
June 30, 2017 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
Corporate bonds	$1,119	1.86
Government bonds	378	3.90

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

State Funds Investment Portfolio
June 30, 2017 (expressed in thousands)

Investment Type	Fair Value	Effective Duration (Years)
U.S. Government	$147,977	5.80
Government Mortgage-Backed	70,489	26.73

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

Other private purpose trusts

June 30, 2017 (expressed in thousands)

Fund Name Blended	Fair Value	Effective Duration (Years)
Vanguard Wellington Investor Shares	$ 584	6.55
Vanguard LifeStrategy Conservative Growth Fund	400	6.60
Vanguard LifeStrategy Income Fund	62	6.60
Fixed Income		
Vanguard Total Bond Market Institutional Shares	184	6.09
Vanguard Intermediate-Term Investment-Grade Fund Admiral Shares	158	5.50
DFA Inflation-Protected Securities Portfolio Institutional Class	71	7.85
Vanguard Intermediate-Term Treasury Admiral Shares	125	5.26
Total Debt Investments	$ 1,584	

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TRGT's exposure to foreign currency risk at June 30, 2017, was as follows (expressed in thousands):

Currency	Total Fair Value	Equity	Cash
Australian Dollar	$ 335,353	$ 335,022	$ 331
British Pound Sterling	1,238,766	1,234,829	3,937
Canadian Dollar	1,027,138	1,026,139	999
Danish Krone	167,342	167,064	278
Euro Currency	2,030,838	2,017,503	13,335
Hong Kong Dollar	224,799	224,559	240
Japanese Yen	1,633,558	1,623,508	10,050
New Israeli Shekel	13,954	13,843	111
New Zealand Dollar	10,887	10,626	261
Norwegian Krone	37,735	37,460	275
Singapore Dollar	85,027	84,877	150
Swedish Krona	180,566	180,139	427
Swiss Franc	614,822	613,645	1,177
Total	$ 7,600,785	$ 7,569,214	$ 31,571

Derivatives

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

The TRGT may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TRGT's target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2017, the TRGT was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The TRGT is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TRGT enters into an agreement to purchase pools of mortgage backed

securities prior to the actual security being identified. The TRGT will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable.

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

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

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, 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, 2017		
	Currency	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount
Foreign Currency Forward Contracts						
	EUR		$ (7)		$ (7)	$ 2,121
	GBP		107		107	6,426
	JPY		293		293	4,916,610
		Investment Income	$ 393	Derivative Instruments	$ 393	
Future Contracts		Investment Income	$ 19,198	Derivative Instruments Payable	$ (4,393)	$ 1,042,357
TBA Mortgage-Backed Securities		Investment Income	$ (173)	Derivative Instruments	$ (173)	$ 43,702

Custodial Credit Risk

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TRGT's deposits may not be returned to TRGT. The TRGT does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2017, the TRGT had uninsured and uncollateralized cash deposits of $31.6 million in foreign currency held by our master custodian, State Street, in State Street's name. These deposits were used for investments pending settlement.

The Insurance Receiverships fund does not have an explicit policy with regards to Custodial Credit Risk for deposits. As of June 30, 2017, the Insurance Receiverships fund had uninsured and uncollateralized cash deposits of $925 thousand at various institutions.

Securities Lending

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

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

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

At June 30, 2017 the TRGT had the following securities on loan and received the cash collateral (expressed in thousands) as shown below:

Securities on Loan	Fair Value of Securities on Loan	Cash/Non Cash Collateral Received
Fixed	$ 2,338,498	$ 2,391,592
Equity	2,723,976	2,785,822
Total	$ 5,062,474	$ 5,177,414

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

B. Component Units

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

1. University of Tennessee

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

Credit Risk

The University has no investment policy limiting its investment choice based on ratings issued by nationally recognized statistical rating agencies. The University's securities are rated by Moody's. As of June 30, 2017, the University's investments were rated as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	Credit Quality Rating: US Treasury/ Agency	Aaa	Aa2	Aa3
U.S. Treasuries	$ 7,156	$ 7,156			
U.S. Treasuries (in pool)	35,025	35,025			
U.S. Agencies	1,619		$ 1,619		
U.S. Agencies (in pool)	1,098,168		552,076		
Corporate Bonds	12,116			$ 361	
Municipal Bonds	1,370		314		$ 731
Mutual Funds – Bonds	93,291				
Money Market Mutual Fund	4,251				
Total	$ 1,252,996	$ 42,181	$ 554,009	$ 361	$ 731

(Continued)

Rated Debt Instruments	Credit Quality Rating: A1	A2	A3	Baa1	Baa2
U.S. Treasuries					
U.S. Treasuries (in pool)					
U.S. Agencies					
U.S. Agencies (in pool)					
Corporate Bonds	$ 1,769	$ 1,287	$ 2,802	$ 4,036	$ 1,475
Municipal Bonds	325				
Mutual Funds – Bonds					
Money Market Mutual Fund					
Total	$ 2,094	$ 1,287	$ 2,802	$ 4,036	$ 1,475

(Continued)

Rated Debt Instruments	Credit Quality Rating: Baa3	B2	Unrated
U.S. Treasuries			
U.S. Treasuries (in pool)			
U.S. Agencies			
U.S. Agencies (in pool)			$ 546,092
Corporate Bonds	$ 30	$ 51	305
Municipal Bonds			
Mutual Funds – Bonds			93,291
Money Market Mutual Fund			4,251
Total	$ 30	$ 51	$ 643,939

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2017, the University had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
U.S. Treasuries	$ 7,156	$ 213	$ 5,509	$ 1,434		
U.S. Treasuries (in pool)	35,025	253	10,012	24,760		
U.S. Agencies	1,619		1,600		$ 19	
U.S. Agencies (in pool)	1,098,168	82,405	638,634	303,538	73,591	
Corporate Bonds	12,116	3,852	6,617	1,449	198	
Municipal Bonds	1,370		1,370			
Bond Mutual Funds	93,291		1,681	64,840	1,201	$ 25,569
	$ 1,248,745	$ 86,723	$ 665,423	$ 396,021	$ 75,009	$ 25,569

University foundations' investments in the amount of $151.561 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 seven limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2017, the estimated fair value of these assets is $474.995 million and total capital contributions, less returns of capital, equal $424.953 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The University's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. State University and Community College System

Credit Risk

The System is authorized by statute to invest funds in accordance with the State University and Community College System's investment policies. Funds, other than endowment, invest similarly to the state policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2017, debt investments of the System and its foundations (that utilize governmental accounting standards) were rated by Standard and Poor's as follows (expressed in thousands):

			Credit Quality Rating					
Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	AAA	AA	A	BBB	BB	Not Rated
U.S. Treasuries	$ 39,018	$ 39,018						
U.S. Agencies	127,054	753		$ 126,145				$ 156
Corporate Bonds	6,202		$ 124	411	$ 3,628	$ 1,467		572
Mutual Funds—Bonds	44,449		11,168	816	3,433	3,751	$ 439	24,842
Collateralized Mortgage Obligation	479			479				
Total Debt Instruments	$ 217,202	$ 39,771	$ 11,292	$ 127,851	$ 7,061	$ 5,218	$ 439	$25,570

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, 2017, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to 5	6 to 10	More Than 10	Undetermined
U.S. Treasuries	$ 39,018	$ 4,158	$ 34,374	$ 486		
U.S. Agencies	127,054	14,605	107,029	4,161	$ 1,259	
Corporate Bonds	6,202	1,998	2,892	1,065	247	
Mutual Funds—Bonds	44,449	1,134	3,383	8,641	6,648	$ 24,643
Collateralized Mortgage Obligation	479		479			
Total Debt Investments	$217,202	$ 21,895	$148,157	$14,353	$ 8,154	$ 24,643

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 $308.241 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, 2017, were rated by Standard and Poor's and/or Moody's as follows (expressed in thousands):

Rated Debt Instruments	Fair Value	U.S. Treasury[1]/ Agency	Credit Quality Rating AA	Not Rated
U.S. Agency Coupon	$ 124,172		$ 121,739	$ 2,433
U.S. Treasury Coupon	27,114	$ 27,114		
U.S. Agency Discount	162,863			162,863
Total Debt Instruments	$ 314,149	$ 27,114	$ 121,739	$ 165,296

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

Concentration of Credit Risk

At June 30, 2017, 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	$ 178,179	56.72
Federal Home Loan Mortgage Corporation	31,734	10.10
Federal National Mortgage Association	74,688	23.77

Interest Rate Risk

As of June 30, 2017, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 124,172	1.728
U.S. Treasury Coupon	27,114	2.056
U.S. Agency Discount	162,863	0.084
Total	$ 314,149	

NOTE 6

Fair Value Measurements

A. Primary Government

The fair value of assets held at June 30, 2017, represents the price that would be received were the asset to be sold or the liability transferred in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by Generally Accepted Accounting Principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Investments Measured at Fair Value
(expressed in thousands)

Fund	Investment Aggregation	GAAP Hierarchy Level 1	GAAP Hierarchy Level 2	GAAP Hierarchy Level 3	NAV	Total Investments
Tennessee Retiree Group Trust	Equity investments					
	Common Stock	$ 22,203,415		$ 42		$ 22,203,457
	Real Estate and REIT's	515,000		2,825,131	$ 691,126	4,031,257
	Limited Partnership Units	9,974		248,977	3,473,687	3,732,638
	Mutual Funds	2,252,256			260,318	2,512,574
	Real Estate Limited Partnership Units				18,189	18,189
	Depository Receipts	79,036				79,036
	Rights	647				647
	Warrants	25				25
	Fixed income investments					
	U.S. Government Issues	5,252,407	$ 169,543			5,421,950
	Agency Securities		3,037,478			3,037,478
	Corporate Bonds		3,730,899	22,211		3,753,110
	Municipals		124,409			124,409
	Other Asset Backed		303,464	64,033		367,497
	Collateralized Mortgage Obligations		656,702	76,790		733,492
	Auto Loans and Receivables		158,417			158,417
	Preferred Stock	58,009	6,210			64,219
	Derivative instruments			393		393
Education Fund	Mutual Funds	365,235				365,235
	Government Issues	11,847	123			11,970
	Agency Securities		21,644			21,644
	Corporate Bonds		52,187			52,187
	Municipals		160			160
	Other Asset Backed		8,793			8,793
Chairs of Excellence	Mutual Funds	194,432				194,432
	Government Issues	58,800	3,814			62,614
	Corporate Bonds		25,414			25,414
	Agency Securities		18,249			18,249
	Municipals		4,975			4,975
	Other Asset Backed		5,445			5,445
College Savings Plans	Mutual Funds	116,431				116,431
Other private purpose trust funds	Mutual Funds	3,569				3,569
Intermediate Term Investment Fund	Agency Securities		45,181			45,181
Insurance Receiverships	Mutual Funds	203				203
	Government Issues	378				378
	Corporate Bonds		1,119			1,119
State Fund Investment Portfolios	Agency Securities		70,489			70,489
	Government Issues	147,977				147,977
Total Investments		$ 31,269,641	$ 8,444,715	$ 3,237,577	$ 4,443,320	$ 47,395,253

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

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

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

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

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

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

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

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

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

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

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

Investments measured at NAV	Strategy	Number of Funds	NAV	Remaining Life	Redemption Terms	Redemption Restrictions
Limited Partnership	Traditional private equity and strategic lending	74	$3,473,687	Various	N/A	Various transfer and sale restrictions
Mutual funds	International public equities	23	260,318	N/A	May redeem all or part of the shares with at least fifteen (15) days written notice prior to the last business day of each month	Redemptions may be distributed in cash, in-kind or a combination and are subject to further restrictions by the fund's trustees
Real Estate	Real estate commingled investments	19	709,315	N/A	N/A	Various transfer and sale restrictions

Traditional Private Equity and Strategic Lending: The private equity asset class is categorized into two component portfolios: traditional and strategic lending. Generally speaking, the types of private equity strategies include: venture capital, buyout, natural resource, secondaries, special situations, tactical, structured credit, and high yield debt. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the partnerships, distributions are received as underlying partnership investments are realized. Transfer or sales of the partnership interest are restricted over the life of the partnership. The TRGT has no plans to liquidate any of these investments. As of June 30, 2017, it is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the TRGT's partnership interest.

International Public Equities using Mutual Funds: TRGT will invest in mutual funds as an efficient and cost-effective means to gain passive exposure to a specific sector, industry or country. As of June 30, 2017, TRGT has retained Baring International Investment Limited to facilitate an international equity investment strategy utilizing, in part, sector and country index mutual funds.

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

B. Component Units

University of Tennessee

The university categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The university has the following recurring fair value measurements as of June 30, 2017 (expressed in thousands):

		Fair Value Measurements Using		
Investments by fair value level	6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasuries	$ 53,562	$ 11,381	$ 42,181	
U.S. Agencies	1,099,787		1,099,787	
Municipal bonds	1,369		1,369	
Corporate bonds	12,116		12,040	$ 76
Total debt securities	1,166,834	11,381	1,155,377	76
Equity securities				
Common stock	23,541	20,696	2,666	179
Preferred stock, public	118	41		77
Total equity securities	23,659	20,737	2,666	256
Pooled investment vehicles				
Exchange traded, open-end, closed-end funds	115,930	115,930		
Other open-end funds with published values	267,248	266,375	873	
Total pooled investment vehicles	383,178	382,305	873	
Other assets	22,881		12,381	10,500
Private capital investments				
Private equities	75,534			75,534
Private credit/debit	57,632			57,632
Private real assets	97,423			97,423
Private, other	64,127			64,127
Total private capital investments	294,716			294,716
Investments measured at the Net Asset Value (NAV)				
Pooled investment vehicles (other open-end funds)	165,087			
Hedge funds, long/short equity	33,369			
Hedge funds, credit	48,589			
Hedge funds, diversified	105,113			
Total investments measured at NAV	352,158			
Total investments and cash equivalents	$ 2,243,426			

Debt securities –The fair value of the majority of the debt securities category at June 30, 2017, was determined based on Level 2 inputs. The university utilizes third-party pricing services and guidance provided by custodians and trading counterparties for fair value estimates of these investments. In addition, it takes into account the nature of the securities, trading activity, and availability of comparable securities in the marketplace.

Equity securities and pooled investment vehicles (exchange–traded or with published values)–These investment categories are comprised of common stock, preferred stock, limited partnerships, and funds, all of which are exchange-traded or with published values. The fair value of these assets at June 30, 2017, was primarily determined based on Level 1 inputs due to the transparent pricing provided by a securities exchange or published value.

Other assets–Level 3 inputs were utilized for the fair value calculations of this investment category, which contains real estate holdings of $3.166 million, separately invested portfolios of $7.326 million, and an annuity valued at $.008 million. Real estate was valued using various appraisal estimates, while the separately invested portfolios are managed externally for the benefit of the university. Pricing for the latter was provided by third parties. The annuity is priced by the sponsoring entity.

Private capital investments–The fair value of the private capital category at June 30, 2017, was determined based on Level 3 inputs. Valuation methods such as the income method and/or multiple analysis are examples of those commonly utilized by managers to determine the fair value of these assets and are typically unobservable to the university. The university's private capital investments have $187.024 million of unfunded commitments at June 30, 2017.

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

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

Investments measured at NAV	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Open-end funds	$165,087		daily, semi-monthly, monthly, quarterly	1 day- 90 days
Hedge funds, long/short equity	33,369		quarterly, semi-annually, annually	30 days- 75 days
Hedge funds, credit	48,589		quarterly - annually	45 days- 120 days
Hedge funds, diversified*	105,113		monthly, quarterly, annually	3 days- 90 days

*At fiscal year-end, none of the investments at NAV were still within the initial lock-up period.

State University and Community College System

The system categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The system has the following recurring fair value measurements as of June 30, 2017 (expressed in thousands):

		Fair Value Measurements Using		
Investments by fair value level	6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasuries	$ 39,018	$ 37,086	$ 1,932	
U.S. Agencies	127,054	62,658	64,396	
Corporate bonds	6,202	2,414	3,788	
Mutual bond funds	27,190	27,190		
Collateralized mortgage obligations	479		479	
Other	350	350		
Total debt securities	200,293	129,698	70,595	
Equity securities				
Common stock	2,930	2,875		$ 55
Mutual equity funds	82,270	82,270		
Real estate	3,455			3,455
Equity REITs	1,845		1,845	
Other	7,979	7,587		392
Total equity securities	98,479	92,732	1,845	3,902
Investments measured at the Net Asset Value (NAV)				
Mutual bond funds	17,259			
Mutual equity funds	56,292			
Private equities	4,397			
Hedge funds	5,762			
Natural resources	747			
Other	2,570			
Total investments measured at NAV	87,027			
FASB foundations' investments at fair value	300,347	123,033	33,334	143,980
FASB foundations' investments at NAV	7,894			
Total FASB foundations' investments	308,241			
Total investments and cash equivalents	$ 694,040			

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

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

Investments measured at NAV	NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual bond funds	$ 17,259		Monthly	5 business days
Mutual equity funds	56,292		Daily, monthly	daily - 30 business days
Private equities	4,397	$ 2,918	not applicable	not applicable
Hedge funds	5,762		Quarterly, semi-annually	90 calendar days
Natural resources	747	304	not applicable	not applicable
Other	2,570		Quarterly	65 calendar days

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

Tennessee Housing Development Agency

The agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The agency has the following recurring fair value measurements as of June 30, 2017 (expressed in thousands):

		Fair Value Measurements Using		
Investments by fair value level	6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Government agencies	$ 124,172		$ 124,172	
Government bonds	27,114	$ 27,114		
Short term bills and notes	162,863		162,863	
	$ 314,149	$ 27,114	$ 287,035	

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

NOTE 7

Receivables

Receivables at June 30, 2017, for the state's individual major funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts including Due From Other Governments	Taxes and Certain Other Licenses, Fees, and Permits	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental activities:						
General	$ 608,269	$ 887,068	$ 8,757	$ 1,504,094	$ (126,372)	$ 1,377,722
Education	96,598	557,994	966	655,558	(34,678)	620,880
Highway	123,807	76,093	1,435	201,335	(10)	201,325
Capital projects	6,465			6,465		6,465
Nonmajor governmental funds	9,296	15,175	707	25,178	(458)	24,720
Internal service funds	18,212		829	19,041	(562)	18,479
Total-governmental activities	$ 862,647	$ 1,536,330	$ 12,694	$ 2,411,671	$ (162,080)	$ 2,249,591
Amounts not expected to be collected within one year	$ 5,328	$ 56,475				$ 61,803
Business-type activities:						
Employment security	$ 141,159	$ 64,581	$ 4,715	$ 210,455	$ (69,139)	$ 141,316
Nonmajor enterprise funds	8,203			8,203	(173)	8,030
Total-business-type activities	$ 149,362	$ 64,581	$ 4,715	$ 218,658	$ (69,312)	$ 149,346

NOTE 8

Capital Assets

A. Primary Government

Capital asset activity for the year ended June 30, 2017, was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,240,287	$ 93,993	$ (363)	$ 2,333,917
Infrastructure	23,891,312	414,391	(173,452)	24,132,251
Construction in progress	833,365	644,791	(426,948)	1,051,208
Software in development	63,077	92,453	(41,024)	114,506
Capital assets, being depreciated:				
Structures and improvements	2,492,401	31,227	(26,733)	2,496,895
Machinery and equipment	1,091,489	142,058	(82,917)	1,150,630
Total capital assets	30,611,931	1,418,913	(751,437)	31,279,407
Less accumulated depreciation for:				
Structures and improvements	(1,142,227)	(52,761)	7,660	(1,187,328)
Machinery and equipment	(745,757)	(97,630)	64,960	(778,427)
Total accumulated depreciation	(1,887,984)	(150,391)	72,620	(1,965,755)
Governmental activities capital assets, net	$ 28,723,947	$ 1,268,522	$ (678,817)	$ 29,313,652

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

Governmental activities:	
General government	$ 5,114
Education	3,314
Health and social services	19,726
Law, justice and public safety	37,125
Recreation and resource development	11,640
Regulation of business and professions	1,136
Transportation	22,378
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	49,958
Total depreciation expense – governmental activities	$ 150,391

Highway Construction Commitments — At June 30, 2017, the Department of Transportation had contractual commitments of approximately $632.6 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($622.7 million) and general obligation bond proceeds ($9.9 million).

Impairments — During the fiscal year ended June 30, 2017, an impairment loss of $22.7 million is included in the health and social services function due to temporary software development stoppages.

B. Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2017, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Component Units:				
Capital assets, not being depreciated:				
Art and collections	$ 10,955	$ 1,543		$ 12,498
Land	232,822	14,114	$ (747)	246,189
Construction in progress	596,042	359,746	(247,934)	707,854
Capital assets, being depreciated:				
Infrastructure	614,753	29,352	(2,807)	641,298
Structures and improvements	5,812,470	256,499	(11,895)	6,057,074
Machinery and equipment	1,069,758	83,425	(63,895)	1,089,288
Total capital assets	8,336,800	744,679	(327,278)	8,754,201
Less accumulated depreciation for:				
Infrastructure	(285,010)	(26,407)	1,555	(309,862)
Structures and improvements	(2,111,171)	(123,575)	6,648	(2,228,098)
Machinery and equipment	(709,991)	(75,824)	58,284	(727,531)
Total accumulated depreciation	(3,106,172)	(225,806)	66,487	(3,265,491)
Component Units capital assets, net	$ 5,230,628	$ 518,873	$ (260,791)	$ 5,488,710

The University of Tennessee foundations and certain State University and Community College System foundations utilize FASB standards; therefore, only the June 30, 2017, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Art and collections	$ 624
Land	12,992
Construction in progress	214
Total capital assets, not being depreciated	13,830
Capital assets, being depreciated:	
Infrastructure	2,896
Structures and improvements	134,788
Machinery and equipment	2,151
Total capital assets being depreciated	139,835
Less: total accumulated depreciation	(73,899)
Total capital assets, being depreciated, net	65,936
Total capital assets, net	$ 79,766

NOTE 9

Interfund Balances, Payables and Receivables

A. Interfund Balances

Interfund balances at June 30, 2017, for the state's individual major funds, nonmajor funds, internal service funds, and fiduciary funds in the aggregate consist of the following (expressed in thousands):

Due From

		General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Employment Security	Internal Service Funds	Fiduciary Funds	Total
	General		$ 311,228		$ 1,744	$ 105	$ 1,956		$ 4	$315,037
	Education	$ 4,223								4,223
	Highway				91					91
	Capital projects	2,271		$ 3,070		92		$ 12,851		18,284
D	Nonmajor									
U	governmental									
E	funds					223				223
	Employment									
T	security	331								331
O	Internal service									
	funds	1,864								1,864
	Fiduciary funds	7,598	373	914		309		405		9,599
	Total	$ 16,287	$ 311,601	$ 3,984	$ 1,835	$ 729	$ 1,956	$ 13,256	$ 4	$349,652

The $311.2 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.

B. Component Units Payables

Component units' accounts payable to the primary government at June 30, 2017, consisted of the following (expressed in thousands):

Payable From Component Units

		Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Nonmajor Component Units	Total
	PRIMARY GOVERNMENT:						
P	General	$ 650	$ 1	$ 241	$ 35	$ 18	$ 945
A	Education		109,566	1,384			110,950
Y	Capital Projects			22,673			22,673
A	Nonmajor governmental						
B	funds				804		804
L	Employment security					5	5
E	Internal service funds			208			208
	Fiduciary funds	73		5,496	4,363	122	10,054
T							
O							
	Total	$ 723	$ 109,567	$ 30,002	$ 5,202	$ 145	$ 145,639

C. Component Units Receivables

Component units' accounts receivable from the primary government at June 30, 2017, consisted of the following (expressed in thousands):

	Receivable From PRIMARY GOVERNMENT							
Receivable to COMPONENT UNITS:	General	Education	Highway	Capital Projects	Nonmajor Governmental Funds	Internal Service Funds	Fiduciary	Total
Tennessee Housing Development Agency	$ 74							$ 74
State University and Community College System	7,227	$ 9,097	$ 528	$ 568	$ 1,079	$ 39		18,538
University of Tennessee	10,616	5,009	710	14,111	1,523	1,225	$ 1	33,195
Nonmajor component units	1,548							1,548
Total	$ 19,465	$ 14,106	$ 1,238	$ 14,679	$ 2,602	$ 1,264	$ 1	$ 53,355

NOTE 10

Interfund Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2017, are as follows (expressed in thousands):

	Transfers Out						
Transfers In	General	Education	Highway	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Total
General			$ 2,416	$ 84,150	$ 2,858		$ 89,424
Education	$ 921,685						921,685
Highway	147,636			92,100			239,736
Capital Projects	445,766			8,884			454,650
Nonmajor Governmental Funds	6,167						6,167
Sewer Treatment	6,421						6,421
Nonmajor Enterprise Funds	1,727						1,727
Internal Service Funds	106,476	$ 40		162		$ 150	106,828
Private Purpose Trust Funds	829						829
Total	$ 1,636,707	$ 40	$ 2,416	$ 185,296	$ 2,858	$ 150	$ 1,827,467

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, 2017, the general fund transferred $1.6 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $921.7 million to subsidize the activities of the education fund, $445.8 million for capital outlay expenditures, $147.6 million for highway expenditures, $89.4 million to provide appropriations to internal service funds, $17.1 million for interfund services used, $11.5 million to provide appropriations to finance various programs in other funds, and $3.7 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $92.1 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

Strategic Technology Solutions, an internal service fund, transferred $1.2 million to the full accrual ledger for the book value of equipment. TRICOR, an internal service fund, transferred $958 thousand for the book value of equipment, $7.4 million for the book value of a building, and $215 thousand for land to the full accrual ledger. These transfers caused the transfers-in and transfers-out to not match the fund level statements.

NOTE 11

Leases

A. Lease Obligations

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

For the Year(s) Ended June 30	Noncancelable Operating Leases
2018	$ 17,846
2019	15,787
2020	14,990
2021	12,517
2022	12,032
2023-2027	40,924
Total minimum payments required	$ 114,096

Expenditures for rent under leases for the year ended June 30, 2017, amounted to $79.7 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 12 years. The effective interest rates for these leases range from 0.63 percent to 32.12 percent. Most of these leases contain at least one of the following options: (a) the state can, during the term of the lease or any period of extension or holdover, purchase the property or (b) the state can, at the end of the initial lease term, renew its lease or (c) terminate the lease for convenience at any time after the fifth year. The following is an analysis of the leased property under capital leases (expressed in thousands).

