State of Tennessee

Single Audit Report

Tennessee Comptroller of the Treasury

Comptroller of the Treasury

Division of State Audit

For the Year Ended June 30, 2010

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

March 29, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly of Tennessee
State Capitol
Nashville, Tennessee 37243-9034

Ladies and Gentlemen:

We are pleased to submit the twenty-seventh *Single Audit Report* for the State of Tennessee. This report covers the year ended June 30, 2010. The audit was conducted in accordance with the requirements of the Single Audit Act Amendments of 1996 and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This *Single Audit Report* reflects federal expenditures of over $16.9 billion. We noted instances of noncompliance that resulted in qualified opinions on compliance for four of the state's twenty-five major federal programs. In addition, we noted other instances of noncompliance that meet the reporting criteria contained in OMB Circular A-133. We also noted material weaknesses and significant deficiencies in internal control over compliance with requirements related to federal programs. The instances of noncompliance, material weaknesses, and significant deficiencies related to federal programs are described in Section III of the Schedule of Findings and Questioned Costs.

The *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2010, has been issued under a separate cover. In accordance with the standards applicable to financial audits contained in generally accepted government auditing standards, we are issuing our report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. We noted two deficiencies that we considered to be material weaknesses in internal control over financial reporting. We noted no instances of noncompliance that we considered material to the state's basic financial statements. The material weaknesses in internal control over financial reporting are described in Section II of the Schedule of Findings and Questioned Costs.

We would like to express our appreciation to the Department of Finance and Administration and other state agencies, universities, and community colleges, for their assistance and cooperation in the single audit process.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

State of Tennessee
Single Audit Report
For the Year Ended June 30, 2010

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Selected Statistical Data

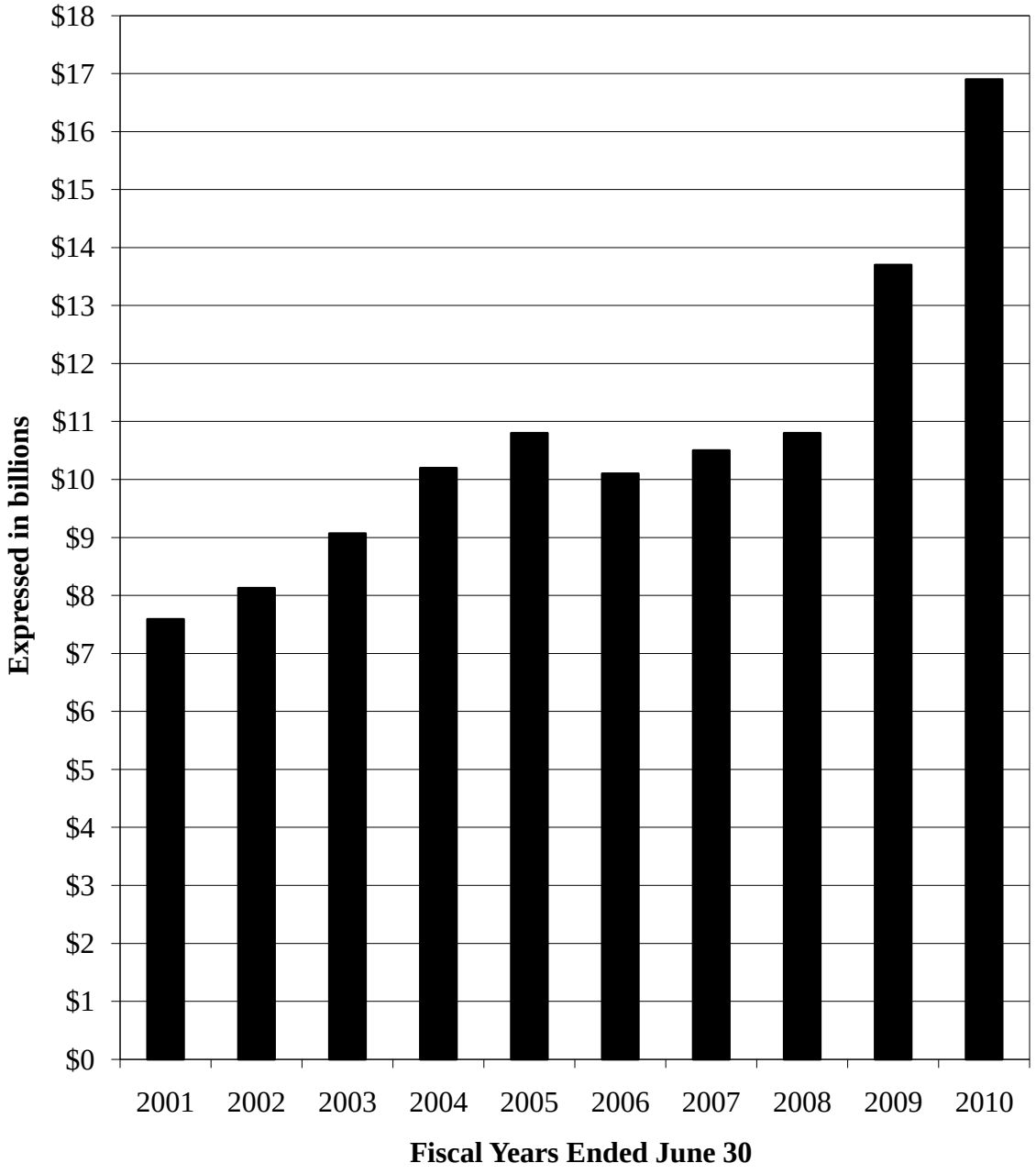
Total Federal Expenditures – Ten-Year Summary

Expenditures by Awarding Agency

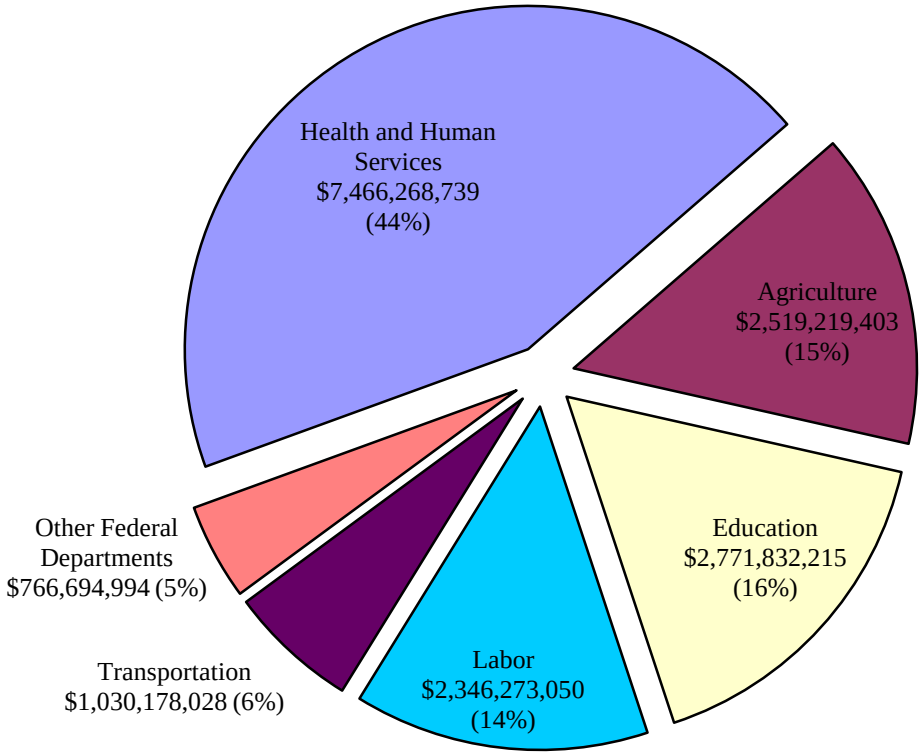
Number of Type A and Type B Programs

Type A and Type B Program Expenditures

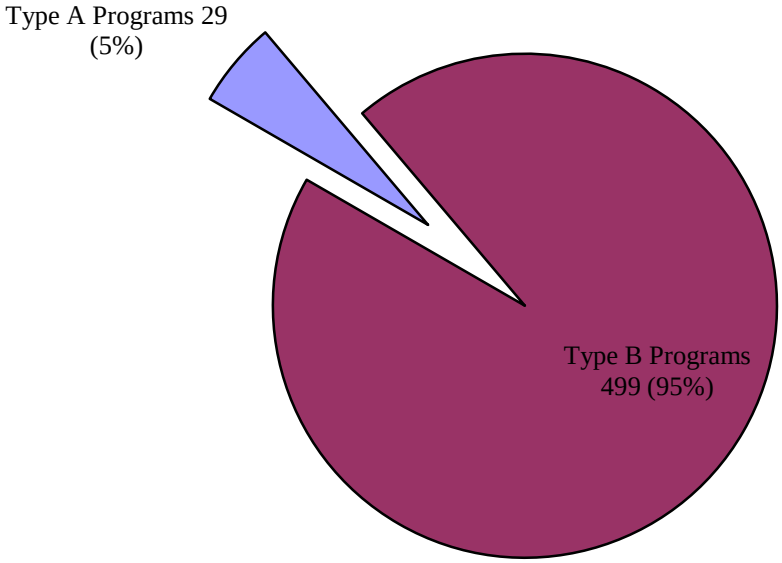
Total Federal Expenditures - Ten-Year Summary



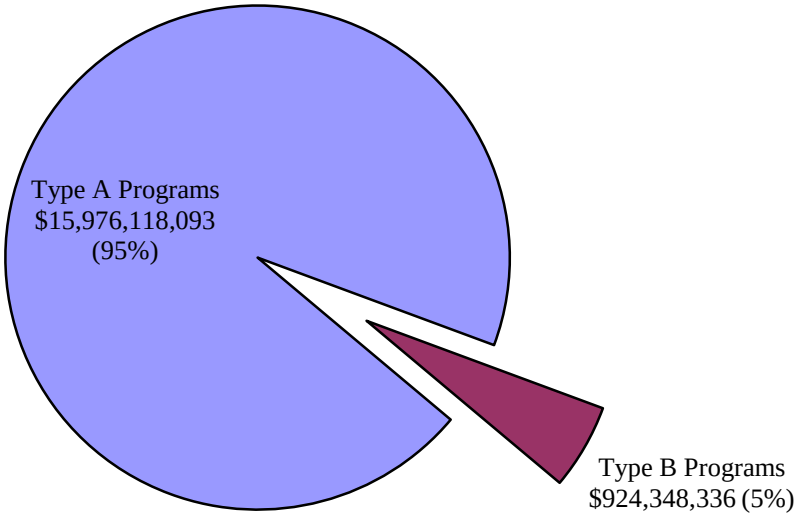
Expenditures by Awarding Agency
July 1, 2009, through June 30, 2010



Number of Type A and Type B Programs



Type A and Type B Program Expenditures



Type A programs for the State of Tennessee are defined as federal programs with expenditures exceeding the larger of $30 million or fifteen-hundredths of one percent (.0015) of total federal awards expended. For the fiscal year ended June 30, 2010, the Type A program threshold for the State of Tennessee was $32,035,041. Those federal programs with expenditures below the Type A threshold are labeled Type B programs.