		Governmental Activities
Assets:		
Land		$ 158
Buildings	$ 37,821	
Less: accumulated depreciation	(7,786)	30,035
		$ 30,193

At June 30, 2017, 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
2018	$ 1,495	$ 1,162	$ 772	$ 3,429
2019	1,541	1,156	791	3,488
2020	1,576	1,145	811	3,532
2021	1,641	1,128	831	3,600
2022	1,693	1,104	852	3,649
2023-2027	8,969	4,556	4,590	18,115
2028-2029	2,479	654	1,796	4,929
Total	$ 19,394	$ 10,905	$ 10,443	40,742
Less - interest				(10,905)
Less - executory costs				(10,443)
Present value of net minimum lease payments				$ 19,394

B. Lease Receivables

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

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

Minimum future lease payments to be received as of June 30, 2017 (expressed in thousands):

Year Ended June 30	Total
2018	$ 673
2019	657
2020	641
2021	626
2022	411
2023-2027	1,953
2028-2032	1,749
2033	322
Total minimum future lease payments	$ 7,032
Net investment in direct financing leases at June 30:	
Minimum lease payments receivable	$ 7,032
Less: executory costs	(1,005)
Plus: unamortized loss on leases	3,324
Net investment in direct financing lease	$ 9,351

NOTE 12

Long-Term Liabilities

A. General Obligation Bonds

Bonds Payable at June 30, 2017, are shown below (expressed in thousands):

Governmental activities:	Amount
General obligation bonds, 2% to 5%, due in generally decreasing amounts of principal and interest from $121.3 million in 2018 to $9 million in 2037	$ 919,504
General obligation refunding bonds, 2004 Series C, 5%, principal and interest due in the amount of $11.4 million in 2018	11,110
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $16.8 million in 2018 to $7.5 million in 2022	52,070
General obligation refunding bonds, 2009 Series D, 4.02% to 4.67%, principal and interest due in amounts from $3 million in 2018 to $2.7 million in 2022	12,116
General obligation refunding bonds, 2010 Series B, 3% to 4%, principal and interest due in amounts from $1.2 million in 2018 to $7.4 million in 2024	37,135
General obligation refunding bonds, 2011 Series B, 3% to 5%, principal and interest due in amounts from $8.7 million in 2018 to $187.8 thousand in 2026	42,100
General obligation refunding bonds, 2011 Series C, 2.33% to 3.53%, principal and interest due in amounts from $2.3 million in 2018 to $1.2 million in 2024	12,070
General obligation refunding bonds, 2012 Series A, 2.50% to 5%, principal and interest due in amounts from $51.2 million in 2018 to $7.3 million in 2028	431,815
General obligation refunding bonds, 2012 Series C, 1.15% to 1.60%, principal and interest due in amounts from $9.3 million in 2018 to $7 million in 2020	26,580
General obligation refunding bonds, 2014 Series B, 5%, principal and interest due in amounts from $4 million in 2018 to $11.5 million in 2030	79,160
General obligation refunding bonds, 2015 Series B, 3% to 5%, principal and interest due in amounts from $4.1 million in 2018 to $14.3 million in 2029	96,490
General obligation refunding bonds, 2016 Series B, 5%, principal and interest due in amounts from $6.1 million in 2018 to $9.6 million in 2032	122,105
General obligation refunding bonds, 2016 Series C, .97% to 2.67%, principal and interest due in amounts from $1.3 million in 2018 to $2.5 million in 2032	63,275
Total bonds outstanding	1,905,530
Plus unamortized bond premium	257,351
Total bonds payable	$ 2,162,881

General obligation bonds issued during the year ended June 30, 2017:

July 2016 — Bond Series 2016A in the amount of $175.9 million
Refunding Bond Series 2016B in the amount of $124.9 million
Refunding Bond Series 2016C in the amount of $65.4 million

The July 2016, bond series 2016A, general obligation bond issuance in the amount of $175.9 million represents tax-exempt bonds maturing serially through 2037 at interest rates ranging from 3 percent to 5 percent. The bonds were sold at a premium of $42.5 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

In July 2016, the state issued general obligation refunding bonds, series 2016B, in the amount of $124.9 million to provide for the advance refunding of $46.6 million and

$92 million of general obligation bonds issued in series 2010A and 2011A 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 $154.8 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $5.5 million. The difference, reported in the accompanying financial statements as deferred inflows of resources, is being charged to operations through 2031 using the straight line method. The state completed the refunding to reduce its total debt service payments over 16 years by $18.8 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $15.1 million.

In July 2016, the state issued general obligation refunding bonds, series 2016C, in the amount of $65.4 million to provide for the advance refunding of $6.9 million, $26.2 million, and $22.9 million of general obligation bonds issued in series 2008B, 2009D, and 2011A 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 $57.4 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $7.8 million. The difference, reported in the accompanying financial statements as deferred inflows of resources, is being charged to operations through 2029 using the straight line method. The state completed the refunding to reduce its total debt service payments over 16 years by $7.7 million and to obtain an economic gain (difference between present values of the old and new debt service payments) of $7.7 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, 2017, $661.2 million of bonds outstanding are considered defeased.

B. General Obligation Commercial Paper

Governmental activities commercial paper payable at June 30, 2017, is shown below (expressed in thousands).

	Commercial Paper
General obligation commercial paper, interest rates ranging from .52% to .94% for tax exempt and .45% to 1.15% for taxable, varying maturities	$192,956

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

The state has entered into a Standby Commercial Paper Purchase Agreement with the Tennessee Consolidated Retirement System under which TCRS is obligated to purchase newly issued commercial paper issued to pay the principal of other commercial paper. The Program expires and the Standby Purchase Agreement terminates on July 1, 2021. At June 30, 2017, $193 million of commercial paper was outstanding ($164.9 million tax exempt and $28.1 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

C. Pledged Revenues/Collateralized Borrowing

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

The total amount of tax credits to be taken to reduce the liability for the use of the aforementioned tax credits is $38.3 million as of June 30, 2017. For the current year, gross premium tax revenue totaled $892.6 million and credits of $14.1 million were used to reduce the liability for the borrowing. Gross premium taxes have averaged approximately $788.5 million per year over the last five years.

General obligation bonds and commercial paper constitute direct general obligations of the state for the payment of principal and interest on which there is also pledged the full faith and credit of the state; and a charge and lien upon all fees, taxes and other revenues and funds allocated to the state's general fund, debt service fund and highway fund and, if necessary, upon the first fees, taxes, revenues and funds thereafter received and allocated to such funds, unless such fees, taxes, revenues and funds are legally restricted for other purposes. The charge and lien on fees, taxes and other revenues in favor of the bonds is subject to a specific pledge of "Special Taxes" in favor of state general obligation bonds issued prior to July 1, 2013. "Special Taxes" consist of the annual proceeds of a tax of five cents per gallon upon gasoline; the annual proceeds of a special tax of one cent per gallon upon petroleum products; one-half of the annual proceeds of motor vehicle registration fees now or hereafter required to be pledged the full faith and credit of the state; and the annual proceeds of the franchise taxes imposed by the franchise tax law of the state. The final maturity of general obligation bonds issued prior to July 1, 2013 is October 1, 2032. Thereafter, or upon the earlier retirement of all general obligation bonds issued prior to July 1, 2013, this pledge of "Special Taxes" will expire. For fiscal year 2017, $1.25 billion or 66.7 percent of the above revenue streams were pledged for the payment of principal and interest on all general obligation bonds issued prior to July 1, 2013.

D. Debt Service Requirements to Maturity

Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2018	$ 160,370	$ 80,323	$ 240,693
2019	151,465	73,341	224,806
2020	148,490	66,716	215,206
2021	141,670	60,146	201,816
2022	141,910	53,656	195,566
2023-2027	625,125	183,901	809,026
2028-2032	411,655	70,629	482,284
2033-2037	124,845	12,572	137,417
	$ 1,905,530	$ 601,284	$ 2,506,814

E. General Obligation Bonds Authorized and Unissued

A summary of general obligation bonds authorized and unissued at June 30, 2017, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued 07/01/16	Authorized	Canceled	Unissued 06/30/17
Highway	$ 847,700	$ 80,000	$ 118,800	$ 808,900
Higher Education	522,221		151,892	370,329
Environment & Conservation	9,755			9,755
Economic and Community Development	57,000		35,000	22,000
General government	267,024		64,372	202,652
Totals	$1,703,700	$ 80,000	$ 370,064	$1,413,636

F. Changes in Long-Term Liabilities

A summary of changes in long-term obligations for the year ended June 30, 2017 follows (expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds and commercial paper	$ 2,370,433	$ 544,409	$ (559,005)	$ 2,355,837	$ 160,370
Capital leases	20,943		(1,549)	19,394	1,495
Compensated absences	250,406	159,189	(146,516)	263,079	90,129
Claims and judgments	191,119	45,328	(52,273)	184,174	34,782
Pollution remediation	66,985	13,096	(18,068)	62,013	3,186
Other postemployment benefits	686,386	55,777		742,163	
Pension	904,413	891,044	(531,498)	1,263,959	
Other long-term liabilities	52,418		(14,118)	38,300	
Governmental activities Long-term obligations	$ 4,543,103	$ 1,708,843	$ (1,323,027)	$ 4,928,919	$ 289,962
Business-type activities					
Deposits payable	$ 9,450	$ 1,249	$ (193)	$ 10,506	
Business-type activities Long-term obligations	$ 9,450	$ 1,249	$ (193)	$ 10,506	

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

NOTE 13

Payables

Payables as of June 30, 2017, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Due To Other Governments	Other	Total Payables
Governmental activities:						
General	$ 574,126	$ 80,839	$ 35	$ 108,599	$ 171,752	$ 935,351
Education	32,023	5,145		95,034	1,805	134,007
Highway	104,385	9,000		74,450		187,835
Capital projects	68,288			19,078		87,366
Nonmajor governmental funds	20,293	2,459	28,946	30,408	22	82,128
Internal service funds	84,256	3,611	2,741	741	9	91,358
Total—governmental activities	$ 883,371	$ 101,054	$ 31,722	$ 328,310	$ 173,588	$ 1,518,045
Business-type activities:						
Employment security	$ 676			$ 38,457	$ 5,569	$ 44,702
Sewer treatment loan			$ 34			34
Nonmajor enterprise funds	41,107		17	576		41,700
Total—business-type activities	$ 41,783		$ 51	$ 39,033	$ 5,569	$ 86,436

NOTE 14

Governmental Fund Balances

Balances as of June 30, 2017, were as follows (expressed in thousands):

	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund			
General operations:			
Legislature			$ 28,896
Constitutional offices		$ 20,548	61,794
Administrative services		33,133	1,351,626
Children's services	$ 40		4,853
Public health	26,787	70,928	317,843
Human services	9,660	3,145	34,370
Business and industry development	3,435	1,357	342,387
Judicial	21,578	12,029	3,981
Natural resources	162	16,127	12,725
Public safety	62	38,073	62,425
Agriculture		847	29,977
Employment and business regulation	11,998	134,404	1,497
Other	133	3,725	10,780
Total general fund	$ 73,855	$ 334,316	$ 2,263,154
Education Fund			
After school program	$ 25,967		
Lottery for education	157,891		
Energy efficient school initiative	2,299		
TN Promise Scholarship Endowment Fund	100,938		
Other	671	$ 8,080	$ 44,606
Total education fund	$ 287,766	$ 8,080	$ 44,606
Highway Fund			
State matching	$ 492,768		
Railway, aeronautics, and waterway program		$ 134,903	
State aid		55,742	
Future highway projects			$ 192,682
Railroad inspection		2,168	
Other			34,828
Total highway fund	$ 492,768	$ 192,813	$ 227,510
Capital Projects Fund			
Total capital projects fund	$ 62,792		$ 861,656
Nonmajor Governmental Funds			
Debt service			$ 14,372
Chairs of excellence	$ 217,087		
Criminal injuries		$ 8,263	
Wildlife resources	42,850	8,973	
Underground storage tanks	50,545	141	
Enhanced emergency 911	44,275	3,778	
Environmental protection		32,547	
Solid and hazardous waste	48	17,264	
Parks acquisition		37,133	
Other	9,321	27,420	
Total nonmajor governmental funds	$ 364,126	$ 135,519	$ 14,372

Budget Stabilization Accounts

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

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

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

Amounts available in the revenue fluctuation reserve may be used by the Commissioner of Finance and Administration to offset shortfalls in state tax revenues which may occur and for which funds are not otherwise available. Upon determining that it is likely that amounts in the revenue fluctuation reserve will be required to be utilized to meet a shortfall of state tax revenue, the Commissioner shall report this determination immediately to the Chairs of the Finance, Ways, and Means Committees of the Senate and the House of Representatives. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of one hundred million dollars ($100,000,000) or one half (1/2) of the amount available in the reserve may be used by the Commissioner to meet expenditure requirements in excess of budgeted appropriation levels. The General Fund's Reserve for Revenue Fluctuations is reported as unassigned fund balance and has a balance of $668 million as of June 30, 2017.

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

In addition to the $100 million mentioned, the State Funding Board may recommend appropriation of funds to the account if it is deemed to have an inadequate balance. Likewise, the State Funding Board may recommend appropriation of funds from the account if adequate funds are deemed to be available in the account and if such funds are needed for educational programs and other authorized purposes, provided that the appropriation of funds from the account would not bring its balance below $100 million. As of June 30, 2017, this account has a balance of $100 million and is reported as restricted fund balance in the Education Fund.

NOTE 15

Component Units

A. Component Units – Condensed Financial Statements

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2017 (expressed in thousands):

Condensed Statement of Net Position
Component Units

	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, investments, and other assets	$ 2,370,902	$ 202,224	$ 1,035,695	$ 1,167,593	$ 402,822	$ 5,179,236
Due from primary government	74		18,538	33,195	1,548	53,355
Due from other component units					1,730,202	1,730,202
Restricted assets	202,702	38	950,893	1,533,933	226,288	2,913,854
Capital assets, net	1,809	3,228	2,866,355	2,648,754	48,330	5,568,476
Total assets	2,575,487	205,490	4,871,481	5,383,475	2,409,190	15,445,123
Deferred outflows	4,726		185,218	146,590	46,095	382,629
Liabilities						
Accounts payable and other current liabilities	71,426	92,229	226,749	275,987	61,070	727,461
Due to primary government	723	109,567	30,002	5,202	145	145,639
Due to other component units			722,871	1,007,331		1,730,202
Long-term liabilities	1,997,584	3,656	510,997	587,888	2,203,219	5,303,344
Total liabilities	2,069,733	205,452	1,490,619	1,876,408	2,264,434	7,906,646
Deferred inflows	514		18,952	12,838	2,203	34,507
Net position						
Net investment in capital assets	1,809	3,228	2,172,911	1,633,146	43,681	3,854,775
Restricted	430,633	38	672,950	1,516,900	20,687	2,641,208
Unrestricted	77,524	(3,228)	701,267	490,773	124,280	1,390,616
Total net position	$ 509,966	$ 38	$ 3,547,128	$ 3,640,819	$ 188,648	$ 7,886,599

Condensed Statement of Activities
Component Units

	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Nonmajor Component Units	Total
Expenses	$ 387,095	$1,500,060	$ 2,545,675	$ 2,224,690	$ 252,878	$ 6,910,398
Program Revenues						
Charges for services	106,509	1,499,564	995,616	788,448	129,783	3,519,920
Operating grants and contributions	279,549	48	841,272	946,609	4,144	2,071,622
Capital grants and contributions			107,681	113,613	1,211	222,505
Total program revenues	386,058	1,499,612	1,944,569	1,848,670	135,138	5,814,047
Net program revenues (expense)	(1,037)	(448)	(601,106)	(376,020)	(117,740)	(1,096,351)
General Revenues						
Payments from primary government			761,806	547,516	90,901	1,400,223
Unrestricted grants and contributions			29,390	3,562	9,715	42,667
Unrestricted investment earnings	71	456	7,548	2,869	564	11,508
Miscellaneous			2,468			2,468
Total general revenues	71	456	801,212	553,947	101,180	1,456,866
Contributions to permanent funds			11,309	47,434		58,743
Change in net position	(966)	8	211,415	225,361	(16,560)	419,258
Net Position- July 1	510,932	30	3,335,713	3,415,458	205,208	7,467,341
Net Position - June 30	$ 509,966	$ 38	$ 3,547,128	$ 3,640,819	$ 188,648	$ 7,886,599

Significant transactions between the major component units–State University and Community College System, University of Tennessee (UT) and the Tennessee Education Lottery Corporation (TELC)–and the primary government consist of the following:

- State appropriations from the education fund in the amount of $776 million were made to the State University and Community College System and $547 million to UT.
- Capital project expenditures in the amount of $126.4 million were made for the State University and Community College System and $99.1 million to UT in the form of expenditures in the capital projects fund for projects at these school systems.
- The State University and Community College System paid the primary government $36.9 million to reimburse the state for projects that were not a part of the capital appropriations.
- The TELC generated net lottery proceeds of $372.8 million for the state's Lottery for Education Account.

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the State University and Community College System to finance certain capital projects. At June 30, 2017, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
State University and Community College System	$ 26,556	$ 691,740
University of Tennessee	37,632	963,490
Total	$ 64,188	$ 1,655,230

B. Major Component Units – Long-Term Debt

Tennessee Housing Development Agency (THDA)
Bonds Payable at June 30, 2017, is shown below (expressed in thousands):

Homeownership program revenue bonds, housing finance program bonds, and residential finance program bonds, various series, .25% to 5.7%, due in amounts of principal and interest ranging from $103.6 million in 2018 to $6.558 million in 2047	$ 1,944,050
Plus unamortized bond premium	36,417
Total bonds payable	$ 1,980,467

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, 2017, included the following issues:

- October 2016—Residential Finance program bonds of $125.0 million
- November 2016— Residential Finance program bonds of $62.0 million
- March 2017—Residential Finance program bonds of $100.0 million
- June 2017—Residential Finance program bonds of $175.0 million

Current Refundings
During the year ended June 30, 2017, bonds were retired at par before maturity in the Homeownership Program in the amount of $97,236,000, in the Housing Finance Program in the amount of $70,510,000, and in the Residential Finance Program in the amount of $111,550,000. The respective carrying values of the bonds were $98,407,537, $71,242,629, and $114,475,759. This resulted in revenue to the Homeownership Program of $1,171,537, to the Housing Finance Program of $732,629, and to the Residential Finance Program of $2,925,759.

On May 18, 2016, the agency issued $125,000,000 in Residential Finance Program Bonds, Issue 2016-1. On July 1, 2016, the agency used $24,060,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $24,060,000 early redemption). The carrying amount of these bonds was $24,060,000. The refunding increased the agency's debt service by $5,737,592 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,034,466.

On October 18, 2016, the agency issued $125,000,000 in Residential Finance Program Bonds, Issue 2016-2. On January 1, 2017, the agency used $24,205,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $24,205,000 early redemption). The carrying amount of these bonds was $24,205,000. The refunding reduced the agency's debt service by $292,971 over the next 20 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $3,273,731.

On November 16, 2016, the agency issued $62,000,000 in Residential Finance Program Bonds, Issue 2016-3. On January 1, 2017, the agency used $62,000,000 of these bonds to refund bonds previously issued in the Homeownership Program (this amount consists of $62,000,000 early redemption). The carrying amount of these bonds was $63,848,048. The refunding reduced the agency's debt service by $29,424,149 over the next 20.125 years, and the agency realized an economic gain (the difference between the present values of the old and new debt service payments) of $16,645,830.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2017, are as follows (expressed in thousands):

For the Year(s)	Revenue Bonds		Total
Ended June 30	Principal	Interest	Requirements
2018	$ 40,650	$ 62,967	$ 103,617
2019	70,865	65,092	135,957
2020	73,235	63,386	136,621
2021	77,710	61,470	139,180
2022	76,730	59,291	136,021
2023-2027	387,255	259,290	646,545
2028-2032	379,994	193,992	573,986
2033-2037	374,226	123,720	497,946
2038-2042	331,540	57,686	389,226
2043-2047	131,845	10,269	142,114
	$ 1,944,050	$ 957,163	$ 2,901,213

C. Nonmajor Component Units – Long-Term Debt

Tennessee Local Development Authority (TLDA)
Bonds Payable at June 30, 2017, is shown below (expressed in thousands):

Revenue bonds, 3.6% to 5%, due in generally decreasing amounts of principal and interest from $709 thousand in 2018 to $21 thousand in 2029	$ 3,050
Plus unamortized bond premium	90
Less unamortized bond discount	(10)
Total bonds payable	$ 3,130

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, 2017, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2018	$ 585	$ 124	$ 709
2019	495	100	595
2020	435	81	516
2021	285	63	348
2022	220	52	272
2023-2027	990	116	1,106
2028-2029	40	3	43
	$ 3,050	$ 539	$ 3,589

Tennessee State School Bond Authority (TSSBA)
Bonds and Revolving Credit Facility Payable at June 30, 2017, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.9%, due in decreasing amounts of principal and interest from $130.6 million in 2018 to $13.3 million in 2046	$ 1,841,530
Plus unamortized bond premium	160,906
Less unamortized bond discount	(49)
Total bonds payable	$ 2,002,387
Revolving credit facility, interest rates ranging from .69% to 1.8%, varying maturities	$ 188,152

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

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2017, are as follows (expressed in thousands):

For the Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2018	$ 68,265	$ 62,372	$ 130,637
2019	72,275	59,433	131,708
2020	68,665	56,313	124,978
2021	95,705	53,527	149,232
2022	65,890	50,790	116,680
2023-2027	718,595	211,579	930,174
2028-2032	280,405	141,650	422,055
2033-2037	217,985	84,378	302,363
2038-2042	181,550	38,298	219,848
2043-2046	72,195	6,282	78,477
	$ 1,841,530	$ 764,622	$ 2,606,152

Revolving Credit Facility Program
The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the revolving credit facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed $300,000,000. The Revolving Credit Agreement was amended on March 20, 2017, with an expiration date of March 20, 2020. The revolving credit 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, 2017, $180,165,320 of tax-exempt revolving credit facility and $7,986,746 of taxable revolving credit facility loans were outstanding.

D. Component Units – Changes in Long-Term Liabilities

A summary of changes in long-term obligations for the year ended June 30, 2017, 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	$ 901,487	$ 144,904	$ (45,269)	$ 1,001,122	$ 37,632
State University and Community College System loans payable	737,444	29,994	(44,881)	722,557	26,722
Tennessee Housing Development Agency (THDA) bonds payable	1,906,494	473,995	(400,033)	1,980,456	111,420
Nonmajor component units bonds and loans payable	2,170,846	117,000	(89,527)	2,198,319	69,331
Total revenue bonds and loans payable	$ 5,716,271	$ 765,893	$ (579,710)	$ 5,902,454	$ 245,105
UT compensated absences	81,109	47,411	(45,961)	82,559	45,961
UT other postemployment benefits	105,913	4,471		110,384	
UT pension	166,709	171,410	(98,588)	239,531	
UT due to grantors, unearned revenue and annuities payable	69,211	52,363	(56,543)	65,031	
State University and Community College System compensated absences	65,083	41,215	(37,683)	68,615	16,947
State University and Community College System other postemployment benefits	103,912	1,437		105,349	
State University and Community College System pension	211,045	227,947	(128,180)	310,812	
State University and Community College System due to grantors, unearned revenue and	19,887	3,666	(1,592)	21,961	
THDA escrow deposits, arbitrage rebate payable, and unearned revenue	7,531	5,498	(6,528)	6,501	1,536
THDA compensated absences	1,244	70		1,314	667
THDA other postemployment benefits	1,602	59		1,661	
THDA pension	5,429	3,784	(1,561)	7,652	
Tennessee Education Lottery Corporation (TELC) prizes annuities payable	6,976		(6,976)		
TELC compensated absences	598	596	(597)	597	597
TELC unearned rent	3,296		(237)	3,059	134
Nonmajor component units compensated absences	1,407	491	(453)	1,445	813
Nonmajor component units other postemployment benefits	1,232	93	(109)	1,216	
Nonmajor component units pension	1,415	1,746	(922)	2,239	
Component units long-term liabilities	$ 6,569,870	$ 1,328,150	$ (965,640)	$ 6,932,380	$ 311,760

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

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to $90.383 million ($8.335 million due within one year).

E. Endowments – Component Units

If a donor has not provided specific instructions to the University of Tennessee and State University and Community College System institutions, state law permits each institution to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to

spend net appreciation, the institution is required to consider the institution's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 4.5 percent of a five-year moving average of the fair value of endowment investments has been authorized for expenditure. In fiscal year 2016, the University began transitioning to a seven-year moving average, by adding one year's value to the moving average calculation. This transition will be complete with fiscal year 2019. The remaining amount after distributions, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2017, net appreciation of $143.642 million is available to be spent, of which $140.663 million is restricted to specific purposes.

While some State University and Community College System institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2017, net appreciation of $13.791 million is available to be spent, of which $13.564 million is restricted to specific purposes.

NOTE 16

Risk Management

A. Teacher Group Insurance

The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the state. In accordance with Tennessee Code Annotated 8-27-302, all local education agencies are eligible to participate. Fund members at June 30, 2017, included 120 local education agencies and one education cooperative, with 50,587 active teachers and support personnel enrolled in one of five health care options: partnership preferred provider organization plan (PPO), no promise preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), limited preferred provider organization plan (PPO), or the health savings consumer driven health plan (CDHP). 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):

	2017	2016
Unpaid claims at beginning of year	$ 26,797	$ 27,196
Incurred claims:		
Provision for insured events of the current year	481,195	462,187
Increase (decrease) in provision for insured events of prior years	5,110	236
Total incurred claims expenses	486,305	462,423
Payments:		
Claims attributable to insured events of the current year	449,051	435,395
Claims attributable to insured events of prior years	31,856	27,427
Total payments	480,907	462,822
Total unpaid claims at end of year	$ 32,195	$ 26,797

B. Local Government Group Insurance

The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-401, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2017, included 65 counties, 159 municipalities and 135 quasi-governmental organizations, with 15,149 active employees maintaining coverage through one of five options: partnership preferred provider organization plan (PPO), no promise partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), limited preferred provider organization plan (PPO), or the health savings consumer driven health plan (CDHP). 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):

	2017	2016
Unpaid claims at beginning of year	$ 5,953	$ 5,765
Incurred claims:		
Provision for insured events of the current year	125,370	109,589
Increase (decrease) in provision for insured events of prior years	1,648	(1,062)
Total incurred claims expenses	127,018	108,527
Payments:		
Claims attributable to insured events of the current year	117,521	103,637
Claims attributable to insured events of prior years	7,509	4,702
Total payments	125,030	108,339
Total unpaid claims at end of year	$ 7,941	$ 5,953

C. Risk Management Fund

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

The RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The present value of the casualty liability as actuarially determined was $140.72 million (discounted at one percent) at June 30, 2017 and $142.32 million (discounted at one percent) at June 30, 2016. The accrued liability for incurred property losses was $6.99 million at June 30, 2017 and $7.17 million at June 30, 2016. The changes in the balances of the claims liabilities during fiscal years 2016 and 2017 were as follows (expressed in thousands):

	2016-2017	2015-2016
Beginnig of Fiscal Year Liability	$ 150,018	$ 143,692
Current Year Claims and Changes in Estimates	37,103	55,997
Claim Payments	(38,580)	(49,671)
Balance at Fiscal Year-End	$ 148,541	$ 150,018

The RMF held $167 million in cash at June 30, 2017 and $142.9 million in cash at June 30, 2016 that is designated for payment of these claims.

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

D. Employee Group Insurance

The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the state with the risk retained by the state; therefore, it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-204, all state employees and certain former employees with work related injuries are eligible to participate. Fund members

at June 30, 2017, included 61,446 active employees enrolled in one of five options: partnership preferred provider organization plan (PPO), no promise partnership preferred provider organization plan (PPO), standard preferred provider organization plan (PPO), wellness health savings consumer driven health plan (CDHP), or the health savings consumer driven health plan (CDHP).