Auditor's Reports

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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JAMES K. POLK STATE OFFICE BUILDING
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FAX (615) 532-2765

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

March 29, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243-9034

Ladies and Gentlemen:

We have audited the 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, 2010, which collectively comprise the State of Tennessee's basic financial statements, and have issued our report thereon dated March 29, 2011. 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 generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in 10-DFA-03 and 10-DFA-04 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

We did note certain matters that we reported to management of the State of Tennessee in separate letters.

The State of Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Tennessee's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

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

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Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

March 29, 2011

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243-9034

Ladies and Gentlemen:

Compliance

We have audited the State of Tennessee's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Tennessee's major federal programs for the year ended June 30, 2010. The State of Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Tennessee's management. Our responsibility is to express an opinion on the State of Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in generally accepted government auditing standards; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about

whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Tennessee's compliance with those requirements.

As described in the accompanying Schedule of Findings and Questioned Costs, the State of Tennessee did not comply with the requirements listed below for the federal programs listed below. Compliance with such requirements is necessary, in our opinion, for the State of Tennessee to comply with the requirements applicable to those programs.

Finding Number	Major Program Name (CFDA Number)	Types of Compliance Requirements
10-DOT-03	Formula Grants for Other Than Urbanized Areas (20.509)	Equipment and Real Property Management
10.DOT-06, 10-DOT-09	Formula Grants for Other Than Urbanized Areas (20.509)	Reporting
10-DOT-07, 10-DOT-10	Formula Grants for Other Than Urbanized Areas (20.509)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
10-DOT-08	Formula Grants for Other Than Urbanized Areas (20.509)	Subrecipient Monitoring
10-TDEC-01	Capitalization Grants for Clean Water State Revolving Fund (66.458)	Subrecipient Monitoring
10-TDEC-01	Capitalization Grants for Drinking Water State Revolving Fund (66.468)	Subrecipient Monitoring
10-DHS-01	Weatherization Assistance for Low-Income Persons (81.042)	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
10-DHS-02	Weatherization Assistance for Low-Income Persons (81.042)	Eligibility

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Tennessee complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those compliance requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 10-DCS-01, 10-DFA-01, 10-DHS-03, 10-DHS-04, 10-DOT-01, 10-DOT-02, 10-DOT-04, 10-DOT-05, 10-DOT-08, 10-DOT-09, 10-DOT-10, 10-ECD-01, 10-TSAC-01, and 10-TSAC-02.

Internal Control Over Compliance

Management of the State of Tennessee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Tennessee's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items

10-DHS-01 through 10-DHS-04, 10-DOT-03, 10-DOT-05 through 10-DOT-10, 10-TDEC-01, and 10-TSAC-02 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned costs as items 10-DCS-01, 10-DFA-01, 10-DFA-02, 10-DOC-01, 10-DOT-04, 10-DOT-10, and 10-TBR-01 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

We have audited the 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, 2010, and have issued our report thereon dated March 29, 2011. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the State of Tennessee's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The State of Tennessee's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Tennessee's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, management, and the appropriate federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

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

AAH/ras

Auditor's Findings

Schedule of Findings and Questioned Costs

Section I – Summary of Auditor's Results

Section II – Financial Statement Findings

Section III – Federal Award Findings and Questioned Costs

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I – Summary of Auditor's Results

Financial Statements

- We issued an unqualified opinion on the basic financial statements.
- We identified material weaknesses in internal control over financial reporting.
- We reported no significant deficiencies in internal control over financial reporting.
- We noted no instances of noncompliance considered to be material to the basic financial statements.

Federal Awards

- We identified material weaknesses in internal control over major programs.
- We identified significant deficiencies in internal control over major programs.
- We issued an unqualified opinion for all major programs except for Weatherization Assistance for Low-Income Persons, Formula Grants for Other Than Urbanized Areas, Capitalization Grants for Clean Water State Revolving Fund, and Capitalization Grants for Drinking Water State Revolving Fund.
- We disclosed audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed in OMB Circular A-133, Section 520(b), was $32,035,041.
- The State of Tennessee does not qualify as a low-risk auditee under OMB Circular A-133, Section 530.

State of Tennessee
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010
(continued)

Section I – Summary of Auditor's Results

CFDA Number	Name of Major Federal Program or Cluster
16.803	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories*
17.225	Unemployment Insurance*
20.509	Formula Grants for Other Than Urbanized Areas*
66.458	Capitalization Grants for Clean Water State Revolving Funds*
66.468	Capitalization Grants for Drinking Water State Revolving Funds*
81.042	Weatherization Assistance for Low-Income Persons*
84.032	Federal Family Education Loans - Guaranty Agencies
93.563	Child Support Enforcement*
93.568	Low-Income Home Energy Assistance
93.659	Adoption Assistance*
-	Research and Development Cluster*
-	Supplemental Nutrition Assistance Program Cluster*
-	Community Development Block Grants - State-Administered Small Cities Program Cluster*
-	Workforce Investment Act Cluster*
-	Highway Planning and Construction Cluster*
-	Title I, Part A Cluster*
-	Special Education Cluster (IDEA)*
-	Vocational Rehabilitation Cluster*
-	State Fiscal Stabilization Fund Cluster*
-	Immunization Cluster*
-	Temporary Assistance for Needy Families Cluster*
-	Community Services Block Grants Cluster*
-	Child Care and Development Fund Cluster*
-	Medicaid Cluster*
-	Disability Insurance/Supplemental Security Income Cluster