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

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

	2017	2016
Unpaid claims at beginning of year	$ 41,000	$ 42,878
Incurred claims:		
Provision for insured events of the current year	720,482	712,614
Increase (decrease) in provision for insured events of prior years	1,872	(4,347)
Total incurred claims expenses	722,354	708,267
Payments:		
Claims attributable to insured events of the current year	675,862	671,619
Claims attributable to insured events of prior years	42,178	38,526
Total payments	718,040	710,145
Total unpaid claims at end of year	$ 45,314	$ 41,000

E. CoverKids

The CoverKids program was launched in 2007 as part of the federally funded Children's Health Insurance Program (CHIP) and provides healthcare to children and maternity coverage for pregnant women. In accordance with Tennessee Code Annotated 71-3-1101, the CoverKids program serves eligible uninsured children who are not eligible for health care services under any part of Tennessee's Medicaid program. Emphasis is placed on preventive care and the services most needed by children, including vaccinations, physician visits, and hospitalization in addition to vision and dental benefits. Enrollment in the CoverKids program totaled 72,587 at June 30, 2017.

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

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

	2017	2016
Unpaid claims at beginning of year	$ 7,640	$ 7,125
Incurred claims:		
Provision for insured events of the current year	131,840	123,065
Increase (decrease) in provision for insured events of prior years	(1,179)	(7,158)
Total incurred claims expenses	130,661	115,907
Payments:		
Claims attributable to insured events of the current year	123,658	115,392
Claims attributable to insured events of prior years	6,417	
Total payments	130,075	115,392
Total unpaid claims at end of year	$ 8,226	$ 7,640

NOTE 17

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 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 partnership promise, no partnership promise, standard preferred provider organization (PPO) plan, or the healthsavings CDHP 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. State or higher education employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the Employee Group Plan or the Medicare Supplement Plan.

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 teachers in the plans. The state is not the sole contributor for the retirees in the Teacher Plan 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 teachers that participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

Funding policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Retired employees who have not reached the age of 65 pay the same base premium as active employees in the plan adjusted for years of service. Retirees with 30 years of service are subsidized 80 percent; 20 but less than 30 years, 70 percent; and less than 20 years, 60 percent. Retired employees who are 65 years of age or older have flat rate premium subsidies based on years of service. Retirees with 30 years of service receive $50 per month; 20 but less than 30 years, $37.50; and 15 but less than 20 years, $25. No subsidy is provided for participation in the healthsavings CDHP plan.

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

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Annual required contribution	$ 81,940	$ 29,680	$ 12,687	$ 10,260
Interest on the net OPEB obligation	17,456	3,213	3,038	2,033
Adjustment to the ARC	(17,526)	(3,226)	(3,050)	(2,041)
Annual OPEB cost	81,870	29,667	12,675	10,252
Amount of contribution	(49,601)	(15,413)	(7,368)	(6,305)
Increase in net OPEB obligation	32,269	14,254	5,307	3,947
Net OPEB obligation —beginning of year	465,498	85,674	81,012	54,202
Net OPEB obligation —end of year	$ 497,767	$ 99,928	$ 86,319	$ 58,149

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2015	Employee Group	$ 84,433	56%	$ 431,103
6/30/2016	Employee Group	79,221	57%	465,498
6/30/2017	Employee Group	81,870	61%	497,767
6/30/2015	Teacher Group (State Share)	31,495	54%	72,930
6/30/2016	Teacher Group (State Share)	28,692	56%	85,674
6/30/2017	Teacher Group (State Share)	29,667	52%	99,928
6/30/2015	Medicare Supp State	11,831	54%	75,781
6/30/2016	Medicare Supp State	12,278	57%	81,012
6/30/2017	Medicare Supp State	12,675	58%	86,319
6/30/2015	Medicare Supp Teachers	9,557	60%	50,114
6/30/2016	Medicare Supp Teachers	9,934	59%	54,202
6/30/2017	Medicare Supp Teachers	10,252	62%	58,149

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

	Employee Group Plan	Local Government Group Plan
Annual required contribution	$ 44,295	$ 122
Interest on the net OPEB obligation	7,945	26
Adjustment to the ARC	(7,977)	(26)
Annual OPEB cost	44,263	122
Amount of contribution	(38,286)	(36)
Increase in net OPEB obligation	5,977	86
Net OPEB obligation —beginning of year	211,858	690
Net OPEB obligation —end of year	$ 217,835	$ 776

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2015	Employee Group	$ 43,107	80%	$ 203,010
6/30/2016	Employee Group	42,806	79%	211,858
6/30/2017	Employee Group	44,263	86%	217,835
6/30/2015	Local Government Group	67	75%	597
6/30/2016	Local Government Group	118	21%	690
6/30/2017	Local Government Group	122	30%	776

Funded status and funding progress

The funded status of the plans as of July 1, 2015, 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	7/1/2015	7/1/2015	7/1/2015	7/1/2015
Actuarial accrued liability (AAL)	$ 796,541	$ 274,798	$ 163,699	$ 145,417
Actuarial value of plan assets				
Unfunded actuarial accrued liability (UAAL)	$ 796,541	$ 274,798	$ 163,699	$ 145,417
Actuarial Value of Assets as a % of the AAL	0%	0%	0%	0%
Covered payroll (active plan members)	$ 1,617,940	N/A	N/A	N/A
UAAL as a percentage of covered payroll	49%	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	7/1/2015	7/1/2015
Actuarial accrued liability (AAL)	$ 370,869	$ 553
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	$ 370,869	$ 553
Actuarial Value of Assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	$ 1,568,846	$ 24,416
UAAL as a percentage of covered payroll	24%	2%

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

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, 2015, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5 percent initially for the Employee Group plan and the Local Education plans. The rate decreases to 6 percent in fiscal year 2016, and then will reduce by decrements to an ultimate rate of 4.7 percent in fiscal year 2050. 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.

NOTE 18

Pension plans

A. Tennessee Consolidated Retirement System (TCRS)

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

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

B. Defined Benefit Plan

Closed State and Higher Education Employee Pension Plan

1. General information about the pension plan

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

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

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

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

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

Employees covered by benefit terms−At the measurement date of June 30, 2016, 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	54,773
Inactive employees entitled to but not yet receiving benefits	39,662
Active employees	47,648
	142,083

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, 2017, employer contributions by the state were $251.7 million based on an average rate of 15.64 percent of covered payroll. For the year ended June 30, 2017, employer contributions by the four previously mentioned component units were $108.8 million based on an average rate of 15.02 percent of covered payroll.

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

2. Net Pension Liability (Asset)

The net pension liability (asset) of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2016, 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, 2016, 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 3.71 to 8.97percent 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 customized 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, 2016, 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 6/30/15	$ 10,344,817	$ 9,440,403	$ 904,414
Effects of change in proportion	(128,885)	(117,617)	(11,268)
Adjusted balance at 6/30/2015	10,215,932	9,322,786	893,146
Changes for the year:			
Service cost	134,095		134,095
Interest	754,418		754,418
Differences between expected and actual experience	(20,809)		(20,809)
Contributions-employer		254,211	(254,211)
Contributions-employees		815	(815)
Net investment income		242,899	(242,899)
Benefit payments, including refunds of employee contributions	(582,248)	(582,248)	
Administrative expense		(2,531)	2,531
Other		1,495	(1,495)
Net changes	$ 285,456	$ (85,359)	$ 370,815
Balance at 6/30/16	$ 10,501,388	$ 9,237,427	$ 1,263,961

Component Units	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/15	$ 4,402,213	$ 4,017,340	$ 384,873
Effects of change in proportion	128,885	117,617	11,268
Adjusted balance at 6/30/2015	4,531,098	4,134,957	396,141
Changes for the year:			
Service cost	59,476		59,476
Interest	334,609		334,609
Differences between expected and actual experience	(9,230)		(9,230)
Contributions-employer		112,751	(112,751)
Contributions-employees		361	(361)
Net investment income		107,734	(107,734)
Benefit payments, including refunds of employee contributions	(258,246)	(258,246)	
Administrative expense		(1,123)	1,123
Other		663	(663)
Net changes	$ 126,609	$ (37,860)	$ 164,469
Balance at 6/30/16	$ 4,657,707	$ 4,097,097	$ 560,610

Sensitivity of the net pension liability (asset) to changes in the discount rate—The following presents the net pension liability (asset) of the State of Tennessee and the four 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)	$ 2,483,934	$ 1,263,961	$ 235,239

Component Units

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ 1,101,705	$ 560,610	$ 104,336

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

Pension expense−For the year ended June 30, 2017, the state and the four mentioned component units recognized pension expense of $213.7 million and $100.9 million, respectively.

Deferred outflows of resources and deferred inflows of resources−For the year ended June 30, 2017, 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	$ 70,882	$ 67,161
Net difference between projected and actual earnings on pension plan investments	$ 305,685	
Effects of change in proportion		$ 12,715
Contributions subsequent to the measurement date of June 30, 2016	$ 251,672	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2016," 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:	
2018	$ 11,908
2019	11,908
2020	184,074
2021	88,801
	$ 296,691

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	$ 31,438	$ 29,788
Net difference between projected and actual earnings on pension plan investments	$ 135,582	
Effects of change in proportion	$ 12,715	
Contributions subsequent to the measurement date of June 30, 2016	$ 108,761	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2016," 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:	
2018	$ 11,400
2019	11,400
2020	87,761
2021	39,386
	$ 149,947

4. Payable to the Pension Plan

At June 30, 2017, the state reported a payable of $8.6 million and the four mentioned component units reported a payable of $8.8 million for the outstanding amount of contributions to the pension plan required at year ended June 30, 2017.

State and Higher Education Employee Retirement Plan

1. General information about the pension plan

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

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

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

Employees covered by benefit terms−At the measurement date of June 30, 2016, the following employees of the state and the four component units mentioned above were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	3,619
Active employees	10,862
	14,483

Contributions−Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of their salary. Employers make contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent for all aggregate employee groups, except for in years when the maximum funded level, approved by the TCRS Board of Trustees is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by the state for the year ended June 30, 2017, to the State and Higher Education Employee Retirement Plan were $15 million, which is 4.02 percent of covered payroll. Employer contributions by the four previously mentioned component units were $5.7 million, which is 3.69 percent of covered payroll.

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

2. Net Pension Liability (Asset)

The net pension liability (asset) of the state, as well as that of the four previously mentioned component units, was measured as of June 30, 2016, 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, 2016, 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 3.71 to 8.97percent 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 customized 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, 2016, 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 6/30/15	$ 4,644	$ 6,620	$ (1,976)
Effects of change in proportion	(45)	(65)	20
Adjusted balance at 6/30/2015	4,599	6,555	(1,956)
Changes for the year:			
Service cost	13,152		13,152
Interest	1,325		1,325
Differences between expected and actual experience	485		485
Contributions-employer		8,389	(8,389)
Contributions-employees		10,633	(10,633)
Net investment income		422	(422)
Benefit payments, including refunds of employee contributions	(164)	(164)	
Administrative expense		(511)	511
Net changes	$ 14,798	$ 18,769	$ (3,971)
Balance at 6/30/16	$ 19,397	$ 25,324	$ (5,927)

Component Units	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balance at 6/30/15	$ 1,892	$ 2,697	$ (805)
Effects of change in proportion	45	65	(20)
Adjusted balance at 6/30/2015	1,937	2,762	(825)
Changes for the year:			
Service cost	5,541		5,541
Interest	558		558
Differences between expected and actual experience	204		204
Contributions-employer		3,534	(3,534)
Contributions-employees		4,480	(4,480)
Net investment income		178	(178)
Benefit payments, including refunds of employee contributions	(69)	(69)	
Administrative expense		(215)	215
Net changes	$ 6,234	$ 7,908	$ (1,674)
Balance at 6/30/16	$ 8,171	$ 10,670	$ (2,499)

Sensitivity of the net pension liability (asset) to changes in the discount rate—The following presents the net pension 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)	$ (709)	$ (5,927)	$ (9,837)

Component Units

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	$ (299)	$ (2,499)	$ (4,144)

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

Pension expense−For the year ended June 30, 2017, the state and the four previously mentioned component units recognized pension expense of $3.3 million and $1.4 million, respectively.

Deferred outflows of resources and deferred inflows of resources−For the year ended June 30, 2017, 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	$ 431	$ 637
Net difference between projected and actual earnings on pension plan investments	$ 691	
Effects of change in proportion	$ 12	
Contributions subsequent to the measurement date of June 30, 2016	$ 14,622	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2016," 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:	
2018	$ 144
2019	144
2020	144
2021	116
2022	(36)
Thereafter	(15)
	$ 497

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	$ 182	$ 268
Net difference between projected and actual earnings on pension plan investments	$ 291	
Effects of change in proportion		$ 12
Contributions subsequent to the measurement date of June 30, 2016	$ 5,717	

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2016," 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 pension will be recognized in pension expense as follows (expressed in thousands):

Year Ended June 30:	
2018	$ 59
2019	59
2020	59
2021	47
2022	(17)
Thereafter	(14)
	$ 193

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

4. Payable to the Pension Plan

At June 30, 2017, the four previously mentioned component units reported a payable of $401 thousand for the outstanding amount of contributions to the pension plan required at year ended June 30, 2017.

C. Defined Contribution Plan

Optional Retirement Plan (ORP) – The ORP, administered by the Tennessee Department of Treasury, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2 of the TCA. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the State University and Community College System institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. For employees employed prior to July 1, 2014, plan members are noncontributory. The State of Tennessee institutions of higher education contribute 10 percent of the employee's base salary up to the social security wage base and 11 percent above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5 percent to the ORP, and the State of Tennessee institutions of higher education will contribute 9 percent of the employee's base salary. The required contributions made by the State of Tennessee institutions of higher education to the ORP were $95.1 million for the year ended June 30, 2017.

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

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

The Section 401(k) and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Employees will vest immediately to both the employee and the employer match. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. There is no employer matching for employees who participate in the 457 plan. For the fiscal year ended June 30, 2017, employees of the state and four of its discretely presented component units that participated in the 401(k) plan were eligible for a state matching contribution of up to $50 per month. The funding of this match is subject to state appropriations each year. In addition, pursuant to Public Chapter No. 259 of Public Acts of 2013, state employees hired after June 30, 2014, are automatically enrolled to contribute 2 percent of salary to the state's 401(k) plan with the employer contributing an additional 5 percent to the plan. Employees may opt out of the 2 percent auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5 percent employer contribution to the 401(k) plan. The four discretely presented component units are the Tennessee Student Assistance Corporation, the Tennessee Housing Development Agency, the State University and Community College System, and the University of Tennessee.

For fiscal year ended June 30, 2017, a total of $164.4 million was contributed to Section 401(k) plan by the state, its four discretely presented component units, and employees. The state and the four mentioned component units recognized pension expenses of $56.1 million for its contributions to the Section 401(k) plans. At June 30, 2017, the state reported a related liability of $1.5 million.

NOTE 19

External Investment Pools

A. State Pooled Investment Fund

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

B. Intermediate Term Investment Fund

The Intermediate Term Investment Fund (ITIF) is an external investment pool sponsored by the State of Tennessee. All funds in the ITIF at June 30, 2017, consist of funds belonging to entities outside of the state's financial reporting entity, and have been included as a separate investment trust fund.

C. Tennessee Retiree Group Trust

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

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

NOTE 20

Contingencies

A. Litigation

The state is involved in various pending litigation matters in which it is contesting vigorously. Some of these cases could include claims, which normally recur in governmental operations and may result in future losses to the state or have a future budgetary programmatic impact. Those unfavorable outcomes, which could result in future programmatic costs, will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the state approximately $300 thousand. This would have a .001% impact on the budget.

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.

B. Tobacco settlement

In November 1998, Tennessee joined 45 other states, the District of Columbia and five territories in a settlement agreement against the nation's largest tobacco manufacturers, to seek redress against the tobacco companies for violations of state consumer and antitrust laws. The Master Settlement Agreement (MSA) includes base payments to all states and territories through 2025, and continues in perpetuity. Tennessee's share of the base payments was originally projected at $4.8 billion through the year 2025. Since the agreement is complex, the annual payments have, and will continue to be, subject to a number of adjustments including inflation, volume, 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; and, in March 2013, Tennessee and 23 other states resolved the NPM adjustments disputes for 2003-2014 in a settlement with the PMs. This multi-year settlement, initially administered under an agreed upon Term Sheet, was finalized in October 2017 and included sales year 2015.

Starting with sales year 2016, Tennessee is again subject to the potential for an NPM adjustment to be applied; however, the aforementioned 2013-2015 NPM settlement also provides for future NPM adjustment amounts to be reduced and then split 50/50 with each side retaining half until the matter is fully resolved in arbitration. This arbitration is not expected to occur for several years.

C. Pollution Remediation Obligations

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

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

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

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

During the fiscal year, the state spent $11.2 million for remediation activities and had an expected recovery of $9.3 million from responsible parties. At June 30, 2017, the state had a pollution remediation obligation of $62 million and an estimated potential recovery of $6.5 million from other responsible parties.

D. Federal Grants

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

Note 21

Tax Abatements

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

A. Industrial Machinery Program

This program provides reductions in franchise and excise taxes to improve productivity and encourage investment in machinery among Tennessee businesses. The program is established under TCA 67-4-2009. Abatements may be granted to taxpayers who make qualified capital investments. Abatements are obtained through a business plan filed before the investment is made. The abatement is administered as a credit on a business' franchise and excise tax return. The amount of the

abatement is calculated using between 3% and 10% of the purchase price of the qualified machinery. Recapture provisions provide that, if the required purchase amount of equipment is not met during the investment period, the taxpayer shall be subject to an assessment equal to the amount of the credit taken for which the taxpayer failed to qualify plus interest.

B. Job Creation Program

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

C. Community Investment Program

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

D. Headquarters and Other Qualified Facilities Program

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

The following table shows the amount of taxes abated by the State of Tennessee during the fiscal year ended June 30, 2017:

Tax Abatement Program	Amount of Taxes Abated (in thousands)
Industrial Machinery Program	$45,065
Job Creation Program	85,488
Community Investment Program	10,441
Headquarters and Other Qualified Facilities Program	4,558

E. Warehouse or Distribution Facility and Qualified Data Center Programs

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

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

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

Since the tax returns filed with the state do not require the exempt sales or purchases to be reported by category, the amount of exempt purchases made by qualified warehouse or distribution centers or qualified data centers is only available in the books and records of the vendors and their customers. Thus, the estimate of the gross dollar amount, on an accrual basis, by which the state's tax revenues were reduced by these exemptions, is not available. However, the estimated equipment purchase amounts on applications received and approved during the fiscal year total $362 million.

Note 22

Subsequent events

A. Primary government

Subsequent to June 30, the State issued $40 million in tax-exempt general obligation commercial paper.

B. Component units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuance: 2017-3 in September 2017 in the amount of $99.9 million.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) had the following bond issuances: in September 2017, TSSBA issued 2017 Series A tax exempt in the amount of $247.6 million at a premium of $50.3 million, 2017 Series B tax exempt in the amount of $139.7 million at a premium of $30.4 million, and 2017 Series C taxable in the amount of $15.2 million at par. The 2017 Series A was used to prepay the outstanding principal amount of revolving credit loans. The 2017 Series B was used to refund 2007 Series A, 2007 Series C, 2010 Series A, 2012 Series A, and 2013 Series A. The 2017 Series C was used to refund 2010 Series B. the balance of the proceeds of the 2017A, 2017B, and 2017C will be used to pay for construction costs and cost of issuance.

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REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Reported Using the Modified Approach

A. 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
06/30/17	84.61
06/30/16	85.40
06/30/15	86.70

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

For the Period Ended	Estimated	Actual
06/30/17	$ 440,913	$ 419,788
06/30/16	418,114	419,630
06/30/15	418,114	477,516
06/30/14	419,214	511,204
06/30/13	391,114	441,582
06/30/12	387,204	411,633

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

B. Bridges

Measurement Scale
The state maintains information on its 8,401 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

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

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

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
06/30/16	85%
06/30/14	84%
06/30/12	83%

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

For the Period Ended	Estimated	Actual
06/30/17	$ 41,610	$ 52,468
06/30/16	37,945	52,098
06/30/15	37,945	51,346
06/30/14	37,945	54,260
06/30/13	33,404	42,175
06/30/12	36,904	33,332

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

Other Post-Employment Benefits Information

A. Primary Government

Schedule of Funding Progress-Primary Governemnt
Other Post-Employment Benefits
(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)
7/1/2011	Employee Grp	$ -	$ 1,023,529	$1,023,529	0%	$1,613,128	63%
7/1/2013	Employee Grp	-	855,642	855,642	0%	1,568,285	55%
7/1/2015	Employee Grp	-	796,541	796,541	0%	1,617,940	49%
7/1/2011	Teacher Grp	-	216,600	216,600	0%	N/A	N/A
7/1/2013	Teacher Grp	-	294,798	294,798	0%	N/A	N/A
7/1/2015	Teacher Grp	-	274,798	274,798	0%	N/A	N/A
7/1/2011	MedSupp- State	-	220,509	220,509	0%	N/A	N/A
7/1/2013	MedSupp- State	-	154,051	154,051	0%	N/A	N/A
7/1/2015	MedSupp- State	-	163,699	163,699	0%	N/A	N/A
7/1/2011	MedSupp- Teacher	-	163,305	163,305	0%	N/A	N/A
7/1/2013	MedSupp- Teacher	-	137,317	137,317	0%	N/A	N/A
7/1/2015	MedSupp- Teacher	-	145,417	145,417	0%	N/A	N/A

B. Component Units

Schedule of Funding Progress-Component Units
Other Post-Employment Benefits
(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)
7/1/2011	Employee Grp	$ -	$ 452,669	$ 452,669	0%	$ 1,445,364	31%
7/1/2013	Employee Grp	-	369,470	369,470	0%	1,514,097	24%
7/1/2015	Employee Grp	-	370,869	370,869	0%	1,568,846	24%
7/1/2011	Local Govt	-	363	363	0%	21,458	2%
7/1/2013	Local Govt	-	238	238	0%	22,584	1%
7/1/2015	Local Govt	-	553	553	0%	24,416	2%

Pension Plan Information

A. Schedules of Changes in Net Pension Liability

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

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

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

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

	2016	2017
Total pension liability		
Service cost	$7,431	$18,693
Interest	279	1,883
Differences between actual and expected experience	(1,164)	689
Benefit payments, including refunds of employee contributions	(10)	(233)
Net change in total pension liability	6,536	$21,032
Total pension liability-beginning		6,536
Total pension liability-ending (a)	$6,536	$27,568
Plan fiduciary net position		
Contributions-employer	4,214	11,923
Contributions-employee	5,154	15,113
Net investment income	142	600
Benefit payments, including refunds of employee contributions	(10)	(233)
Administrative expense	(183)	(726)
Net change in plan fiduciary net position	9,317	26,677
Plan fiduciary net position-beginning		9,317
Plan fiduciary net position-ending (b)	$9,317	35,994
Net pension liability (asset)-ending (a)-(b)	($2,781)	($8,426)
Plan fiduciary net position as a percentage of total pension liability	142.55%	130.56%
Covered payroll	$107,086	$305,424
Net pension liability (asset) as a percentage of covered payroll	(2.60%)	(2.76%)

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

B. Schedules of Contributions

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

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

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

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates for 2017 were calculated based on the June 30, 2015, actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Various
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 3.71 to 8.97 percent based on age, including inflation, averaging 5.47 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
(expressed in thousands)

	2015	2016	2017
Actuarially determined contribution	$2,142	$6,446	$6,232
Contributions in relation of the actuarially determined contribution	4,255	12,016	20,339
Contribution deficiency (excess)	($2,113)	($5,570)	($14,107)
Covered payroll	107,086	305,424	518,664
Contributions as a percentage of covered payroll	3.97%	3.93%	3.92%

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

Notes to Schedule of Contributions

Valuation Date: Actuarially determined contribution rates for 2017 were calculated based on the June 30, 2015, actuarial valuation.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	18 years
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 3.71 to 8.97 percent based on age, including inflation, averaging 5.47 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

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

STATE OF TENNESSEE

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

Required Supplementary Information

Major Governmental Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	General			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget
REVENUES				
Taxes	$ 8,035,711	$ 8,035,711	$ 8,664,535	$ 628,824
Licenses, fines, fees, and permits	451,105	451,105	482,890	31,785
Investment income	3,710	3,710	36,866	33,156
Federal	10,715,182	10,935,812	9,858,146	(1,077,666)
Departmental services	1,725,588	2,125,582	2,101,522	(24,060)
Other	187,333	187,333	219,420	32,087
Total revenues	21,118,629	21,739,253	21,363,379	(375,874)
EXPENDITURES				
General government				
Legislative	97,599	85,870	54,895	30,975
Secretary of State	66,938	56,938	38,842	18,096
Comptroller	140,241	142,495	96,996	45,499
Treasurer	81,340	97,145	90,905	6,240
Governor	5,356	5,415	5,027	388
Commissions	82,461	83,631	69,903	13,728
Finance and Administration	310,648	260,486	135,090	125,396
General Services	46,355	46,344	25,907	20,437
Revenue	132,195	133,207	113,433	19,774
Miscellaneous Appropriations	2,065	2,065	150	1,915
Health and social services				
Veterans Services	7,538	7,466	6,903	563
Labor and Workforce Development	270,518	272,762	164,626	108,136
TennCare	11,517,008	11,884,913	11,267,088	617,825
Mental Health	341,807	346,676	319,020	27,656
Intellectual Disabilities	169,944	182,248	169,114	13,134
Health	633,971	653,500	591,664	61,836
Human Services	2,899,820	2,903,975	2,323,835	580,140
Children's Services	772,537	828,297	813,316	14,981
Law, justice, and public safety				
Judicial	360,539	366,403	345,137	21,266
Correction	991,192	984,753	926,039	58,714
Probation and Paroles	7,666	7,787	7,419	368
Military	105,934	130,817	107,456	23,361
Bureau of Criminal Investigation	80,567	86,576	80,905	5,671
Safety	233,540	233,724	217,191	16,533
Recreation and resources development				
Agriculture	115,166	118,083	85,513	32,570
Tourist Development	31,141	36,040	32,806	3,234
Environment and Conservation	289,016	313,529	238,638	74,891
Economic and Community Development	498,671	613,506	166,802	446,704
Regulation of business and professions				
Commerce and Insurance	98,498	100,179	81,886	18,293
Financial Institutions	22,584	22,809	17,067	5,742
Intergovernmental revenue sharing	759,450	759,450	759,450	-
Total expenditures	21,172,305	21,767,089	19,353,023	2,414,066
Excess (deficiency) of revenues over (under) expenditures	(53,676)	(27,836)	2,010,356	2,038,192
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	-	718	718	-
Transfers in	89,374	89,424	89,424	-
Transfers out	(1,818,010)	(1,636,707)	(1,636,707)	-
Total other financing sources (uses)	(1,728,636)	(1,546,565)	(1,546,565)	-
Net change in fund balances	(1,782,312)	(1,574,401)	463,791	2,038,192
Fund balances (budgetary basis), July 1	3,241,079	3,241,079	3,241,079	-
Fund balances (budgetary basis), June 30	$ 1,458,767	$ 1,666,678	$ 3,704,870	$ 2,038,192

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, 2017
(Expressed in Thousands)

	Education			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget
REVENUES				
Taxes	$ 5,043,500	$ 5,043,500	$ 5,202,420	$ 158,920
Licenses, fines, fees, and permits	3,061	3,061	2,672	(389)
Investment income	175	175	566	391
Federal	1,120,160	1,145,113	1,130,620	(14,493)
Departmental services	67,845	97,420	137,770	40,350
Other	371,100	379,300	395,047	15,747
Total revenues	6,605,841	6,668,569	6,869,095	200,526
EXPENDITURES				
Education	5,990,562	6,046,655	5,986,733	59,922
Higher education	1,738,760	1,774,826	1,757,253	17,573
Total expenditures	7,729,322	7,821,481	7,743,986	77,495
Excess (deficiency) of revenues over (under) expenditures	(1,123,481)	(1,152,912)	(874,891)	278,021
OTHER FINANCING SOURCES (USES)				
Transfers in	1,125,603	1,125,603	921,685	(203,918)
Transfers out	(59,746)	(59,786)	(59,786)	-
Total other financing sources (uses)	1,065,857	1,065,817	861,899	(203,918)
Net change in fund balance	(57,624)	(87,095)	(12,992)	74,103
Fund balances (budgetary basis), July 1	252,629	252,629	252,629	-
Fund balances (budgetary basis), June 30	$ 195,005	$ 165,534	$ 239,637	$ 74,103

	Highway			
	Budgeted Amounts			
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance With Final Budget
REVENUES				
Taxes	$ 783,600	$ 783,600	$ 822,168	$ 38,568
Licenses, fines, fees, and permits	231,633	231,633	249,427	17,794
Federal	999,710	3,763,504	874,320	(2,889,184)
Departmental services	31,525	197,391	52,102	(145,289)
Other	5,123	5,123	5,711	588
Total revenues	2,051,591	4,981,251	2,003,728	(2,977,523)
EXPENDITURES				
Transportation	2,589,701	5,519,361	1,728,331	3,791,030
Intergovernmental revenue sharing	298,200	298,200	314,287	(16,087)
Total expenditures	2,887,901	5,817,561	2,042,618	3,774,943
Excess (deficiency) of revenues over (under) expenditures	(836,310)	(836,310)	(38,890)	797,420
OTHER FINANCING SOURCES (USES)				
Bond authorizations	87,700	-	-	-
Transfers in	-	239,736	239,736	-
Transfers out	(2,416)	(2,416)	(2,416)	-
Total other financing sources (uses)	85,284	237,320	237,320	-
Net change in fund balance	(751,026)	(598,990)	198,430	797,420
Fund balances (budgetary basis), July 1	726,173	726,173	726,173	-
Fund balances (budgetary basis), June 30	$ (24,853)	$ 127,183	$ 924,603	$ 797,420

STATE OF TENNESSEE
Required Supplementary Information
Note to RSI
For the Fiscal Year Ended June 30, 2017
(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)	$ 6,869,095
The revenues for the Tennessee Promise Scholarship Endowment Fund are not included in the annually adopted budget.	21,072
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 6,890,167
Expenditures	
Actual amount (budgetary basis)	$ 7,743,986
The expenditures for the Tennessee Promise Scholarship Endowment Fund are not included in the annually adopted budget.	25,506
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 7,769,492
Other financing sources (uses)	
Actual amount (budgetary basis)	$ 861,899
The transfers out to the Tennessee Promise Scholarship Endowment Fund were eliminated in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.	59,746
Total other financing sources (uses) as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 921,645

2. Budgetary process

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

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

Generally, appropriations lapse at the end of each fiscal year. It is the state's budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment for the highway fund and these appropriations do not lapse at year-end but are reappropriated for subsequent year expenditure. Of the $924.6 million fund balance remaining in the highway fund, $913.1 million will be reappropriated in the next year. There were no outstanding encumbrances reported as of June 30, 2017. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $67.4 million were required.

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

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

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

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

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2017
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	$ 300,427	$ 9,046	$ 17,026	$ 326,499
Investments	16,204	-	361,512	377,716
Receivables, net	17,877	6,123	720	24,720
Due from other funds	223	-	-	223
Due from component units	-	-	804	804
Loans receivable	-	7,954	-	7,954
Prepayments and others	12	-	-	12
Total assets	$ 334,743	$ 23,123	$ 380,062	$ 737,928
LIABILITIES				
Accounts payable and accruals	51,374	195	1,476	53,045
Due to other funds	680	-	49	729
Due to component units	266	-	2,336	2,602
Unearned revenue	14	-	-	14
Total liabilities	52,334	195	3,861	56,390
DEFERRED INFLOWS OF RESOURCES	-	8,556	-	8,556
FUND BALANCES				
Nonspendable				
Permanent fund and endowment corpus	$ -	$ -	$ 158,965	$ 158,965
Restricted	146,890	-	217,236	364,126
Committed	135,519	-	-	135,519
Assigned	-	14,372	-	14,372
Total fund balances	282,409	14,372	376,201	672,982
Total liabilities, deferred inflows of resources and fund balances	$ 334,743	$ 23,123	$ 380,062	$ 737,928

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, 2017
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes:				
Sales and use	$ -	$ 60,699	$ -	$ 60,699
Fuel	19,730	92,100	-	111,830
Business	450	251,801	-	252,251
Other	37,378	-	-	37,378
Licenses, fines, fees, and permits	233,266	2,700	2,855	238,821
Investment income	1,200	-	29,527	30,727
Federal	45,977	-	-	45,977
Departmental services	20,849	1,302	-	22,151
Other	11	-	2,501	2,512
Total revenues	358,861	408,602	34,883	802,346
EXPENDITURES				
General government	23,206	-	-	23,206
Education	-	-	8,651	8,651
Law, justice and public safety	9,014	-	-	9,014
Recreation and resources development	213,097	-	28	213,125
Regulation of business and professions	116,780	-	-	116,780
Debt service:				
Principal	-	149,162	-	149,162
Interest	-	71,817	-	71,817
Debt issuance costs	-	2,225	-	2,225
Total expenditures	362,097	223,204	8,679	593,980
Excess (deficiency) of revenues over (under) expenditures	(3,236)	185,398	26,204	208,366
OTHER FINANCING SOURCES (USES)				
Bond premium	-	377	-	377
Refunding bond proceeds	-	214,452	-	214,452
Refunding payment to escrow	-	(214,016)	-	(214,016)
Insurance claims recoveries	7	-	-	7
Transfers in	1,000	3,667	1,500	6,167
Transfers out	(412)	(184,884)	-	(185,296)
Total other financing sources (uses)	595	(180,404)	1,500	(178,309)
Net change in fund balances	(2,641)	4,994	27,704	30,057
Fund balances, July 1	285,050	9,378	348,497	642,925
Fund balances, June 30	$ 282,409	$ 14,372	$ 376,201	$ 672,982

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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, 2017
(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 404,600	$ 404,600	$ -
Licenses, fines, fees, and permits	2,700	2,700	-
Departmental services	1,302	1,302	-
Total revenues	408,602	408,602	-
EXPENDITURES			
Debt service	226,830	223,204	3,626
Total expenditures	226,830	223,204	3,626
Excess (deficiency) of revenues over (under) expenditures	181,772	185,398	3,626
OTHER FINANCING SOURCES (USES)			
Bond premium	377	377	-
Refunding bond proceeds	436	436	-
Transfers in	3,667	3,667	-
Transfers out	(184,884)	(184,884)	-
Total other financing sources (uses)	(180,404)	(180,404)	-
Net change in fund balances	1,368	4,994	3,626
Fund balances (budgetary basis), July 1	9,378	9,378	-
Fund balances (budgetary basis), June 30	$ 10,746	$ 14,372	$ 3,626

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Agricultural Promotion Boards—These boards were formed to promote the consumption of agricultural products.

Revenue is derived from an assessment levied on the commercial producers of certain agricultural products.

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

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

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

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

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
ASSETS				
Cash and cash equivalents	$ 36,143	$ 9,113	$ 14,023	$ 30,403
Investments	16,204	-	-	-
Receivables, net	4,587	5,467	555	44
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 56,934	$ 14,580	$ 14,578	$ 30,447
LIABILITIES				
Accounts payable and accruals	4,542	6,261	1,764	28,992
Due to other funds	315	56	5	-
Due to component units	254	-	-	-
Unearned revenue	-	-	-	-
Total liabilities	5,111	6,317	1,769	28,992
FUND BALANCES				
Restricted	$ 42,850	$ -	$ -	$ 1,455
Committed	8,973	8,263	12,809	-
Total fund balances	51,823	8,263	12,809	1,455
Total liabilities and fund balances	$ 56,934	$ 14,580	$ 14,578	$ 30,447

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ 32,558	$ 4,739	$ 36,237	$ 4,082	$ 51,060	$ 49,757
-	-	-	-	-	-
-	164	1,470	3	1,867	2,210
-	-	-	-	-	-
-	-	-	-	-	-
$ 32,558	$ 4,903	$ 37,707	$ 4,085	$ 52,927	$ 51,967
11	376	574	81	2,216	3,688
-	24	-	-	25	226
-	-	-	-	-	-
-	-	-	13	-	-
11	400	574	94	2,241	3,914
$ -	$ 48	$ -	$ 3,991	$ 50,545	$ 44,275
32,547	4,455	37,133	-	141	3,778
32,547	4,503	37,133	3,991	50,686	48,053
$ 32,558	$ 4,903	$ 37,707	$ 4,085	$ 52,927	$ 51,967

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
ASSETS				
Cash and cash equivalents	$ 1,193	$ 4,036	$ 6,105	$ 1,756
Investments	-	-	-	-
Receivables, net	23	-	661	-
Due from other funds	-	-	-	-
Prepayments and others	-	-	-	-
Total assets	$ 1,216	$ 4,036	$ 6,766	$ 1,756
LIABILITIES				
Accounts payable and accruals	25	-	2,234	65
Due to other funds	1	-	-	5
Due to component units	-	-	12	-
Unearned revenue	-	-	-	-
Total liabilities	26	-	2,246	70
FUND BALANCES				
Restricted	$ -	$ 3,726	$ -	$ -
Committed	1,190	310	4,520	1,686
Total fund balances	1,190	4,036	4,520	1,686
Total liabilities and fund balances	$ 1,216	$ 4,036	$ 6,766	$ 1,756

STATE OF TENNESSEE
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2017
(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
$ 499	$ 915	$ 7,832	$ 6,302	$ 3,674	$ 300,427
-	-	-	-	-	16,204
86	-	-	740	-	17,877
-	-	-	223	-	223
12	-	-	-	-	12
$ 597	$ 915	$ 7,832	$ 7,265	$ 3,674	$ 334,743
9	110	1	425	-	51,374
-	1	-	22	-	680
-	-	-	-	-	266
-	-	-	1	-	14
9	111	1	448	-	52,334
$ -	$ -	$ -	$ -	$ -	$ 146,890
588	804	7,831	6,817	3,674	135,519
588	804	7,831	6,817	3,674	282,409
$ 597	$ 915	$ 7,832	$ 7,265	$ 3,674	$ 334,743

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Help America Vote
REVENUES				
Taxes:				
Fuel	$ 575	$ -	$ -	$ -
Business	450	-	-	-
Other	13,818	-	2,280	-
Licenses, fines, fees, and permits	43,698	8,922	6,258	-
Investment income	31	45	72	8
Federal	35,365	4,974	-	1,106
Departmental services	14,291	-	2	-
Other	-	4	-	-
Total revenues	108,228	13,945	8,612	1,114
EXPENDITURES				
General government	-	13,039	-	1,142
Law, justice and public safety	-	-	-	-
Recreation and resources development	105,818	-	7,241	-
Regulation of business and professions	-	-	-	-
Total expenditures	105,818	13,039	7,241	1,142
Excess (deficiency) of revenues over (under) expenditures	2,410	906	1,371	(28)
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	7	-	-	-
Transfers in	-	-	-	-
Transfers out	(162)	-	-	-
Total other financing sources (uses)	(155)	-	-	-
Net change in fund balances	2,255	906	1,371	(28)
Fund balances, July 1	49,568	7,357	11,438	1,483
Fund balances, June 30	$ 51,823	$ 8,263	$ 12,809	$ 1,455

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Environmental Protection	Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service
$ -	$ -	$ -	$ -	$ 19,155	$ -
-	-	-	-	-	-
-	-	13,817	-	-	-
41,758	-	-	5,169	1,998	101,814
171	23	168	24	255	312
-	1,454	38	-	1,627	-
-	3,479	90	264	674	2
-	-	-	7	-	-
41,929	4,956	14,113	5,464	23,709	102,128
-	-	-	-	-	-
-	-	-	5,436	-	-
45,171	6,489	9,291	-	20,631	-
-	-	-	-	-	116,780
45,171	6,489	9,291	5,436	20,631	116,780
(3,242)	(1,533)	4,822	28	3,078	(14,652)
-	-	-	-	-	-
-	1,000	-	-	-	-
-	-	(250)	-	-	-
-	1,000	(250)	-	-	-
(3,242)	(533)	4,572	28	3,078	(14,652)
35,789	5,036	32,561	3,963	47,608	62,705
$ 32,547	$ 4,503	$ 37,133	$ 3,991	$ 50,686	$ 48,053

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Driver Education	Abandoned Land Program	Agricultural Non-Point Water Pollution	Salvage Title Enforcement
REVENUES				
Taxes:				
Fuel	$ -	$ -	$ -	$ -
Business	-	-	-	-
Other	-	-	6,377	-
Licenses, fines, fees, and permits	631	16	-	2,263
Investment income	-	21	28	-
Federal	-	432	-	-
Departmental services	-	30	-	-
Other	-	-	-	-
Total revenues	631	499	6,405	2,263
EXPENDITURES				
General government	-	-	-	1,771
Law, justice and public safety	656	-	-	-
Recreation and resources development	-	331	7,692	-
Regulation of business and professions	-	-	-	-
Total expenditures	656	331	7,692	1,771
Excess (deficiency) of revenues over (under) expenditures	(25)	168	(1,287)	492
OTHER FINANCING SOURCES (USES)				
Insurance claims recoveries	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(25)	168	(1,287)	492
Fund balances, July 1	1,215	3,868	5,807	1,194
Fund balances, June 30	$ 1,190	$ 4,036	$ 4,520	$ 1,686

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2017
(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
$ -	$ -	$ -	$ -	$ -	$ 19,730
-	-	-	-	-	450
1,086	-	-	-	-	37,378
-	708	11,591	5,508	2,932	233,266
1	5	33	-	3	1,200
-	-	-	981	-	45,977
3	-	81	1,928	5	20,849
-	-	-	-	-	11
1,090	713	11,705	8,417	2,940	358,861
-	-	-	7,254	-	23,206
-	-	-	-	2,922	9,014
1,056	920	8,457	-	-	213,097
-	-	-	-	-	116,780
1,056	920	8,457	7,254	2,922	362,097
34	(207)	3,248	1,163	18	(3,236)
-	-	-	-	-	7
-	-	-	-	-	1,000
-	-	-	-	-	(412)
-	-	-	-	-	595
34	(207)	3,248	1,163	18	(2,641)
554	1,011	4,583	5,654	3,656	285,050
$ 588	$ 804	$ 7,831	$ 6,817	$ 3,674	$ 282,409

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, 2017
(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 7,544	$ 14,843	$ 7,299
Licenses, fines, fees, and permits	48,311	43,698	(4,613)
Investment income	-	31	31
Federal	34,645	35,365	720
Departmental services	11,387	14,291	2,904
Other	-	-	-
Total revenues	101,887	108,228	6,341
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	123,462	105,818	17,644
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	123,462	105,818	17,644
Excess (deficiency) of revenues over (under) expenditures	(21,575)	2,410	23,985
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	7	7	-
Transfers in	-	-	-
Transfers out	(162)	(162)	-
Total other financing sources (uses)	(155)	(155)	-
Net change in fund balances	(21,730)	2,255	23,985
Fund balances (budgetary basis), July 1	49,568	49,568	-
Fund balances (budgetary basis), June 30	$ 27,838	$ 51,823	$ 23,985

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, 2017
(Expressed in Thousands)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ 2,606	$ 2,280	$ (326)
12,569	8,922	(3,647)	5,684	6,258	574
-	45	45	-	72	72
4,940	4,974	34	-	-	-
-	-	-	1	2	1
7	4	(3)	-	-	-
17,516	13,945	(3,571)	8,291	8,612	321
-	-	-	-	-	-
-	-	-	-	-	-
16,350	13,039	3,311	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	8,307	7,241	1,066
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
16,350	13,039	3,311	8,307	7,241	1,066
1,166	906	(260)	(16)	1,371	1,387
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,166	906	(260)	(16)	1,371	1,387
7,357	7,357	-	11,438	11,438	-
$ 8,523	$ 8,263	$ (260)	$ 11,422	$ 12,809	$ 1,387

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, 2017
(Expressed in Thousands)

	Help America Vote		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	-	-	-
Investment income	-	8	8
Federal	26,500	1,106	(25,394)
Departmental services	-	-	-
Other	-	-	-
Total revenues	26,500	1,114	(25,386)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	27,500	1,142	26,358
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	27,500	1,142	26,358
Excess (deficiency) of revenues over (under) expenditures	(1,000)	(28)	972
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(1,000)	(28)	972
Fund balances (budgetary basis), July 1	1,483	1,483	-
Fund balances (budgetary basis), June 30	$ 483	$ 1,455	$ 972

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, 2017
(Expressed in Thousands)

Environmental Protection			Hazardous Waste		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ -	$ -	$ -
49,652	41,758	(7,894)	-	-	-
-	171	171	-	23	23
-	-	-	1,891	1,454	(437)
-	-	-	3,779	3,479	(300)
-	-	-	-	-	-
49,652	41,929	(7,723)	5,670	4,956	(714)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
50,347	45,171	5,176	9,702	6,489	3,213
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
50,347	45,171	5,176	9,702	6,489	3,213
(695)	(3,242)	(2,547)	(4,032)	(1,533)	2,499
-	-	-	-	-	-
-	-	-	1,000	1,000	-
-	-	-	-	-	-
-	-	-	1,000	1,000	-
(695)	(3,242)	(2,547)	(3,032)	(533)	2,499
35,789	35,789	-	5,036	5,036	-
$ 35,094	$ 32,547	$ (2,547)	$ 2,004	$ 4,503	$ 2,499

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, 2017
(Expressed in Thousands)

	Parks Acquisition		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 6,931	$ 13,817	$ 6,886
Licenses, fines, fees, and permits	-	-	-
Investment income	-	168	168
Federal	-	38	38
Departmental services	-	90	90
Other	-	-	-
Total revenues	6,931	14,113	7,182
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	11,931	9,291	2,640
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	11,931	9,291	2,640
Excess (deficiency) of revenues over (under) expenditures	(5,000)	4,822	9,822
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	(250)	(250)	-
Total other financing sources (uses)	(250)	(250)	-
Net change in fund balances	(5,250)	4,572	9,822
Fund balances (budgetary basis), July 1	32,561	32,561	-
Fund balances (budgetary basis), June 30	$ 27,311	$ 37,133	$ 9,822

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, 2017
(Expressed in Thousands)

Supreme Court Boards			Underground Storage Tanks		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ 18,800	$ 19,155	$ 355
4,937	5,169	232	5,005	1,998	(3,007)
-	24	24	-	255	255
-	-	-	1,973	1,627	(346)
-	264	264	-	674	674
-	7	7	-	-	-
4,937	5,464	527	25,778	23,709	(2,069)
5,514	5,436	78	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	26,903	20,631	6,272
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
5,514	5,436	78	26,903	20,631	6,272
(577)	28	605	(1,125)	3,078	4,203
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(577)	28	605	(1,125)	3,078	4,203
3,963	3,963	-	47,608	47,608	-
$ 3,386	$ 3,991	$ 605	$ 46,483	$ 50,686	$ 4,203

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, 2017
(Expressed in Thousands)

	Enhanced Emergency 911 Service		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	111,935	101,814	(10,121)
Investment income	-	312	312
Federal	-	-	-
Departmental services	-	2	2
Other	-	-	-
Total revenues	111,935	102,128	(9,807)
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	-	-	-
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	117,780	116,780	1,000
Revenue	-	-	-
Total expenditures	117,780	116,780	1,000
Excess (deficiency) of revenues over (under) expenditures	(5,845)	(14,652)	(8,807)
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(5,845)	(14,652)	(8,807)
Fund balances (budgetary basis), July 1	62,705	62,705	-
Fund balances (budgetary basis), June 30	$ 56,860	$ 48,053	$ (8,807)

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, 2017
(Expressed in Thousands)

Driver Education			Abandoned Land Program		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ -	$ -	$ -
793	631	(162)	500	16	(484)
-	-	-	-	21	21
-	-	-	-	432	432
-	-	-	-	30	30
-	-	-	-	-	-
793	631	(162)	500	499	(1)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
795	656	139	-	-	-
-	-	-	-	-	-
-	-	-	500	331	169
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
795	656	139	500	331	169
(2)	(25)	(23)	-	168	168
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(2)	(25)	(23)	-	168	168
1,215	1,215	-	3,868	3,868	-
$ 1,213	$ 1,190	$ (23)	$ 3,868	$ 4,036	$ 168

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, 2017
(Expressed in Thousands)

	Agricultural Non-Point Water Pollution		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ 3,188	$ 6,377	$ 3,189
Licenses, fines, fees, and permits	-	-	-
Investment income	-	28	28
Federal	-	-	-
Departmental services	-	-	-
Other	-	-	-
Total revenues	3,188	6,405	3,217
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	8,188	7,692	496
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	8,188	7,692	496
Excess (deficiency) of revenues over (under) expenditures	(5,000)	(1,287)	3,713
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(5,000)	(1,287)	3,713
Fund balances (budgetary basis), July 1	5,807	5,807	-
Fund balances (budgetary basis), June 30	$ 807	$ 4,520	$ 3,713

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, 2017
(Expressed in Thousands)

Salvage Title Enforcement			Drycleaner's Environmental Response		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ -	$ -	$ -
1,701	2,263	562	1,900	708	(1,192)
-	-	-	-	5	5
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,701	2,263	562	1,900	713	(1,187)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	1,908	920	988
-	-	-	-	-	-
-	-	-	-	-	-
2,023	1,771	252	-	-	-
2,023	1,771	252	1,908	920	988
(322)	492	814	(8)	(207)	(199)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(322)	492	814	(8)	(207)	(199)
1,194	1,194	-	1,011	1,011	-
$ 872	$ 1,686	$ 814	$ 1,003	$ 804	$ (199)

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, 2017
(Expressed in Thousands)

	Agricultural Regulatory Fund		
	Budget	Actual (Budgetary Basis)	Variance
REVENUES			
Taxes	$ -	$ -	$ -
Licenses, fines, fees, and permits	10,361	11,591	1,230
Investment income	-	33	33
Federal	-	-	-
Departmental services	2	81	79
Other	-	-	-
Total revenues	10,363	11,705	1,342
EXPENDITURES			
Judicial	-	-	-
Secretary of State	-	-	-
Treasurer	-	-	-
Commissions	-	-	-
Safety	-	-	-
Agriculture	10,481	8,457	2,024
Environment and Conservation	-	-	-
Wildlife Resources	-	-	-
Commerce and Insurance	-	-	-
Revenue	-	-	-
Total expenditures	10,481	8,457	2,024
Excess (deficiency) of revenues over (under) expenditures	(118)	3,248	3,366
OTHER FINANCING SOURCES (USES)			
Insurance claims recoveries	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(118)	3,248	3,366
Fund balances (budgetary basis), July 1	4,583	4,583	-
Fund balances (budgetary basis), June 30	$ 4,465	$ 7,831	$ 3,366

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, 2017
(Expressed in Thousands)

Tennessee Regulatory Authority			Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance	Budget	Actual (Budgetary Basis)	Variance
$ -	$ -	$ -	$ 39,069	$ 56,472	$ 17,403
6,515	5,508	(1,007)	259,863	230,334	(29,529)
-	-	-	-	1,196	1,196
926	981	55	70,875	45,977	(24,898)
1,431	1,928	497	16,600	20,841	4,241
-	-	-	7	11	4
8,872	8,417	(455)	386,414	354,831	(31,583)
-	-	-	5,514	5,436	78
-	-	-	27,500	1,142	26,358
-	-	-	16,350	13,039	3,311
8,976	7,254	1,722	8,976	7,254	1,722
-	-	-	795	656	139
-	-	-	18,669	16,149	2,520
-	-	-	109,598	90,074	19,524
-	-	-	123,462	105,818	17,644
-	-	-	117,780	116,780	1,000
-	-	-	2,023	1,771	252
8,976	7,254	1,722	430,667	358,119	72,548
(104)	1,163	1,267	(44,253)	(3,288)	40,965
-	-	-	7	7	-
-	-	-	1,000	1,000	-
-	-	-	(412)	(412)	-
-	-	-	595	595	-
(104)	1,163	1,267	(43,658)	(2,693)	40,965
5,654	5,654	-	280,840	280,840	-
$ 5,550	$ 6,817	$ 1,267	$ 237,182	$ 278,147	$ 40,965

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PERMANENT FUNDS

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

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

STATE OF TENNESSEE
Combining Balance Sheet
Permanent Funds
June 30, 2017
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
ASSETS			
Cash and cash equivalents	$ 12,666	$ 4,360	$ 17,026
Investments	311,129	50,383	361,512
Receivables, net	707	13	720
Due from component units	804	-	804
Total assets	$ 325,306	$ 54,756	$ 380,062
LIABILITIES			
Accounts payable and accruals	1,476	-	1,476
Due to other funds	49	-	49
Due to component units	2,336	-	2,336
Total liabilities	3,861	-	3,861
FUND BALANCES			
Nonspendable			
Permanent fund and endowment corpus	$ 104,358	$ 54,607	$ 158,965
Restricted	217,087	149	217,236
Total fund balances	321,445	54,756	376,201
Total liabilities and fund balances	$ 325,306	$ 54,756	$ 380,062

STATE OF TENNESSEE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Chairs of Excellence	Other Permanent Funds	Total Permanent Funds
REVENUES			
Licenses, fines, fees, and permits	$ -	$ 2,855	$ 2,855
Investment income	30,008	(481)	29,527
Other	2,500	1	2,501
Total revenues	32,508	2,375	34,883
EXPENDITURES			
Education	8,651	-	8,651
Recreation and resources development	-	28	28
Total expenditures	8,651	28	8,679
Excess (deficiency) of revenues over (under) expenditures	23,857	2,347	26,204
Transfers in	1,500	-	1,500
Total other financing sources (uses)	1,500	-	1,500
Net change in fund balances	25,357	2,347	27,704
Fund balances, July 1	296,088	52,409	348,497
Fund balances, June 30	$ 321,445	$ 54,756	$ 376,201

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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 to 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, 2017
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
ASSETS				
Current assets:				
Cash and cash equivalents	$ 18,442	$ 158,934	$ 44,498	$ 82,920
Receivables:				
Accounts receivable	-	6,251	1,779	-
Loans receivable	47	-	-	8,392
Total current assets	18,489	165,185	46,277	91,312
Noncurrent assets:				
Loans receivable	-	-	-	124,418
Total noncurrent assets	-	-	-	124,418
Total assets	18,489	165,185	46,277	215,730
LIABILITIES				
Current liabilities:				
Accounts payable and accruals	-	33,472	8,211	17
Unearned revenue	-	88	34	-
Total current liabilities	-	33,560	8,245	17
Noncurrent liabilities:				
Others	-	-	-	3,634
Total noncurrent liabilities	-	-	-	3,634
Total liabilities	-	33,560	8,245	3,651
NET POSITION				
Unrestricted	18,489	131,625	38,032	212,079
Total net position	$ 18,489	$ 131,625	$ 38,032	$ 212,079