* Program includes ARRA funding

Section II - Financial Statement Findings

Finding Number	10-DFA-03
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration, Department of Labor and Workforce Development
Grant/Contract No.	N/A
Finding Type	Material Weakness
Compliance Requirement	N/A
Questioned Costs	N/A

Internal Controls did not prevent material misstatement in the Employment Security fund's financial statements

Finding

During our annual audit of the state's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010, we discovered material reporting errors in the financial statements of the Employment Security fund and corresponding errors in the state's general ledger. The CAFR preparers in the Department of Finance and Administration's (F&A) Division of Accounts are responsible for financial reporting for the Employment Security fund. Personnel at both the Department of Labor and Workforce Development and the Division of Accounts are responsible for ensuring that accounting transactions for the fund are properly recorded. Despite the joint responsibility, neither department prevented or detected the material misstatements in the Employment Security fund because of weaknesses in internal control at both departments.

When we were corroborating amounts in the Employment Security financial statements with supporting documentation, we found that the cash on deposit with fiscal agent amount was overstated by $93,425,982. According to the U.S. Department of Treasury website, the balance at June 30, 2010, should have been reported as $228,633,124; however, the amount on the Employment Security fund statements was $322,059,106. We also found that the general ledger was similarly misstated.

After we brought the misstatement to the attention of the CAFR preparers at the Division of Accounts, the Director of Statewide Accounting performed a detailed analysis of the cash on deposit with fiscal agent account. Although the net effect was an overstatement in cash, the analysis revealed that there were multiple issues leading to both overstatements and understatements in various Employment Security fund accounts. The largest overstatement, $100,829,161, which was in the cash on deposit with fiscal agent account, was a result of recording the same entries twice - once in STARS (legacy accounting system) by accounting personnel at the Department of Labor and Workforce Development and once in Edison (the state's new accounting system) by accounting personnel at F&A. They also recorded duplicate entries with interest revenue in the amount of $3,086,318. In addition, accounting personnel at the Department of Labor and Workforce Development failed to record $2,660,247 in the cash on deposit with fiscal agent account and $13,005,404 in federal revenue.

Although the duplication errors described above were primarily caused by weaknesses in internal controls, as discussed later in this finding, a lapse in communication between the Department of Labor and Workforce Development and F&A was a contributing factor. The Department of Labor and Workforce Development was scheduled to convert from STARS to Edison on October 1, 2009; however, according to the Administrator of Fiscal Services at the Department of Labor and Workforce Development, they were unable to enter any transactions into Edison through December 2009. He further stated that it was not until March 2010 that it was decided that F&A would enter the cash transactions into Edison for the time period October 2009 through April 2010. The Administrator also disclosed that the Fund Accounting personnel at the Department of Labor and Workforce Development forgot to tell F&A they had already entered the October 2009 through December 2009 cash transactions into STARS.

The Edison conversion delays created a backlog of transactions at the Department of Labor and Workforce Development, which contributed to the unrecorded transaction errors. According to the Administrator, Fund Accounting personnel spent most of their time from June 2010 through October 2010 entering the bulk of the fiscal year 2010 transactions into Edison as instructed by Edison personnel. Our review of Edison data confirmed that the majority of the transaction lines, 26,258, or 89%, for the year ended June 30, 2010, were not posted until June 2010 or later. Based on discussion with the Administrator, the backlog created a strain on Fund Accounting personnel, and they did not have the time to put proper checks and balances in place. As a result, some transactions were not posted.

The backlog of transactions also resulted in an error with a component of accounts receivable. Fund Accounting personnel did not update the general ledger or modify the statements for the claimants' component of accounts receivable. The amount reported was the June 30, 2009, balance of $13,630,972; however, the balance at June 30, 2010, should have been $17,307,982.

Conclusion

Though various factors contributed to the errors discussed in this finding, weaknesses in internal controls at both the Department of Labor and Workforce Development and F&A were

the primary cause. A properly designed and functioning system of internal controls should allow employees in the normal course of performing their assigned functions to prevent or detect misstatements.

Departments have a mechanism for identifying areas where risks of misstatement could occur, the control activities in place to mitigate the risk, and whether the control is operating effectively. This mechanism is an annual risk assessment that is required by state law. In the Department of Labor and Workforce Development's annual risk assessment, management identified the risk of duplicate transactions, but they did not identify any control activities in place to mitigate the risk. They also identified the risk that "processed transactions and procedures fail to timely provide data to compile financial statements that are accurate and reliable." Management addressed the accuracy and reliability portion of the risk by stating that the fund financial statements are audited by State Audit. However, we perform an external audit, and basic accounting principles are clear in that an external audit is not considered an internal control. Management at F&A identified the same financial reporting risk in their annual risk assessment that "processed transactions and procedures fail to timely provide data to compile financial statements that are accurate and reliable." They also identified control activities in place to mitigate the risk, "management's intention is to review accounting reports monthly instead of at end of year; reconciliations are performed on cash balancing." Despite management of both departments identifying these risks, they did not implement effective internal controls to prevent or detect the material reporting errors discussed in this finding.

Although these financial statement errors have now been corrected for the published CAFR and adjusting entries have been posted to the general ledger, it does not negate the fact that the financial statements of the Employment Security fund, as originally prepared, were materially misstated. The fund is considered major for financial reporting purposes, meaning it is material to the state as a whole.

As the financial report for the state, the CAFR presents the financial position and changes in financial position of the State of Tennessee. The report users, which include citizens, taxpayers, the General Assembly, and bond ratings agencies, rely on the fair presentation of the financial statements to make critical decisions. They cannot make well informed decisions if the financial statements are materially misstated.

Recommendation

The Commissioners of the Department of Labor and Workforce Development and the Department of Finance and Administration should ensure the risks discussed in this finding are adequately mitigated by ensuring effective internal controls are implemented by department personnel. The Administrator of Fiscal Services at the Department of Labor and Workforce Development should compare the amount of federal cash in the general ledger at fiscal year-end to the U.S. Department of Treasury's website. Management at the Department of Finance and Administration needs to address the risk of reliance on departments' input of information in the ledger to ensure financial statements are fairly presented. In addition, management at the

Division of Accounts should continually review and update its financial statement review procedures.

Managements' Comments

Department of Finance and Administration

We concur. The objectives of internal control are to provide us with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed in accordance with our authorization and recorded properly to permit the fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles. A part of our internal control involves analytical review of the financial statements. This analytical review was conducted and did not reveal a material misstatement. The net impact of the subject errors was a net 4.6% understatement of combined general ledger state depository cash and cash on deposit with fiscal agent, and likewise, a 1.8% understatement of accounts receivable. Just as there are inherent limitations in the auditing process, there are inherent limitations in a system of effective internal control. The auditors made us aware of information available on the U.S. Treasury Trust Fund website and we have incorporated that step in our analytical review process for the future.

In the current state organizational structure, state agencies maintain their own fiscal offices with responsibility for ensuring proper accountability and accounting treatment for their financial activity. The majority of problems encountered in closing the Employment Security Fund's 2010 general ledger occurred outside the normal business process while converting information during the implementation of Edison. When the Department of Finance and Administration detected the problems, we assigned experienced staff to work directly with the Department of Labor and Workforce Development on error-correction and conducted an enhanced analytical review of its trial balance. Percentage misstatements like those noted above are typically not revealed in an analytical review. Thus, the internal control environment at the agency fiscal office is paramount in detecting such misstatements. To enhance communications, and the controls and procedures in place for addressing risks of reliance on the financial information processed by state agencies, the department will expand its use of agency year end closing checklists in an attempt to ensure that agency fiscal offices perform necessary reconciliations and detailed analytical reviews. This should assist them in understanding their level of responsibility and make them more accountable for their financial activity.

Department of Labor and Workforce Development

We concur with the Division of State Audit's finding that financial data for FY 09-10 posted to Edison (the state's new accounting system) with respect to the Tennessee Unemployment Trust Fund was materially misstated. We believe that the difficult conversion from STARS (the state's legacy accounting system) to Edison was the underlying cause of the transaction errors that led to the misstatement.

As noted in the finding, the Department of Labor was scheduled to convert from STARS to Edison on October 1, 2009, but there were delays in Fund Accounting's ability to enter transactions into Edison. Because of these delays, Fund Accounting personnel entered 89% of the transactions for the fiscal year ended June 30, 2010, from June 2010 through October 2010. In addition, while other staff assisted in entering transactions, communication issues led to this staff duplicating entries in Edison that had already been input into STARS. Fund Accounting staff were not working under normal conditions during fiscal year 2010.

The Fund Accounting Unit continues to implement Edison as its accounting system. Staff will use available Edison queries to monitor Edison activity for timeliness, completeness, and accuracy. Staff will perform the appropriate reconciliations to ensure that the state's accounting records are in agreement with the U.S. Treasury's records, which will include comparing the amount of federal cash in the general ledger at fiscal year-end to the U.S. Department of Treasury's website. Management will update the annual risk assessment to note the improved internal controls in the Fund Accounting Unit.

Finding Number	10-DFA-04
CFDA Number	N/A
Program Name	N/A
Federal Agency	N/A
State Agency	Department of Finance and Administration, Department of Transportation
Grant/Contract No.	N/A
Finding Type	Material Weakness
Compliance Requirement	N/A
Questioned Costs	None

Internal controls did not prevent or detect material misstatements in the Highway fund's financial statements

Finding

During our annual audit of the state's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010, we discovered material reporting errors in the financial statements of the Highway fund and corresponding errors in the state's general ledger. The CAFR preparers in the Department of Finance and Administration's (F&A) Division of Accounts are responsible for financial reporting for the Highway fund. Personnel at both the Department of Transportation (DOT) and the Division of Accounts are responsible for ensuring that accounting transactions for the fund are properly recorded. Despite the joint responsibility, neither department prevented or detected the material misstatements in the Highway fund because of weaknesses in internal control at both departments.

When we were performing analytical procedures to substantiate financial statement balances, we found that the deferred revenue balance was significantly different from that in prior years. We discussed this issue with an Executive Administrative Assistant at DOT to obtain further information about the functionality of the account and to determine whether there was a change in business processes that would explain the significant difference in deferred revenue. She could not immediately identify a reason why the balance significantly decreased. She then performed a detailed analysis on deferred revenue and determined that the balance at June 30, 2010, should have been $10,271,000. Thus the amount actually reported in the financial statements, $562,000, was an understatement of $9,709,000. The error in deferred revenue also led to a corresponding understatement in accounts receivable.