STATE OF TENNESSEE
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2017
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 7,703	$ 23,072	$ 2,425	$ 337,994
-	-	-	8,030
-	7,125	-	15,564
7,703	30,197	2,425	361,588
-	40,377	-	164,795
-	40,377	-	164,795
7,703	70,574	2,425	526,383
-	-	-	41,700
-	17	-	139
-	17	-	41,839
-	-	-	3,634
-	-	-	3,634
-	17	-	45,473
7,703	70,557	2,425	480,910
$ 7,703	$ 70,557	$ 2,425	$ 480,910

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance	Drinking Water
Operating revenues				
Charges for services	$ -	$ -	$ -	$ 1,819
Investment income	109	-	-	424
Premiums	-	471,445	127,032	-
Total operating revenues	109	471,445	127,032	2,243
Operating expenses				
Contractual services	-	27,614	7,398	614
Benefits	-	460,330	119,652	-
Other	-	4,574	1,020	-
Total operating expenses	-	492,518	128,070	614
Operating income (loss)	109	(21,073)	(1,038)	1,629
Nonoperating revenues (expenses)				
Grants	-	-	-	18,279
Interest income	-	577	151	-
Other	-	-	-	(3,426)
Total nonoperating revenues (expenses)	-	577	151	14,853
Income (loss) before contributions and transfers	109	(20,496)	(887)	16,482
Transfers in	-	-	-	1,727
Transfers out	(2,858)	-	-	-
Change in net position	(2,749)	(20,496)	(887)	18,209
Net position, July 1	21,238	152,121	38,919	193,870
Net position, June 30	$ 18,489	$ 131,625	$ 38,032	$ 212,079

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,158	$ 313	$ 236	$ 3,526
-	129	-	662
-	-	-	598,477
1,158	442	236	602,665
146	30	216	36,018
-	-	-	579,982
-	-	-	5,594
146	30	216	621,594
1,012	412	20	(18,929)
-	-	-	18,279
38	-	13	779
-	-	-	(3,426)
38	-	13	15,632
1,050	412	33	(3,297)
-	-	-	1,727
-	-	-	(2,858)
1,050	412	33	(4,428)
6,653	70,145	2,392	485,338
$ 7,703	$ 70,557	$ 2,425	$ 480,910

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2017
(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	$ -	$ 478,365	$ 129,517	$ -
Payments to suppliers	-	(497,019)	(128,850)	-
Payments for interfund services used	-	(611)	(114)	(614)
Net cash provided by (used for) operating activities	-	(19,265)	553	(614)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating grants received	-	-	-	18,279
Transfers in	-	-	-	1,727
Transfers out	(2,858)	-	-	-
Net cash provided by (used for) noncapital financing activities	(2,858)	-	-	20,006
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans issued and other disbursements to borrowers	28	-	-	(32,604)
Collection of loan principal	-	-	-	7,768
Interest received	109	577	151	2,260
Net cash provided by (used for) investing activities	137	577	151	(22,576)
Net increase (decrease) in cash and cash equivalents	(2,721)	(18,688)	704	(3,184)
Cash and cash equivalents, July 1	21,163	177,622	43,794	86,104
Cash and cash equivalents, June 30	$ 18,442	$ 158,934	$ 44,498	$ 82,920
Reconciliation of operating income to net cash provided by (used for) operating activities				
Operating income (loss)	$ 109	$ (21,073)	$ (1,038)	$ 1,629
Adjustment to reconcile operating income (loss) to net cash from operating activities:				
Interest income	-	-	-	(1,819)
Investment income	(109)	-	-	(424)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:				
(Increase) decrease in receivables	-	(1,204)	83	-
Increase (decrease) in accounts payable	-	2,993	1,510	-
Increase (decrease) in unearned revenue	-	19	(2)	-
Total adjustments	(109)	1,808	1,591	(2,243)
Net cash provided by (used for) operating activities	$ -	$ (19,265)	$ 553	$ (614)

STATE OF TENNESSEE
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Grain Indemnity	Energy Efficient Schools Initiative	Client Protection	Total Nonmajor Enterprise Funds
$ 1,158	$ 30	$ 236	$ 609,306
(146)	-	(264)	(626,279)
-	(30)	-	(1,369)
1,012	-	(28)	(18,342)
-	-	-	18,279
-	-	-	1,727
-	-	-	(2,858)
-	-	-	17,148
-	(9,708)	-	(42,284)
-	6,649	-	14,417
38	379	13	3,527
38	(2,680)	13	(24,340)
1,050	(2,680)	(15)	(25,534)
6,653	25,752	2,440	363,528
$ 7,703	$ 23,072	$ 2,425	$ 337,994
$ 1,012	$ 412	$ 20	$ (18,929)
-	(283)	-	(2,102)
-	(129)	-	(662)
-	-	-	(1,121)
-	-	(48)	4,455
-	-	-	17
-	(412)	(48)	587
$ 1,012	$ -	$ (28)	$ (18,342)

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INTERNAL SERVICE FUNDS

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

Strategic Technology Solutions—A division of the Department of Finance and Administration, functions as the data and voice service bureau for state government.

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

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

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

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

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

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

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

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

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

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

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

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

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

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2017
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
ASSETS						
Current assets:						
Cash and cash equivalents	$ 118,630	$ 167,039	$ 54,518	$ 4,452	$ 419,949	$ 329,650
Receivables, net	1,797	-	126	3	832	9,688
Due from other funds	724	-	-	-	104	-
Due from component units	-	208	-	-	-	-
Inventories, at cost	925	-	-	136	-	-
Prepayments	-	-	-	-	-	-
Total current assets	122,076	167,247	54,644	4,591	420,885	339,338
Noncurrent assets:						
Accounts receivable	-	5,328	-	-	-	-
Due from other funds	959	-	-	-	-	-
Prepayments	-	-	-	-	4,985	-
Net investment in capital leases	-	-	-	-	8,522	-
Restricted net pension assets	32	-	-	6	-	-
Capital assets:						
Land, at cost	-	-	-	-	58,055	-
Structures and improvements, at cost	-	-	-	-	530,437	-
Machinery and equipment, at cost	100,311	-	161,728	3,224	2,479	-
Less: Accumulated depreciation	(68,348)	-	(97,771)	(2,605)	(281,443)	-
Construction in progress	-	-	-	-	108,995	-
Software in development	2,691	-	-	-	-	-
Total noncurrent assets	35,645	5,328	63,957	625	432,030	-
Total assets	157,721	172,575	118,601	5,216	852,915	339,338
DEFERRED OUTFLOWS OF RESOURCES	9,826	-	247	695	5,757	-
LIABILITIES						
Current liabilities:						
Accounts payable	19,537	432	5,807	199	10,833	48,486
Accrued payroll and related deductions	2,715	-	75	192	-	-
Due to other funds	163	-	4	11	12,851	-
Due to component units	34	1,071	-	-	-	-
Lease obligations payable	-	-	-	-	317	-
Bond payable	-	-	-	-	15,698	-
Unearned revenue	-	1	-	-	5,000	43,146
Others	-	34,782	-	-	-	-
Total current liabilities	22,449	36,286	5,886	402	44,699	91,632
Noncurrent liabilities:						
Pension	16,718	-	491	1,296	-	-
Lease obligations payable	-	-	-	-	7,769	-
Commercial paper payable	-	-	-	-	4,028	-
Bonds payable	-	-	-	-	176,057	-
Others	6,166	113,759	469	501	-	-
Total noncurrent liabilities	22,884	113,759	960	1,797	187,854	-
Total liabilities	45,333	150,045	6,846	2,199	232,553	91,632
DEFERRED INFLOWS OF RESOURCES	894	-	147	107	41	-
NET POSITION						
Net investment in capital assets	34,654	-	63,957	619	220,370	-
Restricted for:						
Capital projects	-	-	-	-	351	-
Pensions	32	-	-	6	-	-
Unrestricted	86,634	22,530	47,898	2,980	405,357	247,706
Total net position	$ 121,320	$ 22,530	$ 111,855	$ 3,605	$ 626,078	$ 247,706

STATE OF TENNESSEE
Combining Statement of Net Position
Internal Service Funds
June 30, 2017
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 2,671	$ 2,152	$ 1,323	$ 97	$ 19,014	$ 10,089	$ 11,551	$ 32,410	$ 1,173,545
3	-	38	-	-	2	661	1	13,151
-	77	-	-	-	-	-	-	905
-	-	-	-	-	-	-	-	208
234	-	59	-	-	-	1,861	-	3,215
242	-	-	-	-	-	-	-	242
3,150	2,229	1,420	97	19,014	10,091	14,073	32,411	1,191,266
-	-	-	-	-	-	-	-	5,328
-	-	-	-	-	-	-	-	959
-	-	-	-	-	-	-	-	4,985
-	-	-	-	-	-	-	-	8,522
4	10	2	1	7	12	15	9	98
-	-	-	-	-	-	746	-	58,801
-	-	-	-	-	-	2,019	-	532,456
4,087	21	83	12	120	416	9,058	113,605	395,144
(3,258)	(8)	(80)	(6)	(104)	(381)	(8,100)	(96,716)	(558,820)
-	-	-	-	-	-	-	-	108,995
-	-	-	-	-	-	-	-	2,691
833	23	5	7	23	47	3,738	16,898	559,159
3,983	2,252	1,425	104	19,037	10,138	17,811	49,309	1,750,425
291	1,293	302	108	2,722	3,934	1,595	2,616	29,386
180	224	90	29	178	10	1,478	264	87,747
77	376	81	9	695	1,271	414	698	6,603
5	22	5	-	51	78	25	41	13,256
-	-	-	-	155	-	4	-	1,264
-	-	-	-	-	-	-	-	317
-	-	-	-	-	-	-	-	15,698
-	-	-	-	-	-	-	-	48,147
-	-	-	-	-	-	-	-	34,782
262	622	176	38	1,079	1,359	1,921	1,003	207,814
604	2,508	559	190	4,014	5,499	3,243	4,815	39,937
-	-	-	-	-	-	-	-	7,769
-	-	-	-	-	-	-	8,760	12,788
-	-	-	-	-	-	-	-	176,057
739	396	573	135	1,018	1,415	1,397	1,694	128,262
1,343	2,904	1,132	325	5,032	6,914	4,640	15,269	364,813
1,605	3,526	1,308	363	6,111	8,273	6,561	16,272	572,627
94	190	61	14	548	293	615	257	3,261
829	13	3	6	16	35	3,723	8,129	332,354
-	-	-	-	-	-	-	-	351
4	10	2	1	7	12	15	9	98
1,742	(194)	353	(172)	15,077	5,459	8,492	27,258	871,120
$ 2,575	$ (171)	$ 358	$ (165)	$ 15,100	$ 5,506	$ 12,230	$ 35,396	$ 1,203,923

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
Operating revenues						
Charges for services	$ 175,020	$ 66,601	$ 44,643	$ 7,672	$ 130,726	$ 1,000
Premiums	-	-	-	-	-	758,818
Total operating revenues	175,020	66,601	44,643	7,672	130,726	759,818
Operating expenses						
Personal services	38,483	-	1,087	3,256	-	-
Contractual services	104,931	10,617	5,410	2,021	77,996	38,016
Materials and supplies	13,987	22	16,521	1,384	2,686	-
Rentals and insurance	15	5,640	8,359	18	44,412	-
Depreciation and amortization	8,883	-	15,075	163	12,353	-
Benefits	-	30,845	191	-	-	688,590
Other	131	-	462	9	27	5,997
Total operating expenses	166,430	47,124	47,105	6,851	137,474	732,603
Operating income (loss)	8,590	19,477	(2,462)	821	(6,748)	27,215
Nonoperating revenues (expenses)						
Taxes	-	2	-	-	-	-
Insurance claims recoveries	-	-	384	-	486	-
Gain on sales of capital assets	-	-	-	-	137	-
Interest income	-	642	-	-	2,161	1,305
Interest expense	-	-	-	-	(4,901)	-
Other	-	-	-	-	100	-
Total nonoperating revenues (expenses)	-	644	384	-	(2,017)	1,305
Income (loss) before contributions and transfers	8,590	20,121	(2,078)	821	(8,765)	28,520
Capital contributions	-	-	2,156	-	13,298	-
Transfers in	2,250	-	7,217	331	95,259	-
Transfers out	(1,385)	-	-	-	-	-
Change in net position	9,455	20,121	7,295	1,152	99,792	28,520
Net position, July 1	111,865	2,409	104,560	2,453	526,286	219,186
Net position, June 30	$ 121,320	$ 22,530	$ 111,855	$ 3,605	$ 626,078	$ 247,706

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 17,311	$ 7,446	$ 2,877	$ 951	$ 13,627	$ 21,035	$ 34,519	$ 33,065	$ 556,493
-	-	-	-	-	-	-	-	758,818
17,311	7,446	2,877	951	13,627	21,035	34,519	33,065	1,315,311
1,561	5,532	1,360	524	12,081	18,450	6,679	8,746	97,759
2,690	3,872	1,204	553	2,825	2,007	11,394	9,646	273,182
12,566	341	499	6	236	23	12,597	1,227	62,095
39	20	4	2	69	7	539	4	59,128
240	3	15	2	8	93	562	12,778	50,175
-	-	-	-	-	-	-	-	719,626
116	19	2	2	171	30	196	27	7,189
17,212	9,787	3,084	1,089	15,390	20,610	31,967	32,428	1,269,154
99	(2,341)	(207)	(138)	(1,763)	425	2,552	637	46,157
-	-	-	-	-	-	-	-	2
-	-	-	-	-	-	-	-	870
-	-	-	-	-	-	-	-	137
-	-	-	-	-	-	-	-	4,108
-	-	-	-	-	-	-	(71)	(4,972)
-	-	-	-	-	-	-	-	100
-	-	-	-	-	-	-	(71)	245
99	(2,341)	(207)	(138)	(1,763)	425	2,552	566	46,402
-	-	-	-	-	-	-	-	15,454
-	-	-	-	-	1,771	-	-	106,828
-	-	-	-	-	-	(8,583)	-	(9,968)
99	(2,341)	(207)	(138)	(1,763)	2,196	(6,031)	566	158,716
2,476	2,170	565	(27)	16,863	3,310	18,261	34,830	1,045,207
$ 2,575	$ (171)	$ 358	$ (165)	$ 15,100	$ 5,506	$ 12,230	$ 35,396	$ 1,203,923

STATE OF TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Strategic Technology Solutions	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers and users	$ 2,946	$ 22,145	$ 492	$ 45	$ 4,291	$ 383,685
Receipts from interfund services provided	171,303	49,248	44,079	7,628	126,376	415,450
Payments to suppliers	(101,275)	(40,968)	(24,329)	(2,881)	(26,922)	(769,979)
Payments to employees	(38,208)	-	(1,085)	(3,318)	-	-
Payments for interfund services used	(11,380)	(7,006)	(5,351)	(661)	(95,054)	(1,893)
Net cash provided by (used for) operating activities	23,386	23,419	13,806	813	8,691	27,263
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	2,250	-	7,217	331	95,109	-
Tax revenues received	-	2	-	-	-	-
Net cash provided by (used for) noncapital financing activities	2,250	2	7,217	331	95,109	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchase of capital assets	(27,649)	-	(18,989)	(30)	(79,763)	-
Bond and commercial paper proceeds	-	-	-	-	1,696	-
Proceeds from sale of capital assets	-	-	2,124	-	610	-
Insurance claims recoveries	-	-	384	-	486	-
Bond issuance cost	-	-	-	-	(23)	-
Principal payments	-	-	-	-	(17,228)	-
Interest paid	-	-	-	-	(9,146)	-
Capital contributions	-	-	2,057	-	-	-
Net cash provided by (used for) capital and related financing activities	(27,649)	-	(14,424)	(30)	(103,368)	-
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	-	642	-	-	2,161	1,305
Net cash provided by (used for) investing activities	-	642	-	-	2,161	1,305
Net increase (decrease) in cash and cash equivalents	(2,013)	24,063	6,599	1,114	2,593	28,568
Cash and cash equivalents, July 1	120,643	142,976	47,919	3,338	417,356	301,082
Cash and cash equivalents, June 30	$ 118,630	$ 167,039	$ 54,518	$ 4,452	$ 419,949	$ 329,650
Reconciliation of operating income to net cash provided by (used for) operating activities						
Operating income (loss)	$ 8,590	$ 19,477	$ (2,462)	$ 821	$ (6,748)	$ 27,215
Adjustment to reconcile operating income (loss) to net cash from operating activities:						
Depreciation and amortization	8,883	-	15,075	163	12,353	-
Loss (gain) on disposal of capital assets	45	-	460	1	-	-
Bond issuance costs	-	-	-	-	23	-
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:						
(Increase) decrease in receivables	(1,392)	5,000	(71)	-	(3)	(2,119)
(Increase) decrease in due from other funds	620	-	-	-	(57)	-
(Increase) decrease in due from component units	-	(208)	-	-	-	-
(Increase) decrease in inventories	(262)	-	-	6	-	-
(Increase) decrease in prepaids	-	-	-	-	(4,985)	-
(Increase) decrease in net pension assets	(25)	-	-	(4)	-	-
(Increase) decrease in deferred outflows of resources	(4,843)	-	(102)	(265)	-	-
Increase (decrease) in accounts payable	13,179	(1,661)	863	192	1,065	(540)
Increase (decrease) in due to other funds	7	(8)	1	(1)	7,043	-
Increase (decrease) in due to component units	(1)	819	-	-	-	-
Increase (decrease) in deferred inflows of resources	(1,415)	-	42	(100)	-	-
Increase (decrease) in unearned revenue	-	-	-	-	-	2,707
Total adjustments	14,796	3,942	16,268	(8)	15,439	48
Net cash provided by (used for) operating activities	$ 23,386	$ 23,419	$ 13,806	$ 813	$ 8,691	$ 27,263
Schedule of noncash capital and related financing activities						
Contributions of capital assets	$ (1,385)	$ -	$ 99	$ -	$ 13,548	$ -
Refunding bond premium	-	-	-	-	2,825	-
Refunding bond proceeds	-	-	-	-	8,755	-
Total noncash capital and related financing activities	$ (1,385)	$ -	$ 99	$ -	$ 25,128	$ -

STATE OF TENNESSEE
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Postal Services	Purchasing	Warehousing and Distribution	Records Management	Human Resources	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 177	$ 2,857	$ 1,409	$ 13	$ 91	$ 137	$ 14,636	$ 190	$ 433,114
17,131	4,513	1,489	938	13,536	20,925	19,906	32,875	925,397
(14,126)	(1,720)	(506)	(422)	(1,749)	(548)	(22,319)	(6,488)	(1,014,232)
(1,540)	(5,570)	(1,336)	(526)	(12,177)	(18,424)	(7,091)	(8,790)	(98,065)
(1,163)	(2,443)	(1,086)	(137)	(1,255)	(1,505)	(1,757)	(4,837)	(135,528)
479	(2,363)	(30)	(134)	(1,554)	585	3,375	12,950	110,686
-	-	-	-	-	1,771	-	-	106,678
-	-	-	-	-	-	-	-	2
-	-	-	-	-	1,771	-	-	106,680
(115)	-	-	-	-	-	(580)	(2,235)	(129,361)
-	-	-	-	-	-	-	-	1,696
-	-	-	-	-	-	-	-	2,734
-	-	-	-	-	-	-	-	870
-	-	-	-	-	-	-	-	(23)
-	-	-	-	-	-	-	(4,380)	(21,608)
-	-	-	-	-	-	-	(71)	(9,217)
-	-	-	-	-	-	-	-	2,057
(115)	-	-	-	-	-	(580)	(6,686)	(152,852)
-	-	-	-	-	-	-	-	4,108
-	-	-	-	-	-	-	-	4,108
364	(2,363)	(30)	(134)	(1,554)	2,356	2,795	6,264	68,622
2,307	4,515	1,353	231	20,568	7,733	8,756	26,146	1,104,923
$ 2,671	$ 2,152	$ 1,323	$ 97	$ 19,014	$ 10,089	$ 11,551	$ 32,410	$ 1,173,545
$ 99	$ (2,341)	$ (207)	$ (138)	$ (1,763)	$ 425	$ 2,552	$ 637	$ 46,157
240	3	15	2	8	93	562	12,778	50,175
116	-	-	-	-	-	20	-	642
-	-	-	-	-	-	-	-	23
(3)	1	21	-	-	-	23	(1)	1,456
-	(77)	-	-	-	27	-	-	513
-	-	-	-	-	-	-	-	(208)
(49)	-	30	-	-	-	1,165	-	890
(10)	-	-	-	-	-	-	-	(4,995)
(1)	(4)	-	(1)	(4)	(8)	(7)	(5)	(59)
(128)	(495)	(120)	(40)	(1,397)	(2,465)	(900)	(1,173)	(11,928)
226	759	263	58	1,521	2,889	(89)	1,148	19,873
-	(1)	1	-	2	28	(3)	(4)	7,065
-	-	-	-	109	-	(2)	-	925
(11)	(208)	(33)	(15)	(30)	(404)	54	(430)	(2,550)
-	-	-	-	-	-	-	-	2,707
380	(22)	177	4	209	160	823	12,313	64,529
$ 479	$ (2,363)	$ (30)	$ (134)	$ (1,554)	$ 585	$ 3,375	$ 12,950	$ 110,686
$ -	$ -	$ -	$ -	$ -	$ -	$ (8,583)	$ -	$ 3,679
-	-	-	-	-	-	-	-	2,825
-	-	-	-	-	-	-	-	8,755
$ -	$ -	$ -	$ -	$ -	$ -	$ (8,583)	$ -	$ 15,259

FIDUCIARY FUNDS

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

PENSION AND OTHER EMPLOYEE BENEFIT TRUST:

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

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

INVESTMENT TRUST FUNDS:

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

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

- **External Retirement Investment Fund**—This fund accounts for assets in the custody of the Treasurer, solely for investment purposes, that consist exclusively of assets of individual retirement accounts.

PRIVATE-PURPOSE TRUST FUNDS:

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

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

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

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

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

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

AGENCY FUNDS:

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

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

- **Retiree Health Funds**—These funds are used to account for funding received and claims paid on behalf of retirees who elect coverage. Pre- and post-65 retired employees of the state, local education, and local government employers are included.
- **External Pension Plan**—This fund is used to account for activities and balances of an external retirement plan whose administrative and investing functions have been contracted to the Department of Treasury of the State of Tennessee.

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2017
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension
ASSETS				
Cash and cash equivalents	$ 12,644	$ 12,061	$ 63	$ 24,768
Cash collateral on loaned securities	2,547,733	2,430,133	12,622	4,990,488
Receivables:				
Employer contributions	21,899	34,872	2,776	59,547
Member contributions	6,953	19,741	3,472	30,166
Due from other funds	9,384	-	-	9,384
Due from component units	10,051	-	-	10,051
Investments, at fair value:				
TRGT pooled funds	23,936,307	22,831,445	118,583	46,886,335
Capital assets, at cost:				
Machinery and equipment	18,961	18,085	93	37,139
Less - accumulated depreciation	(6,544)	(6,242)	(32)	(12,818)
Total assets	26,557,388	25,340,095	137,577	52,035,060
LIABILITIES				
Accounts payable and accruals	15,018	15,060	242	30,320
Securities lending collateral	2,547,733	2,430,133	12,622	4,990,488
Total liabilities	2,562,751	2,445,193	12,864	5,020,808
NET POSITION				
Restricted for				
Pension benefits	23,994,637	22,894,902	124,713	47,014,252
Employees' flexible benefits	-	-	-	-
Total net position	$ 23,994,637	$ 22,894,902	$ 124,713	$ 47,014,252

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Pension and Other Employee Benefit Trust Funds
June 30, 2017
(Expressed in Thousands)

Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
$ 305	$ 25,073
-	4,990,488
-	59,547
-	30,166
198	9,582
3	10,054
-	46,886,335
-	37,139
-	(12,818)
506	52,035,566
1	30,321
-	4,990,488
1	5,020,809
-	47,014,252
505	505
$ 505	$ 47,014,757

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, 2017
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Legacy Pension Plan	Teacher Hybrid Pension Plan	Total Pension
ADDITIONS				
Contributions:				
Members	$ 106,509	$ 177,940	$ 32,848	$ 317,297
Employers	662,559	319,576	26,262	1,008,397
Other	2,458	-	-	2,458
Total contributions	771,526	497,516	59,110	1,328,152
Investment income:				
Net increase in fair value of investments	2,487,909	2,379,561	10,116	4,877,586
Securities lending income	29,433	28,159	117	57,709
Total investment income	2,517,342	2,407,720	10,233	4,935,295
Less: Investment expenses	(27,543)	(26,351)	(109)	(54,003)
Securities lending expense	(16,497)	(15,782)	(66)	(32,345)
Net investment income	2,473,302	2,365,587	10,058	4,848,947
Total additions	3,244,828	2,863,103	69,168	6,177,099
DEDUCTIONS				
Annuity benefits	1,251,919	1,152,810	1	2,404,730
Death benefits	3,682	2,184	5	5,871
Other	-	-	-	-
Refunds	21,030	17,899	1,015	39,944
Administrative expenses	11,748	5,347	1,417	18,512
Total deductions	1,288,379	1,178,240	2,438	2,469,057
Change in net position	1,956,449	1,684,863	66,730	3,708,042
Net position, July 1	22,038,188	21,210,039	57,983	43,306,210
Net position, June 30	$ 23,994,637	$ 22,894,902	$ 124,713	$ 47,014,252

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, 2017
(Expressed in Thousands)

Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
$ 5,743	$ 323,040
-	1,008,397
-	2,458
5,743	1,333,895
-	4,877,586
-	57,709
-	4,935,295
-	(54,003)
-	(32,345)
-	4,848,947
5,743	6,182,842
-	2,404,730
-	5,871
6,291	6,291
-	39,944
171	18,683
6,462	2,475,519
(719)	3,707,323
1,224	43,307,434
$ 505	$ 47,014,757

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Investment Trust Funds
June 30, 2017
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	External Retirement Investment Fund	Total Investment Trust Funds
ASSETS				
Cash and cash equivalents	$ 1,167,970	$ 17,306	$ -	$ 1,185,276
Receivables:				
Interest and dividends	2,027	89	-	2,116
Investments, at fair value:				
Government bonds	-	45,181	-	45,181
TRGT pooled funds	-	-	7,201	7,201
Investments, at amortized cost:				
Short-term investments	829,297	-	-	829,297
Total assets	1,999,294	62,576	7,201	2,069,071
NET POSITION				
Amounts held in trust for:				
Pool participants	1,999,294	62,576	7,201	2,069,071
Total net position	$ 1,999,294	$ 62,576	$ 7,201	$ 2,069,071