The understatement in deferred revenue was a result of one correcting journal entry that was in error. F&A personnel instructed DOT personnel to post an amount to the deferred revenue account; however, the amount was incorrect. F&A personnel determined the amount under the assumption that a certain business process in Edison (the state's new accounting system) had run prior to fiscal year end, when in fact it had not. DOT personnel did not inform F&A personnel that this process had not run. The result was an understatement of deferred revenue and an understatement of accounts receivable.

Conclusion

A properly designed and functioning system of internal controls should allow employees in the normal course of performing their assigned functions to prevent or detect misstatements. However, controls at neither department prevented or detected the material misstatements.

Departments have a mechanism for identifying areas where risks of misstatement could occur, the control activities in place to mitigate the risk, and whether the control is operating effectively. This mechanism is an annual risk assessment that is required by state law. In the Department of Transportation's annual risk assessment, management identified the risk that "processed transactions and procedures fail to timely provide data to compile financial statements that are accurate and reliable." Management assessed this risk as low and, as a result, did not identify any control activities designed to mitigate this risk. Management at F&A identified the same financial reporting risk in their annual risk assessment. They identified control activities in place to mitigate the risk, stating that "management's intention is to review accounting reports monthly instead of at end of year" and that "reconciliations are performed on cash balancing." Despite management of both departments identifying these risks, they did not implement effective internal controls to prevent or detect the material reporting errors discussed in this finding.

Although CAFR preparers perform analytical reviews in preparation of the financial statements, they typically do not seek explanations for significant variances beyond the general ledger. However, if the error originates in the general ledger, the significant variance might seem to have a valid explanation, when in fact it does not. This could result in inclusion of a material misstatement in the financial statements, as was the case with the deferred revenue account discussed in this finding.

Although these financial statement errors have now been corrected for the published CAFR and adjusting entries have been posted to the general ledger, it does not negate the fact that the financial statements of the Highway fund, as originally prepared, were materially misstated. The Division of Accounts has classified the fund as major for financial reporting purposes, meaning it is material to the state as a whole.

As the financial report for the state, the CAFR presents the financial position and changes in financial position of the State of Tennessee. The report users, which include citizens, taxpayers, the General Assembly, and bond ratings agencies, rely on the fair presentation of the financial statements to make critical decisions. They cannot make well-informed decisions if the financial statements are materially misstated.

Recommendation

The Commissioners of the Department of Transportation and the Department of Finance and Administration should ensure the risks discussed in this finding are adequately mitigated by ensuring effective internal controls are implemented by department personnel. Management at

DOT should exercise the same standard of care in posting entries provided by F&A as they do when posting the entries they prepare. Management at the Division of Accounts should continually review and update its financial statement review procedures. For example, consideration should be given to incorporating review of evidence outside the general ledger to corroborate the reasons for significant variances. Management at F&A should also address the risk of reliance on departments' input of information in the ledger to ensure financial statements are fairly presented. The Chief of Accounts at F&A stated that the Division of Accounts would take a more proactive approach by hosting regular meetings with department personnel in preparation of the fiscal year 2011 CAFR.

Managements' Comments

Department of Finance and Administration

We concur. The objectives of internal control are to provide us with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed in accordance with our authorization and recorded properly to permit the fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. A part of our internal control involves analytical review of the financial statements. This analytical review was conducted and did not reveal a material misstatement. The involved misstatement was a misclassification of prepaid funding as a reduction of receivables that had a net zero fund balance impact. When our review reveals a variance for which we can find no explanations, we currently expand the review to other procedures. In this instance, Division of Accounts discussed some of the journals involved with DOT. Just as there are inherent limitations in the auditing process, there are inherent limitations in a system of effective internal control.

In the current state organizational structure, state agencies maintain their own fiscal offices with responsibility for ensuring proper accountability and accounting treatment for their financial activity. Thus, the internal control environment at the agency fiscal office is paramount in detecting such misstatements. To improve communication with agency fiscal offices, we will develop a checklist for future closings to ensure that agency fiscal offices perform necessary reconciliations and detailed analytical reviews so that they may be more accountable for their financial activity.

Department of Transportation

We concur. A contributing factor in not detecting this misstatement was the unusually large number of lines to be reviewed on the journal entry in question. To reduce the number of lines, financial transactions, journals, and other accounting data will be processed more timely and the results reviewed on a regular basis. Procedures, checklists, and other methods are currently being developed by the Department of Finance and Administration, which will be used to validate appropriate transactions and account balances.

Section III – Federal Award Findings and Questioned Costs

Finding Number	10-ECD-01
CFDA Number	14.228
Program Name	CDBG – State-Administered Small Cities Program Cluster
Federal Agency	Department of Housing and Urban Development
State Agency	Department of Economic and Community Development
Grant/Contract No.	B-09-DC-47-0001, B-08-DC-47-0001, B-07-DC-47-0001, B-06-DC-47-0001, B-05-DC-47-0001, B-04-DC-47-0001, B-99-DC-47-0001
Finding Type	Noncompliance
Compliance Requirement	Reporting
Questioned Costs	None

The Department of Economic and Community Development did not file quarterly reports to the United States Department of Housing and Urban Development in a timely manner

Finding

The Tennessee Department of Economic and Community Development (ECD) failed to submit six consecutive quarterly *Federal Cash Transactions Report*s (SF-272) to the United States Department of Housing and Urban Development (HUD) on time including the most recent quarterly report due, January 21, 2011. Among these six delinquent reports were all four of ECD's quarterly SF-272 reports for the state fiscal year ended June 30, 2010.