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Investment Trust Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Local Government Investment Pool	Intermediate Term Investment Fund	External Retirement Investment Fund	Total Investment Trust Funds
ADDITIONS				
Investment income:				
Interest	$ 11,408	$ 295	$ 585	$ 12,288
Total investment income	11,408	295	585	12,288
Less: Investment expenses	(797)	(32)	(5)	(834)
Net investment income	10,611	263	580	11,454
Capital share transactions:				
Shares sold	3,539,911	-	3,623	3,543,534
Less: Shares redeemed	(3,553,567)	-	-	(3,553,567)
Net capital share transactions	(13,656)	-	3,623	(10,033)
Total additions	(3,045)	263	4,203	1,421
Change in net position	(3,045)	263	4,203	1,421
Net position, July 1	2,002,339	62,313	2,998	2,067,650
Net position, June 30	$ 1,999,294	$ 62,576	$ 7,201	$ 2,069,071

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2017
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ASSETS				
Cash and cash equivalents	$ 14,634	$ 1,918	$ 18,720	$ 10,631
Receivables:				
Taxes	-	-	-	-
Interest and dividends	3	-	-	-
Investments sold	10,127	-	-	-
Other	47	-	-	-
Due from other funds	5	-	-	-
Investments, at fair value:				
Mutual funds	116,431	-	-	-
Government bonds	-	-	-	-
Corporate bonds	-	-	-	-
Total assets	141,247	1,918	18,720	10,631
LIABILITIES				
Accounts payable and accruals	9,861	179	-	-
Due to other funds	-	-	-	-
Due to component units	1	-	-	-
Total liabilities	9,862	179	-	-
NET POSITION				
Restricted for:				
Individuals, organizations and other governments	131,385	1,739	18,720	10,631
Total net position	$ 131,385	$ 1,739	$ 18,720	$ 10,631

STATE OF TENNESSEE
Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
June 30, 2017
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ 4,046	$ 5,102	$ 55,051
-	46	46
-	-	3
-	-	10,127
-	9	56
-	-	5
203	3,569	120,203
378	-	378
1,119	-	1,119
5,746	8,726	186,988
5,746	6	15,792
-	4	4
-	-	1
5,746	10	15,797
-	8,716	171,191
$ -	$ 8,716	$ 171,191

STATE OF TENNESSEE
Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	College Savings Plans	Children in State Custody	Oak Ridge Monitoring	TNInvestco
ADDITIONS				
Contributions:				
Federal	$ -	$ 7,456	$ 1,000	$ -
Private	25,790	-	-	-
State	829	-	-	-
Other	-	7,658	-	8,366
Total contributions	26,619	15,114	1,000	8,366
Investment income:				
Net increase/(decrease) in fair value of investments	7,981	-	-	-
Interest	3,454	18	96	72
Total investment income	11,435	18	96	72
Total additions	38,054	15,132	1,096	8,438
DEDUCTIONS				
Payments made under trust agreements	12,532	15,976	-	8,768
Refunds	6,292	2,213	-	-
Administrative expenses	279	-	-	1,890
Total deductions	19,103	18,189	-	10,658
Change in net position	18,951	(3,057)	1,096	(2,220)
Net position, July 1	112,434	4,796	17,624	12,851
Net position, June 30	$ 131,385	$ 1,739	$ 18,720	$ 10,631

STATE OF TENNESSEE

Combining Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Insurance Receiverships	Other	Total Private-Purpose Trust Funds
$ -	$ -	$ 8,456
-	5,668	31,458
-	-	829
-	117	16,141
-	5,785	56,884
(7)	162	8,136
71	66	3,777
64	228	11,913
64	6,013	68,797
64	665	38,005
-	-	8,505
-	3	2,172
64	668	48,682
-	5,345	20,115
-	3,371	151,076
$ -	$ 8,716	$ 171,191

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STATE OF TENNESSEE
Combining Statement of Assets and Liabilities
Agency Funds
June 30, 2017
(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	External Pension Plan	Total Agency Funds
ASSETS					
Cash and cash equivalents	$ 362,060	$ 115,618	$ 39,658	$ -	$ 517,336
Receivables:					
Account	-	106	3,650	-	3,756
Taxes	437,382	-	-	-	437,382
Due from other funds	-	12	-	-	12
Investments, at fair value:					
TRGT pooled funds	-	-	-	112,436	112,436
Total assets	799,442	115,736	43,308	112,436	1,070,922
LIABILITIES					
Accounts payable and accruals	799,442	13,635	17,404	-	830,481
Amount held in custody for others	-	102,101	25,904	112,436	240,441
Total liabilities	$ 799,442	$ 115,736	$ 43,308	$ 112,436	$ 1,070,922

STATE OF TENNESSEE
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Local Government Fund	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 371,242	$ 13,098,572	$ (13,107,754)	$ 362,060
Accounts receivable	437,793	499,850	(500,261)	437,382
Total assets	809,035	13,598,422	(13,608,015)	799,442
Liabilities				
Accounts payable and accruals	809,035	4,594,541	(4,604,134)	799,442
Total liabilities	$ 809,035	$ 4,594,541	$ (4,604,134)	$ 799,442
Contingent Revenue Fund				
Assets				
Cash and cash equivalents	$ 114,730	$ 2,722,113	$ (2,721,225)	$ 115,618
Accounts receivable	26	150	(70)	106
Due from other funds	6	24	(18)	12
Total assets	114,762	2,722,287	(2,721,313)	115,736
Liabilities				
Accounts payable and accruals	12,653	757,685	(756,703)	13,635
Amounts held in custody for others	102,109	824,155	(824,163)	102,101
Total liabilities	$ 114,762	$ 1,581,840	$ (1,580,866)	$ 115,736
Retiree Health Plans				
Assets				
Cash and cash equivalents	$ 34,994	$ 147,270	$ (142,606)	$ 39,658
Accounts receivable	3,467	16,341	(16,158)	3,650
Total assets	38,461	163,611	(158,764)	43,308
Liabilities				
Accounts payable and accruals	16,996	32,283	(31,875)	17,404
Amounts held in custody for others	21,465	134,676	(130,237)	25,904
Total liabilities	$ 38,461	$ 166,959	$ (162,112)	$ 43,308
External Pension Plan				
Assets				
Cash and cash equivalents	$ -	$ 4,672	$ (4,672)	$ -
Accounts receivable	-	-	-	-
Investments, at fair value:				
TRGT pooled funds	23,584	91,762	(2,910)	112,436
Total assets	23,584	96,434	(7,582)	112,436
Liabilities				
Accounts payable and accruals	-	3,007	(3,007)	-
Amounts held in custody for others	23,584	91,866	(3,014)	112,436
Total liabilities	$ 23,584	$ 94,873	$ (6,021)	$ 112,436

STATE OF TENNESSEE
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

Total - All Agency Funds	Balance July 1	Additions	Deductions	Balance June 30
Assets				
Cash and cash equivalents	$ 520,966	$ 15,972,627	$ (15,976,257)	$ 517,336
Accounts receivable	441,286	516,341	(516,489)	441,138
Due from other funds	6	24	(18)	12
Investments, at fair value:				
TRGT pooled funds	23,584	91,762	(2,910)	112,436
Total assets	985,842	16,580,754	(16,495,674)	1,070,922
Liabilities				
Accounts payable and accruals	838,684	5,387,516	(5,395,719)	830,481
Amounts held in custody for others	147,158	1,050,697	(957,414)	240,441
Total liabilities	$ 985,842	$ 6,438,213	$ (6,353,133)	$ 1,070,922

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.

State University and Community College System—Created by the General Assembly in 1972 to serve the state and its citizenry by providing educational opportunities, research, continuing education and public activities. As a system, the institutions span the state and are reported as a coordinated network of public education with each campus offering unique characteristics and services.

The system consists of the following institutions:

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

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

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

The purpose of these colleges is to provide occupational and technical training 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, developmental disabilities, or alcohol and drug facilities. In addition, the Authority may assist small business concerns in financing pollution control facilities, farmers in financing certain capital improvements and airport authorities and municipal airports in financing improvements.

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

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.

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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.

STATE OF TENNESSEE
Combining Statement of Net Position
Component Units
June 30, 2017
(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee
ASSETS						
Cash and cash equivalents	$ 336	$ 215	$ 262,872	$ 120,357	$ 758,890	$ 968,779
Investments	-	-	110,481	-	195,199	52,970
Receivables, net	6,401	366	40,636	74,819	68,816	127,607
Due from primary government	-	661	74	-	18,538	33,195
Inventories, at cost	-	-	-	-	2,952	8,120
Prepayments	-	4	1	7,048	9,359	5,044
Loans receivable	-	-	1,956,912	-	-	-
Fair value of derivatives	-	-	-	-	-	-
Other	-	-	-	-	479	5,073
Restricted assets:						
Cash and cash equivalents	-	-	106,050	38	334,325	235,905
Investments	-	-	95,738	-	510,941	1,060,059
Receivables, net	-	-	881	-	104,182	236,966
Net pension assets	7	6,092	33	-	1,445	1,003
Capital assets:						
Land, at cost	-	-	-	-	165,461	91,253
Infrastructure	-	-	-	-	458,372	182,097
Structures and improvements, at cost	-	-	-	2,625	3,305,945	2,830,011
Machinery and equipment, at cost	91	132	3,565	6,098	505,941	584,945
Less accumulated depreciation	(43)	(65)	(1,756)	(5,495)	(1,772,299)	(1,543,771)
Construction in progress	-	-	-	-	202,935	504,219
Total assets	6,792	7,405	2,575,487	205,490	4,871,481	5,383,475
DEFERRED OUTFLOWS OF RESOURCES	1,303	1,800	4,726	-	185,218	146,590
LIABILITIES						
Accounts payable and accruals	413	92	70,147	91,184	136,031	196,490
Due to primary government	22	14	723	109,567	30,002	5,202
Unearned revenue	-	-	1,279	1,045	78,952	70,196
Other	-	-	-	-	16,340	15,510
Noncurrent liabilities:						
Due within one year	212	84	113,623	731	43,668	91,929
Due in more than one year	2,879	271	1,883,961	2,925	1,185,626	1,497,081
Total liabilities	3,526	461	2,069,733	205,452	1,490,619	1,876,408
DEFERRED INFLOWS OF RESOURCES	120	684	514	-	18,952	12,838
NET POSITION						
Net investment in capital assets	48	67	1,809	3,228	2,172,911	1,633,146
Restricted for:						
Debt service	-	-	-	-	6,346	1,615
Capital projects	-	-	-	-	35,074	55,923
Single family bond programs	-	-	418,137	-	-	-
Pensions	7	6,092	33	-	1,445	1,003
Other	6,350	-	12,463	38	257,142	501,576
Permanent and endowment:						
Expendable	-	-	-	-	13,791	143,642
Nonexpendable	-	-	-	-	359,152	813,141
Unrestricted	(1,956)	1,901	77,524	(3,228)	701,267	490,773
Total net position	$ 4,449	$ 8,060	$ 509,966	$ 38	$ 3,547,128	$ 3,640,819

STATE OF TENNESSEE
Combining Statement of Net Position
Component Units
June 30, 2017
(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
$ 15,190	$ 9,152	$ 31,341	$ 60,095	$ 402	$ 52,021	$ 2,279,650
-	-	-	-	4,046	-	362,696
-	6,158	-	14,584	42	186	339,615
-	887	-	-	-	-	53,355
-	269	-	-	-	-	11,341
-	171	-	-	-	-	21,627
2,523	-	-	1,928,196	-	-	3,887,631
-	-	-	756	-	-	756
-	560	-	-	10	-	6,122
709	3,274	-	10,949	-	-	691,250
-	-	-	204,084	-	-	1,870,822
-	-	-	-	-	-	342,029
-	1,173	-	-	-	-	9,753
-	2,467	-	-	-	-	259,181
-	3,725	-	-	-	-	644,194
-	53,281	-	-	-	-	6,191,862
-	3,789	-	-	-	-	1,104,561
-	(15,961)	-	-	-	-	(3,339,390)
-	914	-	-	-	-	708,068
18,422	69,859	31,341	2,218,664	4,500	52,207	15,445,123
141	2,878	-	39,973	-	-	382,629
112	3,061	-	53,953	369	614	552,466
-	109	-	-	-	-	145,639
-	-	-	2,278	-	-	153,750
-	178	-	-	-	-	32,028
585	998	-	68,265	-	-	320,095
2,545	5,106	-	2,122,274	-	-	6,702,668
3,242	9,452	-	2,246,770	369	614	7,906,646
-	643	-	756	-	-	34,507
-	43,566	-	-	-	-	3,854,775
-	476	-	-	-	-	8,437
-	-	-	-	-	-	90,997
-	-	-	-	-	-	418,137
-	1,173	-	-	-	-	9,753
-	6,589	-	-	-	-	784,158
-	-	-	-	-	-	157,433
-	-	-	-	-	-	1,172,293
15,321	10,838	31,341	11,111	4,131	51,593	1,390,616
$ 15,321	$ 62,642	$ 31,341	$ 11,111	$ 4,131	$ 51,593	$ 7,886,599

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2017
(Expressed in Thousands)

		Program Revenues			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue and Changes in Net Position**
Component units					
Higher education institutions:					
State University and Community College System	$ 2,545,675	$ 995,616	$ 841,272	$ 107,681	$ (601,106)
University of Tennessee	2,224,690	788,448	946,609	113,613	(376,020)
Total higher education institutions	4,770,365	1,784,064	1,787,881	221,294	(977,126)
Loan programs:					
Tennessee Student Assistance Corporation	99,314	4,727	6,526	-	(88,061)
Tennessee Housing Development Agency	387,095	106,509	279,549	-	(1,037)
Local Development Authority	273	394	83	-	204
Federal Family Education Loan Program	10,128	-	-	-	(10,128)
Tennessee State School Bond Authority	83,960	73,984	(6,472)	-	(16,448)
Total loan programs	580,770	185,614	279,686	-	(115,470)
Tennessee Education Lottery	1,500,060	1,499,564	48	-	(448)
Other programs:					
Tennessee Community Services Agency	4,763	855	3,942	-	34
Access Tennessee Insurance Plan	2,179	(9)	-	-	(2,188)
Tennessee Veterans' Homes Board	51,830	49,477	65	1,211	(1,077)
Certified Cotton Growers'	431	355	-	-	(76)
Total other programs	59,203	50,678	4,007	1,211	(3,307)
Total	$ 6,910,398	$ 3,519,920	$ 2,071,622	$ 222,505	$ (1,096,351)

STATE OF TENNESSEE
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2017
(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
$ 761,806	$ 29,390	$ 7,548	$ 2,468	$ 11,309	$ 211,415	$ 3,335,713	$ 3,547,128
547,516	3,562	2,869	-	47,434	225,361	3,415,458	3,640,819
1,309,322	32,952	10,417	2,468	58,743	436,776	6,751,171	7,187,947
88,104	-	-	-	-	43	4,406	4,449
-	-	71	-	-	(966)	510,932	509,966
-	-	-	-	-	204	15,117	15,321
2,797	-	231	-	-	(7,100)	38,441	31,341
-	9,591	-	-	-	(6,857)	17,968	11,111
90,901	9,591	302	-	-	(14,676)	586,864	572,188
-	-	456	-	-	8	30	38
-	-	1	-	-	35	8,025	8,060
-	-	280	-	-	(1,908)	53,501	51,593
-	124	-	-	-	(953)	63,595	62,642
-	-	52	-	-	(24)	4,155	4,131
-	124	333	-	-	(2,850)	129,276	126,426
$ 1,400,223	$ 42,667	$ 11,508	$ 2,468	$ 58,743	$ 419,258	$ 7,467,341	$ 7,886,599

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2017
(Expressed in Thousands)

	Tennessee Housing Development Agency	Tennessee Education Lottery	State University and Community College System	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 106,509	$ 1,499,211	$ 1,177,655	$ 1,316,497	$ 394
Investment income	1,743	-	7,371	7,689	83
Grants and contributions	-	-	-	-	-
Other	-	353	54,935	93,704	-
Total operating revenues	108,252	1,499,564	1,239,961	1,417,890	477
Operating expenses					
Personal services	18,404	13,713	1,571,270	1,429,245	-
Contractual services	5,665	139,252	-	-	110
Mortgage service fees	6,391	-	-	-	-
Materials and supplies	1,576	-	573,399	572,781	-
Rentals and insurance	25	1,673	-	-	-
Interest	56,892	-	1	-	163
Depreciation and amortization	3,952	633	105,130	124,248	-
Lottery prizes	-	948,332	-	-	-
Nursing home services	-	-	-	-	-
Scholarships and fellowships	-	-	264,426	56,019	-
Benefits	-	-	-	-	-
Other	5,967	9,720	-	-	-
Total operating expenses	98,872	1,113,323	2,514,226	2,182,293	273
Operating income (loss)	9,380	386,241	(1,274,265)	(764,403)	204
Nonoperating revenues (expenses)					
Grant income	277,877	-	560,531	220,191	-
Grant expense	(288,223)	-	-	-	-
Interest expense	-	-	(25,490)	(37,755)	-
Interest income	-	456	61,399	99,095	-
Payments from primary government	-	-	761,806	547,516	-
Grants and contributions	-	-	-	6,254	-
Gifts	-	-	9,768	5,742	-
Payments to primary government	-	(386,697)	-	-	-
Other	-	8	(1,324)	(18,861)	-
Total nonoperating revenues (expenses)	(10,346)	(386,233)	1,366,690	822,182	-
Income (loss) before capital grants and contributions	(966)	8	92,425	57,779	204
Capital payments from primary government	-	-	93,307	99,140	-
Capital grants and gifts	-	-	14,374	14,473	-
Additions to permanent endowments	-	-	11,309	47,434	-
Other	-	-	-	6,535	-
Change in net position	(966)	8	211,415	225,361	204
Net position, July 1, restated	510,932	30	3,335,713	3,415,458	15,117
Net position, June 30	$ 509,966	$ 38	$ 3,547,128	$ 3,640,819	$ 15,321

STATE OF TENNESSEE
Combining Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2017
(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
$ 45,485	$ -	$ 73,984	$ 355	$ (9)	$ 4,220,081
-	-	(6,472)	-	-	10,414
-	-	-	-	-	-
57	-	-	-	-	149,049
45,542	-	67,512	355	(9)	4,379,544
31,968	-	-	-	-	3,064,600
-	1,786	719	432	263	148,227
-	-	-	-	-	6,391
-	-	-	-	-	1,147,756
-	-	-	-	1,916	3,614
-	-	72,959	-	-	130,015
1,896	-	-	-	-	235,859
-	-	-	-	-	948,332
17,764	-	-	-	-	17,764
-	-	-	-	-	320,445
-	-	-	-	-	-
-	-	10,282	-	-	25,969
51,628	1,786	83,960	432	2,179	6,048,972
(6,086)	(1,786)	(16,448)	(77)	(2,188)	(1,669,428)
3,935	-	9,591	-	-	1,072,125
-	-	-	-	-	(288,223)
(194)	-	-	-	-	(63,439)
65	231	-	53	280	161,579
-	2,797	-	-	-	1,312,119
-	-	-	-	-	6,254
124	-	-	-	-	15,634
-	(8,200)	-	-	-	(394,897)
(8)	(142)	-	-	-	(20,327)
3,922	(5,314)	9,591	53	280	1,800,825
(2,164)	(7,100)	(6,857)	(24)	(1,908)	131,397
-	-	-	-	-	192,447
1,211	-	-	-	-	30,058
-	-	-	-	-	58,743
-	-	-	-	-	6,535
(953)	(7,100)	(6,857)	(24)	(1,908)	419,180
63,595	38,441	17,968	4,155	53,501	7,454,910
$ 62,642	$ 31,341	$ 11,111	$ 4,131	$ 51,593	$ 7,874,090

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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, 2017
(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee Community Services Agency	Total Governmental Fund Type Component Units
REVENUES			
Interest on investments	$ -	$ 1	$ 1
Departmental services	99,353	4,797	104,150
Other	3	-	3
Total revenues	99,356	4,798	104,154
EXPENDITURES			
Education	99,283	-	99,283
Health and social services	-	4,846	4,846
Total expenditures	99,283	4,846	104,129
Excess (deficiency) of revenues over (under) expenditures	73	(48)	25
Fund balances, July 1	6,229	1,188	7,417
Fund balances, June 30	$ 6,302	$ 1,140	$ 7,442
Reconciliation to net position:			
Fund balances per above	$ 6,302	$ 1,140	$ 7,442
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	48	67	115
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(852)	(355)	(1,207)
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.	(1,049)	7,208	6,159
Net position on statement of net position	$ 4,449	$ 8,060	$ 12,509

SUPPLEMENTARY SCHEDULES

Schedule 1

STATE OF TENNESSEE

Debt Service Requirements to Maturity

General Obligation Bonds
June 30, 2017
(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt			Facilities Revolving Fund Debt		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2018	$ 144,671	$ 73,048	$ 217,719	$ 15,699	$ 7,275	$ 22,974
2019	137,241	66,760	204,001	14,224	6,581	20,805
2020	134,751	60,763	195,514	13,739	5,953	19,692
2021	128,816	54,828	183,644	12,854	5,318	18,172
2022	129,008	48,965	177,973	12,902	4,691	17,593
2023	121,741	43,237	164,978	12,169	4,080	16,249
2024	119,419	38,209	157,628	11,826	3,554	15,380
2025	112,133	33,594	145,727	11,682	3,076	14,758
2026	110,249	28,948	139,197	11,356	2,578	13,934
2027	104,801	24,505	129,306	9,749	2,120	11,869
2028	100,606	20,306	120,912	9,154	1,712	10,866
2029	93,529	16,163	109,692	7,746	1,331	9,077
2030	70,613	12,490	83,103	6,312	1,003	7,315
2031	60,909	9,471	70,380	4,876	744	5,620
2032	54,269	6,856	61,125	3,641	553	4,194
2033	32,307	4,889	37,196	3,348	392	3,740
2034	25,720	3,504	29,224	2,930	239	3,169
2035	25,720	2,218	27,938	2,930	93	3,023
2036	22,745	1,006	23,751	355	11	366
2037	8,753	219	8,972	37	1	38
Totals	$ 1,738,001	$ 549,979	$ 2,287,980	$ 167,529	$ 51,305	$ 218,834

Schedule 2

STATE OF TENNESSEE
Schedule of Outstanding Debt
All Fund Types
For the Last Five Fiscal Years
(Expressed in Thousands)

	2013	2014	2015	2016	2017
Internal service funds:					
General obligation commercial paper	$ 40,591	$ 59,930	$ 26,564	$ 17,310	$ 12,788
Facilities Revolving Fund general obligation bonds	180,516	161,299	196,080	185,009	167,529
	221,107	221,229	222,644	202,319	180,317
General long-term debt:					
General obligation bonds	$ 1,797,894	$ 1,656,651	$ 1,575,935	$ 1,714,196	$ 1,738,001
General obligation commercial paper	174,555	264,436	171,122	228,226	180,168
	1,972,449	1,921,087	1,747,057	1,942,422	1,918,169
Totals for primary government	$ 2,193,556	$ 2,142,316	$ 1,969,701	$ 2,144,741	$ 2,098,486

Schedule 3

STATE OF TENNESSEE
Schedule of General Obligation Commercial Paper Outstanding - By Purpose
All Fund Types
June 30, 2017
(Expressed in Thousands)

General obligation commercial paper - Tax exempt	$ 164,893
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	28,063
Purpose: To finance improvements to mental health and mental retardation facilities and grants to local governments.	
Total Outstanding	$ 192,956

Schedule 4

STATE OF TENNESSEE
Schedule of Outstanding Debt
Component Units
For the Last Five Fiscal Years
(Expressed in Thousands)

	2013	2014	2015	2016	2017
Component Units:					
Local Development Authority bonds	$ 6,585	$ 5,674	$ 4,737	$ 3,929	$ 3,130
Tennessee Housing Development Agency bonds	2,116,905	1,962,990	1,948,970	1,875,620	1,944,050
Veterans' Homes Board loan	5,089	6,157	5,685	5,217	5,106
Tennessee State School Bond Authority bonds	1,601,480	1,780,558	2,155,864	2,077,220	2,002,387
Tennessee State School Bond Authority revolving credit	209,429	157,584	61,682	84,480	188,152
University of Tennessee notes	150	133	113	94	75
University of Tennessee bonds	80,365	77,171	75,269	70,814	68,283
State University and Community College System notes	1,866	2,492	1,063	941	840
State University and Community College System bonds	400	300	200	100	-
State University and Community College System commercial paper	4,085	3,955	3,801	3,362	3,222
	$ 4,026,354	$ 3,997,014	$ 4,257,384	$ 4,121,777	$ 4,215,245

Schedule 5

STATE OF TENNESSEE

Comparative Schedules of Revenues by Source

General Fund

For the Fiscal Years Ended June 30, 2017 and 2016

(Expressed in Thousands)

	For the Year Ended	
	June 30, 2017	**June 30, 2016**
Revenue by Source		
Taxes:		
Sales and use	$ 3,547,922	$ 3,419,440
Gasoline	10,900	10,501
Motor fuel	2,030	2,507
Gasoline inspection	741	729
Total fuel taxes	13,671	13,737
Franchise	873,185	796,493
Excise	1,495,219	1,256,458
Gross receipts	368,224	365,189
Beer	15,072	15,187
Alcoholic beverage	64,246	62,250
Mixed drink	52,791	48,138
Tobacco	29,551	29,735
Business	173,098	154,622
Insurance companies premium	913,485	866,082
Retaliatory	9,615	(9,703)
Workers compensation premium	43,725	43,381
Enhanced coverage	448,787	448,616
Medicaid provider	11,552	11,475
Fantasy Sports	301	-
Other	1,447	1,669
Total business tax	4,500,298	4,089,592
Income	250,126	322,356
Privilege	343,276	323,546
Inheritance and estate	9,241	55,353
Other	1	6
Total other taxes	602,644	701,261
Total taxes	8,664,535	8,224,030
Licenses, fines, fees and permits:		
Motor vehicle registration	45,187	44,729
Motor vehicle title registration fees	21,192	20,081
Drivers licenses	38,391	32,538
Arrests, fines and fees	7,913	8,138
Regulatory board fees	166,852	163,598
Other	203,355	152,235
Total licenses, fines, fees and permits	482,890	421,319
Investment income	36,866	24,841
Federal	9,858,146	10,115,580
Departmental services:		
Charges to the public	323,385	337,049
Interdepartmental charges	837,908	793,885
Charges to cities, counties, etc.	940,229	789,053
Total departmental services	2,101,522	1,919,987
Other	219,420	237,190
Total revenues by source	$ 21,363,379	$ 20,942,947

Schedule 6

STATE OF TENNESSEE
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2017 and 2016
(Expressed in Thousands)

	For the Year Ended	
	June 30, 2017	June 30, 2016
Expenditures by Function and Department		
General government:		
Legislative	$ 54,895	$ 39,580
Secretary of State	38,842	38,488
Comptroller	96,996	88,069
Treasurer	90,905	70,939
Governor	5,027	5,084
Commissions	69,903	68,258
Finance and Administration	135,090	106,956
General Services	25,907	25,759
Revenue	113,433	105,450
Miscellaneous Appropriations	150	124
Total general government	631,148	548,707
Health and social services:		
Veterans Services	6,903	6,871
Labor and Workforce Development	164,626	169,600
TennCare	11,267,088	11,157,535
Mental Health	319,020	311,537
Intellectual Disabilities	169,114	178,422
Health	591,664	562,750
Human Services	2,323,835	2,448,144
Children's Services	813,316	765,852
Total health and social services	15,655,566	15,600,711
Law, justice and public safety:		
Judicial	345,137	324,952
Correction	926,039	892,429
Probation and Paroles	7,419	7,199
Military	107,456	121,207
Bureau of Criminal Investigation	80,905	75,452
Safety	217,191	189,061
Total law, justice and public safety	1,684,147	1,610,300
Recreation and resource development:		
Agriculture	85,513	76,832
Tourist Development	32,806	24,497
Environment and Conservation	238,638	276,209
Economic and Community Development	166,802	193,966
Total recreation and resources development	523,759	571,504
Regulation of business and professions:		
Commerce and Insurance	81,886	88,203
Financial Institutions	17,067	16,962
Total regulation of business and professions	98,953	105,165
Intergovernmental revenue sharing	759,450	735,907
Total expenditures by function and department	$ 19,353,023	$ 19,172,294

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**

Financial Trends **214**

These schedules contain trend information to help the reader understand how the state's financial performance and well-being have changed over time.

Revenue Capacity **219**

These schedules contain information to help the reader assess the state's most significant local revenue sources, the sales tax.

Debt Capacity **221**

These schedules present information to help the reader assess the affordability of the state's current levels of outstanding debt and the state's ability to issue additional debt in the future.

Demographic and Economic Information **223**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the state's financial activities take place.

Operating Information **224**

These schedules contain service and infrastructure data to help the reader understand how the information in the state's financial report relates to the services the state provides and the activities it performs.

Component Units **227**

These schedules contain debt information related to the University of Tennessee and the Tennessee Board of Regent's institutions – component units of the state. The schedules assist in understanding the resources available to pay debt service.

National Federation of Municipal Analysts Recommended Disclosures for State Debt **232**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. No adjustments have been made for prior period adjustments.

Schedule 1

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

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Expenses										
Governmental activities:										
General government	$ 837,250	$ 988,309	$ 1,078,294	$ 1,048,423	$ 942,465	$ 987,800	$ 959,641	$ 858,569	$ 981,862	$ 961,058
Education	6,464,564	6,520,569	6,893,801	7,127,705	7,018,189	7,083,806	7,383,077	7,302,492	7,507,413	7,927,694
Health and social services (3)	11,125,967	11,697,900	12,849,335	13,739,733	13,952,342	14,079,899	13,912,421	14,258,216	14,930,669	14,976,007
Law, justice, and public safety	1,325,500	1,338,869	1,365,134	1,436,045	1,567,730	1,539,288	1,612,248	1,522,333	1,605,231	1,692,610
Recreation and resources development	613,902	538,386	499,080	606,317	646,494	554,421	646,781	666,997	665,491	628,906
Regulation of business and professions	123,391	126,003	132,784	127,887	126,395	158,228	158,644	175,667	194,662	205,684
Transportation	808,591	979,454	1,010,029	911,666	1,012,399	1,062,091	1,126,744	1,126,447	1,045,959	1,282,462
Intergovernmental revenue sharing	842,096	810,063	874,094	825,777	851,535	844,628	897,312	980,258	1,045,095	1,073,737
Interest on long-term debt	51,086	51,977	60,566	63,555	62,119	71,933	67,520	60,622	60,891	58,503
Payments to fiduciary fund			19,747	63114	58,453	22,386	827	400	680	664
Total governmental activities expenses	22,192,347	23,051,530	24,782,864	25,950,222	26,238,121	26,404,480	26,765,215	26,952,001	28,037,953	28,807,325
Business-type activities:										
Employment security (1)	541,573	1,427,713	2,135,537	1,613,716	1,232,324	750,529	451,470	289,415	241,852	232,690
Insurance programs	469,491	514,065	557,371	552,626	540,746	544,250	541,205	556,634	585,757	620,734
Loan programs	1,655	1,345	1,406	1,561	1,757	1,577	1,469	1,493	1,865	1,710
Other	2,744	2,265	1,385	25	620	163	76	68	367	216
Total business-type activities expenses	1,015,463	1,945,388	2,695,699	2,167,928	1,775,447	1,296,519	994,220	847,610	829,841	855,350
Total primary government expenses	$ 23,207,810	$ 24,996,918	$ 27,478,563	$ 28,118,150	$ 28,013,568	$ 27,700,999	$ 27,759,435	$ 27,799,611	$ 28,867,794	$ 29,662,675
Program Revenues										
Governmental activities:										
Charges for services:										
General government	$ 672,892	$ 753,066	$ 778,352	$ 856,264	$ 673,945	$ 775,135	$ 812,528	$ 787,280	$ 796,608	$ 784,087
Education	35,405	35,124	44,813	50,052	56,898	85,722	73,276	58,961	50,274	40,849
Health and social services	548,570	615,871	499,694	724,971	772,850	714,788	756,038	957,133	1,030,133	1,189,026
Law, justice, and public safety	117,536	122,064	121,201	120,137	125,879	139,622	140,123	137,905	161,110	168,808
Recreation and resources development	142,128	142,657	141,278	139,302	151,545	155,422	145,675	153,788	164,390	169,896
Regulation of business and professions	143,646	151,095	148,788	149,090	168,590	154,896	165,611	182,959	200,087	194,108
Transportation	18,778	15,936	28,322	29,769	29,601	35,470	31,863	45,840	56,466	59,301
Operating grants and contributions (2)	8,612,838	9,758,691	12,076,579	12,677,291	11,897,517	11,697,733	11,355,859	11,291,412	11,930,270	11,742,175
Capital grants and contributions	600,404	592,719	782,188	901,798	903,281	772,061	762,251	727,573	686,774	695,029
Total governmental activities program revenues	10,892,197	12,187,223	14,621,215	15,648,674	14,780,106	14,530,849	14,243,224	14,342,851	15,076,112	15,043,279
Business-type activities:										
Charges for services:										
Employment security	413,741	585,668	710,113	754,108	769,446	632,408	370,752	343,808	290,005	288,964
Insurance programs	480,803	504,130	525,662	547,207	542,756	569,982	598,209	581,436	565,174	599,635
Loan programs	15,137	15,684	16,584	17,350	15,600	12,450	8,897	8,865	9,214	10,255
Other	2,324	1,543	1,043	206	133	231	221	230	239	236
Operating grants and contributions (2)	124,576	508,249	1,482,113	1,035,693	749,005	327,928	134,026	64,053	85,287	57,418
Total business-type activities program revenues	1,036,581	1,615,274	2,735,515	2,354,564	2,076,940	1,542,999	1,112,105	998,392	949,919	956,508
Total primary government program revenues	$ 11,928,778	$ 13,802,497	$ 17,356,730	$ 18,003,238	$ 16,857,046	$ 16,073,848	$ 15,355,329	$ 15,341,243	$ 16,026,031	$ 15,999,787
Net (Expense)/Revenue										
Governmental activities	$ (11,300,150)	$ (10,864,307)	$ (10,161,649)	$ (10,301,548)	$ (11,458,015)	$ (11,873,631)	$ (12,521,991)	$ (12,609,150)	$ (12,961,841)	$ (13,764,046)
Business-type activities	21,118	(330,114)	39,816	186,636	301,493	246,480	117,885	150,782	120,078	101,158
Total primary government net expense	$ (11,279,032)	$ (11,194,421)	$ (10,121,833)	$ (10,114,912)	$ (11,156,522)	$ (11,627,151)	$ (12,404,106)	$ (12,458,368)	$ (12,841,763)	$ (13,662,888)

Schedule 1

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Sales and use	$ 6,851,481	$ 6,326,857	$ 6,170,977	$ 6,461,461	$ 6,884,762	$ 7,018,128	$ 7,276,443	$ 7,713,695	$ 8,258,134	$ 8,547,149
Fuel	865,181	817,873	874,511	846,384	842,133	834,956	843,164	862,156	899,631	915,415
Business (4)	2,913,227	2,671,226	2,944,465	3,536,200	3,926,566	4,122,814	3,948,253	4,336,333	4,631,629	5,206,841
Other	734,029	563,501	504,750	525,192	608,762	648,193	641,244	719,370	722,040	627,070
Unrestricted investment earnings	120,523	42,883	7,245	4,602	772	4,144	7,079	6,121	15,076	36,148
Miscellaneous	275,499	226,907	195,414	217,630	253,489	282,705	221,138	224,064	243,432	234,586
Contributions to permanent funds	239	217	196	180	174	180	547	136	170	2,624
Transfers	(4,110)	(3,541)	(3,608)	(2,134)	(4,655)	(4,256)	(4,622)	(8,046)	(1,096)	(5,290)
Total governmental activities	11,756,069	10,645,923	10,693,950	11,589,515	12,512,003	12,906,864	12,933,246	13,853,829	14,769,016	15,564,543
Business-type activities:										
Transfers	4,110	3,541	3,608	2,134	4,655	4,256	4,622	8,046	1,096	5,290
Total business-type activities	4,110	3,541	3,608	2,134	4,655	4,256	4,622	8,046	1,096	5,290
Total primary government general revenues and other changes in net position	$ 11,760,179	$ 10,649,464	$ 10,697,558	$ 11,591,649	$ 12,516,658	$ 12,911,120	$ 12,937,868	$ 13,861,875	$ 14,770,112	$ 15,569,833
Changes in Net Position										
Governmental activities	$ 455,919	$ (218,384)	$ 532,301	$ 1,287,967	$ 1,053,988	$ 1,033,233	$ 411,255	$ 1,244,679	$ 1,807,175	$ 1,800,497
Business-type activities	25,228	(326,573)	43,424	188,770	306,148	250,736	122,507	158,828	121,174	106,448
Total primary government	$ 481,147	$ (544,957)	$ 575,725	$ 1,476,737	$ 1,360,136	$ 1,283,969	$ 533,762	$ 1,403,507	$ 1,928,349	$ 1,906,945

(1) 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.

(2) 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.

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

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

Schedule 2

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities										
Net investment in capital assets	$ 21,796,151	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234	$ 28,201,282	$ 28,617,760
Restricted	864,270	965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324	1,150,817	1,595,049	1,777,806
Unrestricted (1)(2)(3)	2,631,478	1,495,656	1,284,192	1,330,947	1,183,704	1,458,291	1,299,446	940,922	1,534,817	2,736,079
Total governmental activities net position	$ 25,291,899	$ 25,036,800	$ 25,569,101	$ 26,856,959	$ 27,985,116	$ 28,978,083	$ 29,397,293	$ 29,523,973	$ 31,331,148	$ 33,131,645
Business-type activities										
Net investment in capital assets	$ 51.00									
Unrestricted	1,668,883	$ 1,342,361	$ 1,385,785	$ 1,574,664	$ 1,880,812	$ 2,134,924	$ 2,264,747	$ 2,420,530	$ 2,541,704	$ 2,648,152
Total business-type activities net position	$ 1,668,934	$ 1,342,361	$ 1,385,785	$ 1,574,664	$ 1,880,812	$ 2,134,924	$ 2,264,747	$ 2,420,530	$ 2,541,704	$ 2,648,152
Primary Government										
Net investment in capital assets	$ 21,796,202	$ 22,575,852	$ 23,360,007	$ 24,346,493	$ 25,628,600	$ 26,326,451	$ 26,855,523	$ 27,432,234	$ 28,201,282	$ 28,617,760
Restricted	864,270	965,292	924,902	1,179,519	1,172,812	1,193,341	1,242,324	1,150,817	1,595,049	1,777,806
Unrestricted	4,300,361	2,838,017	2,669,977	2,905,611	3,064,516	3,593,215	3,564,193	3,361,452	4,076,521	5,384,231
Total primary government net position	$ 26,960,833	$ 26,379,161	$ 26,954,886	$ 28,431,623	$ 29,865,928	$ 31,113,007	$ 31,662,040	$ 31,944,503	$ 33,872,852	$ 35,779,797

(1) 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.

(2) The increase in unrestricted net position between fiscal years 2015 and 2016 was mostly attributable to the increase in cash and cash equivalents caused by a increase in revenue collections from business and sales taxes.

(3) The increase in unrestricted net position between fiscal years 2016 and 2017 was attributable to (1) the increase in cash and cash equivalents caused by a increase in revenue collections from business and sales taxes, and (2) a correction of a federal billing issue from fiscal year 2016.

Schedule 3

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

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Nonspendable	N/A	N/A	N/A	$ 19,343	$ 18,609	$ 21,349	$ 21,075	$ 20,184	$ 18,765	$ 25,117
Restricted	N/A	N/A	N/A	100,942	63,192	73,346	68,331	69,540	71,304	73,855
Committed	N/A	N/A	N/A	235,301	286,918	355,546	281,969	302,603	314,545	334,316
Assigned	N/A	N/A	N/A	1,179,652	1,250,677	1,585,964	1,138,496	1,285,945	1,612,001	2,263,154
Unassigned	N/A	N/A	N/A	507,501	698,663	476,264	567,286	885,215	1,224,464	1,008,428
Total general fund				$ 2,042,739	$ 2,318,059	$ 2,512,469	$ 2,077,157	$ 2,563,487	$ 3,241,079	$ 3,704,870
All Other Governmental Funds										
Nonspendable	N/A	N/A	N/A	$ 144,426	$ 147,468	$ 150,579	$ 153,004	$ 519,590	$ 525,078	$ 531,981
Restricted	N/A	N/A	N/A	951,222	980,972	990,317	1,024,350	575,853	1,020,805	1,207,452
Committed	N/A	N/A	N/A	191,557	344,696	398,864	396,298	389,401	373,312	336,412
Assigned	N/A	N/A	N/A	710,582	672,610	575,300	759,845	736,691	787,006	1,148,144
Unassigned	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	$ 2,706,201	$ 3,223,989

(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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Taxes	$ 11,333,507	$ 10,376,455	$ 10,445,363	$ 11,422,284	$ 12,280,198	$ 12,605,171	$ 12,762,694	$ 13,717,684	$ 14,536,940	$ 15,151,281
Licenses, fines, fees, and permits	672,486	677,766	675,009	693,702	731,752	725,785	727,158	799,462	913,535	973,810
Interest on investments	127,152	23,964	36,443	45,089	17,411	35,987	67,117	27,865	56,708	89,231
Federal [1]	8,807,036	10,013,033	12,471,642	13,062,451	12,334,256	12,085,185	11,750,878	11,601,522	12,126,450	11,915,967
Departmental services	2,339,870	2,352,198	2,195,707	2,335,508	2,077,429	1,933,141	1,994,334	2,108,043	2,170,683	2,392,179
Other	570,634	535,534	519,936	513,919	595,305	630,355	604,336	584,672	647,996	622,690
Total revenues	23,850,685	23,978,950	26,344,100	28,072,953	28,036,351	28,015,624	27,906,517	28,839,248	30,452,312	31,145,158
Expenditures										
Current:										
General government	617,056	581,364	558,013	563,195	575,919	538,243	553,807	565,415	573,475	654,354
Education	6,318,858	6,335,343	6,682,173	6,978,436	6,828,619	6,875,325	7,182,444	7,140,936	7,322,279	7,778,143
Health and social services	12,297,128	12,891,353	14,017,403	14,873,339	14,807,999	14,668,483	14,493,610	14,906,413	15,600,711	15,655,566
Law, justice, and public safety	1,278,752	1,294,717	1,302,252	1,400,825	1,528,766	1,499,252	1,555,028	1,552,156	1,618,669	1,693,161
Recreation and resources development	707,866	599,885	555,717	682,531	705,043	655,168	711,526	757,166	777,748	736,884
Regulation of business and professions	129,688	131,614	139,200	136,644	135,877	164,673	165,238	187,360	205,830	215,733
Transportation	1,459,231	1,593,643	1,815,822	1,882,068	1,952,887	1,864,946	1,753,581	1,708,328	1,672,379	1,728,331
Intergovernmental revenue sharing	842,096	810,063	874,094	825,777	851,535	844,628	897,312	980,258	1,045,095	1,073,737
Debt service:										
Principal	79,107	83,960	101,804	112,234	115,935	274,858	142,643	313,050	246,503	296,444
Interest	51,872	52,110	64,344	68,496	65,471	76,041	75,155	68,325	67,409	71,817
Debt issuance costs	980	4,362	4,837	4,363	4,793	2,659	1,452	1,741	2,324	2,225
Capital outlay	359,118	472,451	485,937	391,519	483,279	515,999	491,077	406,396	469,307	462,231
Total expenditures	24,141,752	24,850,865	26,601,596	27,919,427	28,056,123	27,980,275	28,022,873	28,587,544	29,601,729	30,368,626
Revenues over (under) expenditures	(291,067)	(871,915)	(257,496)	153,526	(19,772)	35,349	(116,356)	251,704	850,583	776,532
Other Financing Sources (Uses)										
Bonds and commercial paper issued	340,021	601,664	415,033	307,318	637,868	290,178	91,281	143,200	447,222	274,348
Commercial paper redeemed	(129,333)	(273,443)	(155,973)	(155,382)	(201,235)					
Insurance claim recoveries	2,361	251			2,734	1,061	1,335	1,597	1,288	725
Premium on bond sale	2,760	30,147	26,358	11,132	37,069			10,308	53,170	42,335
Refunding bonds issued [2] [3]		91,536	43,985	43,014	464,809	25,713				
Refunding bond premium [2] [3]		10,670		2,122	88,775	11,672		81,321	98,390	214,452
Refunding payment to escrow [2] [3]		(101,707)	(43,985)	(44,816)	(552,898)	(25,473)		(81,092)	(98,159)	(214,016)
Other			21,146	52,741						
Proceeds from pledged revenue					58,453	22,183	472			
Transfers in	1,526,581	1,810,209	1,332,847	1,506,489	1,285,701	1,361,860	1,561,780	1,173,753	1,229,231	1,711,662
Transfers out [4]	(1,573,375)	(1,869,463)	(1,379,597)	(1,613,711)	(1,366,400)	(1,545,068)	(1,763,423)	(1,206,423)	(1,419,467)	(1,824,459)
Total other financing sources (uses)	169,015	299,864	259,814	108,907	454,876	142,126	(108,555)	122,664	311,675	205,047
Net Change in Fund Balances	$ (122,052)	$ (572,051)	$ 2,318	$ 262,433	$ 435,104	$ 177,475	$ (224,911)	$ 374,368	$ 1,162,258	$ 981,579
Debt Service as a Percentage of Noncapital Expenditures	0.6055%	0.5620%	0.5659%	0.6467%	0.6748%	1.3059%	0.8036%	1.3784%	1.0865%	1.2445%

Note: T.C.A 67-1-1702 requires returns, tax information and tax administration information to remain confidential except as authorized by said T.C.A.

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

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

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

(4) The decrease in transfers out between 2014 and 2015 was due primarily to a reduction of transfers out from the General Fund to the Capital Projects fund, to the Debt Service fund, and transfers out for the leasing of buildings.

Schedule 5

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

	FOR THE CALENDAR YEAR ENDED DECEMBER 31,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Auto dealers	$ 9,503	$ 7,938	$ 6,725	$ 7,671	$ 8,431	$ 9,276	$ 9,832	$ 10,567	$ 11,806	$ 12,519
Purchases from manufacturers	4,741	4,496	3,493	3,656	4,009	4,042	4,170	4,459	4,876	5,127
Miscellaneous durable goods	17,440	16,347	13,747	14,494	15,583	16,374	16,808	17,551	18,627	19,996
Eating and drinking places	8,880	8,973	8,840	9,057	9,508	10,199	10,573	11,190	12,022	12,604
Food stores	8,731	8,601	8,822	8,885	9,217	9,691	10,083	10,351	10,743	11,087
Liquor stores	594	636	657	685	728	793	836	894	971	989
Hotels and motels	2,355	2,313	2,038	2,067	2,333	2,489	2,540	2,883	3,225	3,627
Other retail and service	28,304	28,237	26,805	27,316	28,757	30,181	30,992	32,603	34,623	36,289
Miscellaneous nondurable goods	7,758	7,784	7,364	7,645	7,988	8,424	8,692	9,042	9,465	9,930
Transportation, communication	7,689	7,910	7,729	6,921	7,085	6,559	6,396	6,307	6,493	6,385
Total taxable sales	$ 95,995	$ 93,235	$ 86,220	$ 88,397	$ 93,639	$ 98,028	$ 100,922	$ 105,847	$ 112,851	$ 118,553

Source: An Economic Report to the Governor of the State of Tennessee January 2017

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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:										
Retail sale of food and food ingredients for human consumption (except vending machines)	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%	5.00%	5.00%	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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Retail:										
Building materials	$ 391,271	$ 333,737	$ 311,332	$ 316,016	$ 355,263	$ 354,513	$ 371,086	$ 392,853	$ 430,312	$ 468,750
General merchandise	829,576	810,503	799,387	817,350	840,896	836,055	845,407	854,971	889,297	895,864
Food stores	529,977	520,280	510,104	517,420	539,402	546,972	555,692	579,660	595,739	618,427
Auto dealers and service stations	835,035	672,112	690,797	760,119	830,875	869,748	933,751	1,013,333	1,123,746	1,177,213
Apparel and accessory stores	200,745	191,132	191,110	194,172	205,480	215,308	217,170	228,680	238,993	239,541
Furniture and home furnishings	244,312	215,352	207,398	214,575	224,096	221,025	228,231	250,667	268,657	281,955
Eating and drinking places	605,544	596,893	598,562	615,741	653,210	681,255	706,095	757,929	809,367	838,150
Miscellaneous retail stores	597,649	568,197	560,527	578,884	613,097	637,761	664,927	736,728	812,020	818,129
Total retail	4,234,109	3,908,206	3,869,217	4,014,277	4,262,319	4,362,637	4,522,359	4,814,821	5,168,131	5,338,029
Services:										
Hotels and lodging places	160,909	146,253	137,973	144,129	160,868	164,403	175,227	198,123	224,621	236,505
Personal services	51,151	46,564	46,777	46,923	47,932	49,145	49,724	52,239	52,236	52,465
Business services	254,506	239,143	224,044	236,982	249,083	260,000	273,397	276,961	298,046	304,629
Auto repair, services, and parking	173,481	157,972	153,781	160,268	176,923	172,698	178,693	189,611	204,497	208,532
Miscellaneous repair services	28,441	25,321	22,801	23,189	24,384	25,636	26,807	27,823	31,070	32,770
Motion pictures	21,498	21,512	19,803	17,794	18,972	18,323	18,900	18,160	19,341	19,517
Amusement services	59,636	58,225	57,636	60,071	63,922	69,280	73,891	81,249	90,027	96,706
Health services	13,676	14,228	14,305	13,683	15,122	10,750	15,463	14,956	17,232	17,497
Other services	37,740	43,434	36,802	40,752	42,200	37,140	40,659	45,803	46,006	43,365
Total services	801,038	752,652	713,922	743,791	799,406	807,375	852,761	904,925	983,076	1,011,986
Non-retail, non-services:										
Agriculture, forestry, fishing	7,451	7,381	7,312	7,259	7,257	7,096	7,304	7,189	7,957	7,939
Mining	7,117	6,126	5,933	5,741	6,491	5,814	6,765	6,822	7,727	7,787
Construction	59,119	52,415	44,038	48,503	49,782	51,094	54,483	56,717	65,278	65,093
Manufacturing	299,223	256,995	225,530	241,844	255,062	256,157	264,955	289,940	317,036	336,122
Transportation	53,866	69,930	34,556	38,345	43,525	40,728	29,009	35,272	33,769	31,262
Communications	475,675	477,281	443,576	430,847	416,347	387,780	379,013	393,980	391,511	416,319
Electric, gas, and sanitary services	215,552	236,692	215,020	237,479	239,531	239,441	245,644	252,014	247,867	260,315
Wholesale trade	450,898	393,100	361,217	398,111	438,113	436,411	447,524	460,079	499,421	527,466
Finance, insurance, real estate	17,908	12,981	17,766	14,027	13,847	14,620	15,207	18,676	22,661	29,816
Total non-retail, non-services	1,586,809	1,512,901	1,354,948	1,422,156	1,469,955	1,439,141	1,449,904	1,520,689	1,593,227	1,682,119
County Clerk	125,355	101,136	110,328	120,986	134,188	133,101	143,818	152,856	172,516	184,186
Consumer Use Tax	4,641	5,250	4,322	4,695	6,334	4,293	5,636	6,006	6,138	5,774
Flood Relief Tax Rebate	N/A	N/A	N/A	(2,649)	N/A	N/A	N/A	N/A	N/A	N/A
Disaster Relief Tax Rebate	N/A	N/A	N/A	N/A	(121)	N/A	N/A	N/A	N/A	N/A
Unclassified	N/A	N/A	N/A	N/A	208,275	258,465	279,555	278,851	305,095	321,643
Grand Total	$ 6,751,952	$ 6,280,145	$ 6,052,737	$ 6,303,256	$ 6,880,356	$ 7,005,012	$ 7,254,033	$ 7,678,148	$ 8,228,183	$ 8,543,737

Source: Revenue Collections Reports, Tennessee Department of Revenue

Notes: T.C.A 67-1-1702 requires returns, tax information and tax administration information to remain confidential except as authorized by said T.C.A.
N/A means not available
Disaster relief includes May 2010 flood tax rebate, April 2011 disaster relief, and sales tax rebate on storm shelters.
The 2012 report differed from the 2013 report in that it did not include Unclassified as a category. However, the 2013 report included the amount for 2012 and 2013. FY 2012 grand total was revised to include this amount.

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,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Governmental activities debt:										
General obligation bonds	$ 1,175,403	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437	$ 2,124,897	$ 2,162,881
General obligation commercial paper	240,626	176,308	241,390	214,217	197,770	215,146	324,366	197,686	245,536	192,956
Capital leases	11,743	10,810	16,301	15,503	14,666	13,790	21,798	20,599	20,943	19,394
Total governmental activities debt	1,427,772	1,726,060	1,946,511	1,983,928	2,325,038	2,401,566	2,342,622	2,178,722	2,389,853	2,375,231
Business-type activities debt:										
General obligation bonds	1,655									
Total business-type activities debt	1,655									
Total primary government debt	$ 1,429,427	$ 1,726,060	$ 1,946,511	$ 1,983,928	$ 2,325,038	$ 2,401,566	$ 2,342,622	$ 2,178,722	$ 2,389,853	$ 2,375,231
Debt Ratios										
Personal income	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	$ 277,316,000	$ 287,851,000	N/A
Ratio of total debt to personal income	0.67%	0.79%	0.87%	0.85%	0.96%	0.94%	0.88%	0.79%	0.83%	
Population	6,215	6,296	6,346	6,403	6,456	6,496	6,549	6,600	6,651	N/A
Net general bonded debt per capita	$ 228	$ 270	$ 304	$ 307	$ 358	$ 368	$ 354	$ 327	$ 359	
General Bonded Debt:										
General obligation bonds	$ 1,177,058	$ 1,538,942	$ 1,688,820	$ 1,754,208	$ 2,112,602	$ 2,172,630	$ 1,996,458	$ 1,960,437	$ 2,124,897	$ 2,162,881
General obligation commercial paper	240,626	176,308	241,390	214,217	197,770	215,146	324,366	197,686	245,536	192,956
Assets restricted for debt principal		(14,509)								
Total net bonded debt	$ 1,417,684	$ 1,700,741	$ 1,930,210	$ 1,968,425	$ 2,310,372	$ 2,387,776	$ 2,320,824	$ 2,158,123	$ 2,370,433	$ 2,355,837
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	71.22%	46.38%	38.01%	41.09%	41.65%	43.11%	42.55%	50.24%	49.20%	52.98%

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 5I in the basic financial statements.