In June 2010, ECD's failure to submit the first three fiscal year 2010 quarterly reports resulted in a finding issued by the HUD. The finding included HUD's recommendation that ECD submit the three delinquent reports within 30 days of the date of the HUD Finding letter dated July 17, 2010, along with ECD's certification that future reports would be completed and submitted on time from that point forward. The finding also included an admonition that ECD had not notified HUD about the delay in preparation of the quarterly reports. We contacted the HUD representative and determined that ECD's delinquent reports for the quarters ending October 31, 2009; December 31, 2009; and March 31, 2010, were received by HUD on July 16, 2010, in compliance with HUD's request.

Since the HUD finding in June 2010, ECD has continued to submit late SF-272 reports: those for the quarters ending June 30, 2010; September 30, 2010; and December 31, 2010.

HUD regulations require ECD to submit the quarterly SF-272 Forms no later than 15 working days following the end of each quarter. The actual submission dates were:

Quarter Ending	Due Date	Submission Date	Days Late
September 30, 2009	October 21, 2009	July 6, 2010	258
December 31, 2009	January 21, 2010	July 13, 2010	173
March 31, 2010	April 21, 2010	July 14, 2010	84
June 30, 2010	July 21, 2010	September 3, 2010	44
September 30, 2010	October 21, 2010	November 3, 2010	13
December 31, 2010	January 21, 2011	Pending	

According to the Director of Accounting for ECD's Grants & Loans, the transition to the State's new Enterprise Resource Planning system, Edison, caused delays in determining the correct information to include on the SF-272 reports since Edison does not provide transaction reports in the same format as the previous accounting system, and ECD employees had to determine how to identify required data in Edison. In addition, the report for the quarter ending December 31, 2010, has been delayed because the employee who prepares that report is out for medical reasons.

The HUD representative indicated that communications from ECD were minimally responsive and that if ECD had been more responsive and communicative earlier, the department might have avoided the HUD finding. The Director of the Community Development Block Grant programs has contacted the HUD regional office to notify them that the quarter ending December 31, 2010, report will be late. However, he has not received a written confirmation from HUD for the exception to the submission requirements.

Failure to submit the quarterly reports on time increases the likelihood that the HUD would not have complete and accurate information to make financial decisions. Federal decision makers could overlook the needs of communities in Tennessee in favor of applicants that submitted timely financial information needed to make decisions.

Recommendation

The Director of the CDBG programs should ensure that quarterly reports are submitted in accordance with HUD's requirements. When it appears unlikely that the department will meet the required due date, the director should promptly request an appropriate extension from HUD in writing. The Director should maintain documentation of all approved extensions.

Management's Comment

We concur. The department is committed to stewardship and accountability of federal and state funds and has begun the process of establishing new business practices that will align with Edison, the state's new Enterprise Resource Planning system. The new business practices will allow for timely submittal of the quarterly Federal Cash Transactions Reports (SF-272) to HUD.

While the program management staff maintain they have communicated the reporting issues to HUD in the past, we will also adhere to the recommended practice of being more responsive and promptly requesting extensions in writing, if it appears the department will not meet the required deadline. This is the first finding the Department of Economic and Community Development has received from the United States Department of Housing and Urban Development (HUD) since 1988.

Finding Number	10-DOT-01
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Federal Highway Administration
State Agency	Department of Transportation
Grant/Contract No.	ARRA/STP-M-4967(3); STP 0025036
Finding Type	Noncompliance
Compliance Requirement	Allowable Costs/Cost Principles
Questioned Costs	$842.93

Department of Transportation staff inappropriately charged expenditures to the Highway Planning and Construction program, resulting in federal questioned costs of $842.93

Finding

The Federal Highway Administration provides funds under the Highway Planning and Construction program to assist states in the planning and development of an integrated, interconnected transportation system by constructing and rehabilitating the National Highway System, including interstate highways and most other public roads. Although freight charges and equipment use charges are allowable expenditures under this program if properly documented, the Department of Transportation charged $842.93 of expenditures for freight charges and equipment use charges to the federal Highway Planning and Construction program when in fact it had not incurred these costs.

We tested 40 randomly selected transactions charged to federal highway and construction grants and contracts for the period July 1, 2009, through April 30, 2010, which included 20 transactions from American Recovery and Reinvestment Act of 2009 (ARRA) funds and 20 transactions from non-ARRA funds. For 2 of 40 expenditures we tested, we found that the department had not actually incurred the costs and had charged the federal grant in error on two separate occasions. The details of the two exceptions are discussed below.

- For one ARRA-funded expenditure transaction, we found that a railroad company submitted a progress billing totaling $98,271.15 to the department for reimbursement. This progress billing included a freight charge of $839.08 from a stone supplier. The department's Project Engineer and Roadway Specialist 2 approved the railroad company's progress billing for payment even though the supplier's invoices did not reflect that the railroad company had actually incurred the freight costs. A railroad company representative stated that a freight charge usually accompanies the type of product the supplier delivered. However, in this instance, the railroad company did not pay the supplier a freight charge and mistakenly left the freight charge calculation in the spreadsheet used to produce the railroad company's progress billing. The railroad company representative said that the railroad company will give the department a credit for $839.08 on the next progress billing they submit. Departmental personnel explained that the lack of documentation for the freight

charge was overlooked by the Project Engineer due to the high volume of invoices processed. As a result of the department's error on the railroad company reimbursement, the department inappropriately charged the federal grant for costs that were not incurred. Federal questioned costs were $839.08. We tested a sample of expenditures totaling $2,387,342.49 from a population of $253,447,467.48.