Schedule 9

STATE OF TENNESSEE
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION
LAST TEN FISCAL YEARS
(expressed in thousands)

Debt Capacity(1)*

State tax revenues allocated for FYE June 30, 2016 to:		
General fund	$ 11,272,889 *	
Debt service fund	409,536 *	
Highway fund	721,948 *	
Total allocated revenues		$ 12,404,373
Legal debt service limit (10% of total allocated revenues)		1,240,437
Less: maximum annual debt service at June 30, 2017		240,693 *
Legal debt service margin		$ 999,744

* Obtained from the Office of State and Local Finance

Debt Capacity- Ten Year Trend(1)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	$ 673,070	$ 525,905	$ 489,075	$ 557,098	$ 641,583	$ 686,288	$ 648,934	$ 637,424	$ 1,168,731	$ 1,240,437
Total net debt service applicable to limit	145,721	154,803	186,684	203,866	209,820	243,779	227,401	225,620	241,023	240,693
Legal debt service margin	$ 527,349	$ 371,102	$ 302,391	$ 353,232	$ 431,763	$ 442,509	$ 421,533	$ 411,804	$ 927,708	$ 999,744
Legal debt service margin as a percentage of the debt limit	78.35%	70.56%	61.83%	63.41%	67.30%	64.48%	64.96%	64.60%	79.38%	80.60%

(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 2017		Fiscal Year 2017 Pledged Amount
	Portion Pledged	All Governmental Fund Types	
Gasoline tax	25%	$ 669,056	$ 167,264
Petroleum products fee	100%	68,241	68,241
Motor vehicle registration fee	50%	242,957	121,479
Franchise tax	100%	891,185	891,185
		$ 1,871,439	$ 1,248,169

(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,									
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Population	6,157	6,215	6,296	6,346	6,403 (est)	6,456 (est)	6,496 (est)	6,549 (est)	6,600 (est)	6,651(est)
Total personal income	$ 205,112,000	$ 213,124,000	$ 217,884,000	$ 224,358,000	$ 232,832,000	$ 243,018,000	$ 256,814,000	$ 266,467,000	$ 277,316,000	$ 287,851,000
Per capita personal income	$ 33,746	$ 34,995	$ 35,065	$ 36,489	$ 38,233	$ 39,682	$ 40,734	$ 42,241	$ 44,209	$ 46,805
Unemployment rate	5.3%	7.9%	10.9%	9.4%	9.1%	8.0%	8.2%	6.9%	5.9%	4.8%
Unemployment rate by sector:										
Trade, Transportation, and Utilities	8.1%	10.0%	16.4%	15.0%	12.9%	11.6%	12.3%	11.9%	7.8%	N/A
Government	2.0%	1.9%	2.4%	4.9%	4.4%	5.6%	5.1%	3.3%	0.2%	N/A
Education and Health Services	2.6%	3.7%	4.1%	3.6%	5.0%	4.9%	5.1%	4.6%	2.6%	N/A
Professional and Business Services	5.1%	7.1%	14.4%	9.0%	11.8%	7.3%	10.1%	8.0%	7.0%	N/A
Manufacturing	5.0%	8.4%	14.3%	13.2%	10.2%	7.7%	6.6%	6.9%	5.7%	N/A
Leisure and Hospitality	7.5%	10.4%	17.6%	12.2%	14.3%	12.2%	7.6%	7.0%	9.4%	N/A
Financial Activities	2.3%	2.8%	8.8%	8.6%	8.0%	4.2%	5.4%	2.4%	3.0%	N/A
Natural Resources, Mining, and Construction	5.1%	11.1%	30.2%	25.1%	20.1%	25.3%	19.2%	9.3%	8.3%	N/A
Other Services	2.5%	3.8%	5.2%	5.1%	8.0%	7.8%	6.3%	4.1%	7.2%	N/A
Information	4.1%	3.8%	6.6%	4.2%	2.8%	6.3%	6.8%	6.6%	N/A	N/A

Source: Population from www.census.gov; Unemployment rate by sector from www.bls.gov
All other from the University of Tennessee Economic Report to the Governor

Notes: N/A means not available

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION
FOR THE LAST CALENDAR YEAR
(expressed in percentage)

Monthly Unemployment Rate

Calendar Year 2016	
January	4.9%
February	4.5%
March	4.1%
April	3.9%
May	3.8%
June	5.0%
July	4.9%
August	5.0%
September	5.0%
October	4.8%
November	4.6%
December	4.9%

Source: https://www.jobs4tn.gov

Schedule 11

STATE OF TENNESSEE

DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY

PRIOR YEAR AND NINE YEARS AGO

	2016			2007		
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	616,900	1	20.83%	610,700	1	21.83%
Government	424,500	3	14.33%	418,600	2	14.96%
Education and Health Services	431,400	2	14.56%	352,700	4	12.61%
Professional and Business Services	404,100	4	13.64%	322,800	5	11.54%
Manufacturing	341,800	5	11.54%	379,900	3	13.58%
Leisure and Hospitality	313,300	6	10.58%	276,200	6	9.87%
Financial Activities	151,400	7	5.11%	144,800	7	5.18%
Natural Resources, Mining, and Construction	123,800	8	4.18%	137,800	8	4.93%
Other Services	110,000	9	3.71%	104,000	9	3.72%
Information	44,700	10	1.51%	50,300	10	1.80%
Total	2,961,900		100.00%	2,797,800		100.00%
	Calendar Year 2016			Calendar Year 2007		
Total State Employment	2,984,280			2,873,660		

Source: An Economic Report to the Governor of the State of Tennessee January 2017
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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government	5,040	4,947	4,866	4,786	4,705	4,703	4,327	4,299	4,348	4,740
Education	1,206	1,157	1,193	1,154	1,128	1,259	1,118	1,122	1,167	1,357
Health and social services	20,990	19,704	19,241	17,917	17,453	17,036	16,735	16,209	15,546	15,449
Law, justice and public safety	11,004	10,530	10,629	10,534	10,592	10,940	11,249	10,826	10,675	10,839
Recreation and resources development	3,901	3,698	3,640	3,564	3,515	3,458	3,431	3,441	3,377	3,394
Regulation of business and professions	754	708	717	714	706	711	724	716	688	685
Transportation	4,294	4,167	4,326	3,940	3,809	3,678	3,439	3,355	3,487	3,838
Total	47,189	44,911	44,612	42,609	41,908	41,785	41,023	39,968	39,288	40,302

Source: Department of Human Resources

Schedule 13

STATE OF TENNESSEE

OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION

FOR THE LAST TEN FISCAL YEARS

Function	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government										
Motor pool vehicles	7,392	7,562	7,536	7,621	6,530	6,280	6,181 (1)	4,462	4,374	4,265
Buildings	107	107	107	109	110	110	97	81	78	79
Machinery and equipment	3,528	3,166	3,888	4,061	4,121	5,895	6,772	6,745	6,896	7,117
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	240	242	260	249	307	229	222	187	211	209
Health and social services										
Buildings	329	320	320	316	314	330	346	340	346	345
Machinery and equipment	2,443	2,462	2,856	2,600	2,862	3,020	3,357	3,499	3,746	3,957
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	20	20	20	19	18
Armories	83	83	83	83	83	83	83	82	82	82
Machinery and equipment	3,103	3,156	3,732	4,424	4,506	5,246	6,441	6,452	6,803	6,772
Recreation and resources development										
Acreage of state parks	165,486	173,878	163,032	173,382	191,563	184,521	188,573	189,102	190,941	200,248
Machinery and equipment	2,729	2,736	2,949	2,912	3,075	3,220	3,198	3,245	3,256	3,344
Regulation of business and professions										
Machinery and equipment	147	140	148	146	151	169	230	240	841	836
Transportation										
State highways (in miles)	13,887	13,882	13,871	13,867	13,877	13,884	13,898	13,884	13,877	13,884
Bridges, state and local highways	19,563	19,536	19,595	19,595	19,659	19,729	19,746	19,776	19,793	19,840
Facilities	122	122	122	122	122	122	122	122	122	122
Buildings	708	708	708	754	754	754	755	754	752	758

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		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General government											
Tax returns processed (1)		2,802,574	2,802,137	3,005,798	3,538,518	3,670,716	3,914,540	4,682,702	4,519,309	5,068,829	5,326,693
New corporate charters registered		10,745	11,073	11,724	9,717	9,618	9,702	9,781	10,325	10,857	10,794
Investment return on total portfolio		2.00%	0.40%	0.25%	0.12%	0.12%	0.11%	0.12%	0.25%	0.50%	1.05%
Residential and commercial property reappraisals completed		255,250	511,050	677,720	525,516	185,965	1,495,789	640,264	338,538	547,191	1,389,649
Education											
Number of public schools (K-12)		1,718	1,736	1,736	1,736	1,784	1,797	1,823	1,811	1,833	N/A
Enrollment of public schools (K-12)		929,543	930,525	933,703	934,246	935,317	993,256	993,841	995,892	997,893	N/A
Number of high school graduates from public schools		57,486	60,371	62,526	62,147	62,157	62,019	61,838	62,632	64,079	N/A
Health and social services											
TennCare enrollees		1,208,871	1,233,208	1,199,611	1,208,527	1,213,521	1,187,082	1,271,151	1,429,411	1,550,066	1,397,400
Food stamp recipients		902,500	1,094,500	1,044,900	1,290,200	1,200,000	1,200,000	1,280,000	1,191,500	1,094,644	1,037,928
Percentage of population (4)		14.52%	17.38%	16.60%	20.33%	18.74%	18.59%	19.70%	18.19%	16.59%	15.61%
Temporary assistance recipients		60,000	60,000	58,000	61,500	57,000	57,000	57,000	37,041	29,889	25,496
Percentage of population (4)		0.97%	0.95%	0.92%	0.97%	0.89%	0.88%	0.88%	0.57%	0.45%	0.38%
Children in state custody (2)		8,149	7,202	7,336	7,870	8,533	8,960	8,552	8,558	8,436	8,235
Percentage of population (4)		0.13%	0.11%	0.12%	0.12%	0.13%	0.14%	0.13%	0.13%	0.13%	0.12%
Mental health institutes average daily census		780	688	575	538	517	480	479	493	488	506
Law, justice and public safety											
Correctional institutions average daily census		26,998	27,325	27,164	27,782	29,231	29,654	29,758	29,571	29,103	29,729
Department of Safety citations issued		380,586	358,104	347,571	301,394	340,575	381,588	419,122	414,310	432,832	447,417
Drivers licenses issued		1,600,000	1,625,939	1,486,722	1,409,342	1,714,905	1,734,205	1,741,379	1,732,106	1,793,921	1,769,595
Recreation and resources development											
Hunting/fishing licenses and boats registered	(est.)	690,313	707,000	689,935	547,660	586,839	538,971	569,447	577,577	537,412	511,673
Wetland acres acquired	(est.)	3,602	2,327	79	559	1,604	1,127	1,598	102,938	2,050	8,610
Number of visitors to state parks		30,672,700	28,410,067	28,404,662	30,282,836	31,036,603	29,881,059	32,063,100	33,452,320	34,004,609	37,025,015
Air pollution monitoring sites		78	89	93	32	32	41	40	33	36	32
Regulation of business and professions											
Fire safety inspections		39,518	34,241	37,920	34,539	27,058	25,601	27,724	16,508	14,037	13,742
Consumer affairs written complaints		5,797	5,481	6,240	5,818	5,541	5,407	5,447	4,654	3,821	3,704
Transportation											
Lane miles resurfaced (3)		1,968	2,893	2,261	2,317	2,298	2,596	2,447	2,239	2,219	2,585
HELP program services provided		130,062	108,460	112,438	116,865	130,941	118,773	124,823	113,429	135,058	145,755

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.

Schedule 15

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2008	$ 565,963	$ 510,261	$ 35	$ 29,158
2009	599,973	476,333	35	31,997
2010	648,298	493,304	12	43,998
2011	685,003	548,787		48,256
2012	584,147	411,729		51,469
2013	619,399	432,636		52,859
2014	650,337	467,845		55,821
2015	700,757	475,416		55,553
2016	746,986	499,862		70,543
2017	780,867	555,401		73,722

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
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
2016	190,286	102,249		10,626
2017	279,668	102,423		10,926

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)
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
2016	76,777	40,320		6,329
2017	98,754	40,394		6,332

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)
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
2016	191,688	90,092		19,914
2017	238,777	90,302		19,507

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)
2008	$ 122,334	$ 98,105	$ 1,899	$ 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
2016	155,854	92,971		11,475
2017	177,156	55,392		11,442

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
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
2016	87,608	39,101		3,793
2017	121,323	32,708		3,443

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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)
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
2016	99,705	41,897		4,077
2017	126,856	41,992		4,094

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)
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		
2016	9,098	8,605		
2017	9,327	8,631		

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)
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
2016	34,152	29,269		279
2017	33,350	29,337		283

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)
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		
2016	15,166	12,376		
2017	15,855	12,404		

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)
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
2016	11,059	9,735		44
2017	11,294	9,760		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)
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
2016	17,358	13,885		127
2017	18,508	13,908		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)
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		
2016	17,814	11,724		
2017	20,370	11,750		

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)
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
2016	29,616	17,726		65
2017	29,065	1,769		67

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)
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
2016	20,689	18,920		142
2017	21,167	18,956		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)
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
2016	22,271	16,028		40
2017	20,413	16,072		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)
2008	$ 30,403	$ 10,131		$ 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
2016	33,835	26,091		342
2017	33,337	26,142		361

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)
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
2016	35,347	27,292		162
2017	37,677	27,368		164

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Schedule 15

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

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)
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		
2016	31,988	18,643		
2017	32,381	18,715		

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)
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
2016	22,261	21,879		94
2017	23,557	21,929		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, 2017

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 366	$ 12,970	$ 31,390	$ 3,957	$ 6,739
University of Tennessee- Chattanooga	300	8,664	24,782	3,200	5,900
University of Tennessee- Martin	380	8,927	14,687	3,252	4,652
Austin Peay State University	274	8,225	24,221	3,516	6,707
East Tennessee State University	230	9,015	27,693	3,436	4,602
Middle Tennessee State University	408	8,948	27,578	3,205	5,187
Tennessee State University	178	7,776	21,132	3,840	3,770
Tennessee Technological University	258	8,873	25,529	5,900	3,500
University of Memphis	490	9,701	21,413	1,523	2,285
Chattanooga State Community College		4,351	20,959		
Cleveland State Community College		4,331	20,939	2,141	
Columbia State Community College	44	4,347	20,955	3,422	
Dyersburg State Community College		4,331	20,939	1,204	3,611
Jackson State Community College		4,317	20,925	793	2,257
Motlow State Community College		4,339	20,947	1,260	2,520
Nashville State Community College		4,257	20,865	2,130	
Northeast State Community College		4,343	20,951	2,500	1,000
Pellissippi State Community College	30	4,371	20,979	1,050	2,100
Roane State Community College		4,335	20,943	2,587	2,588
Southwest Tennessee Community College		4,347	20,955	2,740	3,296
Volunteer State Community College		4,325	20,933	1,890	2,000
Walters State Community College		4,320	20,928	2,550	1,050

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, 2017
(expressed in thousands)

Institution	Second Program Bonds	Commercial Paper	Total Debt
University of Tennessee	$ 819,777	$ 106,278	$ 926,055
Austin Peay State University	87,278	4,343	91,621
East Tennessee State University	124,190	16,085	140,275
Middle Tennessee State University	188,723	11,480	200,203
Tennessee State University	24,730		24,730
Tennessee Technological University	36,349	25,381	61,730
University of Memphis	131,583	3,979	135,562
Chattanooga State Community College	216		216
Cleveland State Community College	2,223		2,223
Columbia State Community College	1,012		1,012
Nashville State Community College	302		302
Northeast State Community College	145		145
Pellissippi State Community College	727		727
Roane State Community College	511		511
Southwest Tennessee Community College	1,394		1,394
Walters State Community College	340	8,000	8,340
	$ 1,419,500	$ 175,546	$ 1,595,046

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

NATIONAL FEDERATION OF MUNICIPAL ANALYSTS RECOMMENDED DISCLOSURES FOR STATE DEBT

In accordance with the *Recommended Best Practices in Disclosure for state Government General Obligation and Appropriation Debt*, the state makes the following voluntary additional debt disclosures not already presented in the Notes to the Financial statements.

General Disclosure Items

- The state is committed to complying with U.S. Securities and Exchange Commission Rule 15c2-12(b) (5) as it relates to continuing disclosure undertakings. The State reviewed the financial information, operating data and event notices filed by the State within the preceding five years with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system pursuant to the State's Rule 15c2-12 continuing disclosure undertakings and identified, among other things, the following.
    - Rating downgrades of several maturities of one series of the State's general obligation bonds issued in 2003 (all maturities of which series had either been refunded or had matured by August 1, 2011) based on the bonds' insurer were not the subject of material event notices due, in part, to the lack of any direct notification to the State of the specific rating impact on such bonds.
    - Watkins Institute is not deemed to be a component unit of the State and its financial information, including indebtedness, is not reported in the State's CAFR; accordingly no information on its indebtedness (currently totaling approximately $1.2 million) was reported to EMMA and will not be reported in the future.
    - Information regarding TennCare budgeted expenditures presented in tabular format in relevant Official Statements was not presented in such format in the State's CAFRs, but current-year budgeted and actual TennCare expenditures were presented in each of the State's CAFRs (other than for the 2012 fiscal year, in which only actual TennCare expenditures were presented).
    - Certain TCRS information presented in tabular format in relevant Official Statements (Unfunded Liability if Actuarial Value of Assets were Valued at Market; Historical Funding Progress Based on Fiduciary Net Position/Market Value of Assets; Historical Fiduciary Net Position/Market Value of Assets; Comparison of Market Value of Assets to Actuarial Value of Assets; and Cash Flows) was reported in different form in the State's CAFR and the comprehensive annual financial report of the TCRS filed by the State each year; in addition, both
    - The TennCare Information and the TCRS Information were also included in the same tabular format in Official Statements posted on EMMA in the last five years, except for actuarial valuation information that was not included in the 2015 Official Statement because of changes in GASB accounting rules.
- The state provides strong systemic support to assist counties and cities in financial distress. State statutes establish a proactive approach and there is no state law that permits counties and cities to file for bankruptcy. Based upon revenue and debt thresholds, cities are required to have a Chief Financial Officer who meets minimum certification and/or continuing education requirements. Local governments in Tennessee have statutory flexibility to raise property taxes and levy certain local option taxes for operating purposes without voter approval. The Local

Government Public Obligations Act establishes budgetary oversight by the state Comptroller for cities and counties with outstanding debt and requires state Comptroller review or approval for certain indebtedness. State statutes require Tennessee's counties and cities to issue financial statements in accordance with generally accepted accounting principles and to have an annual audit conducted in accordance with *Government Auditing Standards*. When a local government is in financial distress as evidenced by improper use of restricted utility resources, state statutes require corrective action and authorize the state Comptroller to approve a plan of repayment. Municipal utility systems are required to be self-supporting. The state's Water and Wastewater Financing Board (WWFB) has oversight of water and/or wastewater facilities that meet statutory criteria for financial distress. The state Comptroller has the authority to authorize counties and cities that are undergoing severe monetary stress to issue long-term funding bonds to pay for current expenditures pursuant to the Cash Basis Law of 1937. With the exception of the Emergency Financial Aid to Local Governments Law of 1995, the state does not have statutory authority to guarantee the debt of local governments. The Emergency Financial Aid to Local Governments Law of 1995 authorizes the state to guarantee the repayment of a loan made to a local government by an external lender if specific statutory conditions are met. Since the inception of the law, the state has not authorized the issuance of emergency financial aid notes. Local governments that issue funding bonds or emergency financial aid notes are subject to strict oversight by the state Comptroller.

- Relative to other direct subsidy debt:
    - The state has been subject to having the direct subsidy reimbursements, from the federal government, related to the Series 2010 Qualified School Construction Bonds (QSCBs) issuance offset by amounts due to the federal government. In general, the subsidy payment has been offset by taxes due from the state, civil penalties and federal sequestration. Other triggers that could result in the loss or reduction of subsidy payments are future federal sequestration or changes in use by the borrower.
    - The Series 2010 QSCBs issuance shall be subject to redemption prior to their stated maturities, in whole or in part, at any time at the "Make-Whole Redemption Price". The Make-Whole Redemption Price is equal to the greater of (a) 100% of the principal amount of the series to be redeemed; or (b) the sum of the present value of the remaining scheduled payments of principal and interest on the 2010 bonds to be redeemed to the maturity date of such Series 2010 Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Bonds are to be redeemed, discounted to the date on which the Series 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30 day months, at the United States Treasury Rate plus 25 basis points (0.25%); plus, in each case, accrued interest on the Series 2010 Bonds to be redeemed to the redemption date.
    - The Series 2010 QSCBs issuance shall also be subject to extraordinary optional redemption prior to maturity, at the option of the TSSBA, upon the occurrence of an extraordinary event, in whole or in part, on any business day at the "Extraordinary Make-Whole Redemption Price" The

Extraordinary Make-Whole Redemption Price is equal to the greater of (a) 100% of the principal amount of the Series 2010 bonds to be redeemed; or (b) the sum of the present value of the remaining scheduled payments of principal of and interest on the Series 2010 Bonds to be redeemed to the maturity date of such Series 2010 Bonds, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010 Bonds are to be redeemed, discounted to the date on which the Series 2010 Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year containing twelve 30 day months, at the United states Treasury Rate plus 100 basis points (1.00%); plus, in each case, accrued interest on the Series 2010 Bonds to be redeemed to the redemption date

Demographics/Economy

- The state Constitution allows the state to levy ad valorem taxes on all of the taxable property within the state for the payment of the principal and interest on the state's general obligation indebtedness; however, the state does not currently levy such a tax and has no current intent to do so.
- The state currently contracts with The University of Tennessee Boyd Center for Business and Economic Research to prepare an annual economic report to the Governor containing short-term business cycle-sensitive forecasts as well as longer-term or trend forecasts for the year and to prepare quarterly updates throughout the year. The report "An Economic Report to the Governor of the state of Tennessee" as well as any updated information can be found at: http://cber.bus.utk.edu/tefslist.htm
- See the chart below for sales and use tax information.

Tennessee Department of Revenue
Sales and Use Tax - Returns Filed and Tax by Classification
Fiscal Year Ended June 30, 2017
(Thousands of U.S. Dollars)

	Returns Filed	Total (%)	Tax Collections	Total (%)
Retail Trade and Services:				
Building Materials	24,618	2.23%	$468,750	5.49%
General Merchandise	30,045	2.72%	895,864	10.49%
Food Stores	54,391	4.93%	618,427	7.24%
Auto Dealers and Service Stations	81,111	7.35%	1,177,213	13.78%
Apparel and Accessory Stores	33,388	3.02%	239,541	2.80%
Furniture and Home Furnishings	40,261	3.65%	281,955	3.30%
Eating and Drinking Places	135,001	12.23%	838,150	9.81%
Miscellaneous Retail Stores	206,659	18.72%	818,129	9.58%
Services	255,327	23.13%	1,011,986	11.84%
All Other:				
Non-Retail, Non-Services	182,265	16.51%	1,682,119	19.69%
County Clerk	1,210	0.11%	184,186	2.16%
Consumer Use Tax	3,624	0.33%	5,774	0.07%
Unclassified	55,904	5.06%	321,643	3.76%
Total	**1,103,804**	**100.00%**	**$8,543,737**	**100.00%**

Financial statements

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

General Revenue Base

- A breakdown of the state tax revenue allocations, percent and percentage change from estimates, the legal basis for collecting the taxes, a listing of the types of transactions being taxed and any exemptions can be found in the state revenue section of the annual budget document found at http://www.tn.gov/finance/article/fa-budget-publication-2017-2018

- T.C.A 67-1-100 sets forth a Tennessee Taxpayer Bill of Rights which directs the adoption of policies which would inform and advise taxpayers of their rights and would guarantee Tennessee taxpayers are treated with fairness, courtesy and common sense. Included in the bill of rights is the right to receive a clear set of rules and procedures to resolve tax problems, the right to dispute any proposed assessment, and the right to a speedy, informal and inexpensive review of a proposed assessment in an informal conference. T.C.A 67-1-1438 contains the requirement for the commissioner of revenue to promptly issue a notice of proposed assessments when a taxpayer is determined to have failed to pay the correct amount of any tax administered by the commissioner. The section also provides the procedures for taxpayers to follow in order to request an informal conference to appeal the proposed assessment. Upon the assessment becoming final, further taxpayer remedies for disputed final tax assessments can be found in T.C.A 67-1-1801. If the taxpayer believes the final assessments to be unjust, illegal or incorrect, the taxpayer may 1) pay the tax and file a claim for refund or 2) file suit in chancery court challenging all or any portion of such tax. Refer to the contingencies note for discussion of pending litigations.

- Under state law, long-term debt cannot exceed the expected life of the project being financed. The state is also authorized to issue tax revenue anticipation notes, in anticipation of tax revenues in the then current fiscal year. The state constitution prohibits, however, the issuance of debt for operating purposes maturing beyond the end of a fiscal year.

- Section 28 of the Tennessee State Constitution set forth the assessment rates for real property, tangible personal property and intangible personal property. The section also prohibits the state from levying or authorizing any state or local tax upon the payroll or earned personal income or any state or local tax measured by payroll or earned personal income. Section 30 of the document prohibits the taxation of any article manufactured of the produce of the state, except to pay inspection fees. Further, the General Assembly shall not authorize any municipality to tax incomes, estates, or inheritances, or to impose any other tax not authorized by section 28 and 29 of Article II of the Constitution. T.C.A 9-9-104 pledges certain tax revenue collections for the debt service of bonds issued before July 1, 2013. The section also includes a covenant with the holders of the bonds, secured by the pledge, that the state will not decrease by legislative action any of the fees or taxes that constitute the special pledge, unless the funding board certifies that all debt service

- payments have been made in full or that the decreased fees will be sufficient to pay future debt service.

- As Tennessee's chief tax collector, the Department of Revenue is responsible for the administration of state tax laws and motor vehicle title and registration laws, as well as the collection of taxes and fees associated with those laws. In addition to collecting state taxes, the department collects taxes for local, county and municipal governments. On a monthly basis, the department apportions revenue collections for distribution to the various state funds and local units of government.

- Tennessee is an origin-based sales tax state for in state vendors and destination-based for out of state vendors. Vendors based in the state are required to charge the rate in effect, at the point of origin of the sale, for all sales made within the state. Vendors based out of state are required to either apply the rate in effect at the buyers ship-to address or charge a predetermined flat rate to all Tennessee buyers. Vendors collect the tax and then prepare state tax filings in a frequency based on the amount of sales tax collected from buyers in the state. Remittances must be submitted electronically except in certain hardship cases.

ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

Larry B. Martin, Commissioner
Eugene Neubert, Deputy Commissioner, F&A Operations
Mikel J. Corricelli, Chief of Accounts

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

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

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