We followed up on this item with the Transportation Technician 1, and he provided documentation showing that the railroad company did credit the department for the $839.08 on a subsequent invoice, which was processed in November 2010.

- For the other non-ARRA expenditure transaction, the Transportation Assistant 1 overstated a federal expenditure related to equipment (vehicle) use charges. The Fiscal Director 2 explained that this error occurred because the Transportation Assistant 1 did not properly update the beginning mileage for a vehicle following the department's conversion to the Financial Supply Chain Management (FSCM) component of Edison (the state's new accounting system) in July 2009. Therefore, the Transportation Assistant calculated the equipment use based on an incorrect beginning vehicle mileage of 134,608 rather than the correct beginning mileage of 134,621, a difference of 13 miles. As a result, the equipment use charge calculation was $236.94 instead of the correct calculation of $232.13. Of the $236.94, the department charged $189.55 to the federal program rather than the allowable $185.70, resulting in $3.85 of federal questioned costs. The Fiscal Director 2 discovered this overstatement error while gathering supporting documentation for equipment use charges for our audit team but after the expenditure had been charged to the federal program. We tested a sample of expenditures totaling $176,193.71 from a population of $438,720,192.81.

OMB Circular A-133 requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs for these conditions exceed $10,000.

Recommendation

The Director of Finance and the Assistant Director of Finance should ensure that the federal questioned costs are reimbursed to the Federal Highway Administration. In addition, management should continue to emphasize to staff that adequate supporting documentation should be present before reimbursement requests are approved for payment. Management should also continue to emphasize to staff that equipment use records should be properly updated to ensure the accuracy of amounts used to calculate expenditures.

Although the risks associated with noncompliance with federal regulations were identified and assessed in the Finance Office's risk assessment, management should continue to assess risks of noncompliance with federal regulations and ensure controls are in place to mitigate those risks.

Management's Comment

We concur. This is a result of mistakes made on two transactions. One was a freight charge of $839.08 and the other was a charge for TDOT equipment usage of $3.85.

A credit invoice for the freight charge was received and processed in November 2010. The details for equipment usage are recorded in Fleet and summary records for equipment usage charges are interfaced to Edison. An acceptable process to correct equipment usage mistakes in Edison is still being developed. Once a process has been developed, tested and implemented, a correction for $3.85 will be entered.

Finding Number	10-DOT-02
CFDA Number	20.205
Program Name	Highway Planning and Construction Cluster
Federal Agency	Federal Highway Administration
State Agency	Department of Transportation
Grant/Contract No.	STP 9900005
Finding Type	Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Questioned Costs	$79.32

The Department of Transportation overcharged the Federal Highway Administration when it used an incorrect matching percentage, resulting in federal questioned costs of $79.32

Finding

The Department of Transportation (DOT) overcharged the Federal Highway Administration by using an incorrect matching contribution rate under the Highway Planning and Construction program. The Federal Highway Administration (FHWA) required an 80% to 20% federal/state match for all project costs.

To determine if DOT charged the allowable matching contributions for project expenditures, we tested 20 randomly selected transactions charged to federal highway and construction grants and contracts for the period July 1, 2009, through April 30, 2010. We found that for one sample expenditure totaling $396.60, the department charged the FHWA for 100% of the expenditure, rather than the allowable 80% federal share ($317.28), resulting in federal questioned costs of $79.32 which should have been funded with state dollars.

The Assistant Director of Finance agreed that the department should have charged the FHWA for 80% of the expenditure amount instead of 100%. She believes that this error occurred because the Account Clerk failed to use a speedchart when entering the transaction into Edison (the state's new accounting system), which caused the entire expenditure amount to be calculated as federally funded instead of properly split between federal and state funding. The department uses speedcharts, which are a combination of chart fields, to calculate the federal and state shares of expenditure transactions. The Assistant Director of Finance stated that they were currently unable to verify whether or not staff members have used a speedchart for the FHWA projects as they have been instructed to do. She also stated that they are in the process of correcting the funding percentages for the expenditure in question through a journal voucher, and once the funding percentages are corrected and the correction hits the billing reports, the FHWA will be given a credit for the $79.32 that was overcharged. When fiscal staff fail to use a speedchart, the risk of incorrect matching is increased, and the department risks overcharging or undercharging the federal program.

The Assistant Director of Finance stated that she believes that the overbilling error would have been caught internally during the final voucher process for the project associated with the expenditure, a process which requires the department to verify that the applicable federal versus state funding percentages were used. We reviewed the Final Voucher/Project Closeout for Federal Projects instructions, which appear to support her assertion.

The DOT FHWA project expenditures totaled $438,720,192.81. We sampled a total of $176,193.71, and we found federal questioned costs of $79.32. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," requires us to report all known questioned costs when likely questioned costs exceed $10,000 for a federal compliance requirement. We believe likely questioned costs for this condition exceed $10,000.

Recommendation

The Director of Finance and the Assistant Director of Finance should ensure that the FHWA is reimbursed for the $79.32 that was overcharged. The Director of Finance should continue to emphasize to staff members the importance of using the appropriate speedchart when entering transactions into Edison and provide additional training to staff members on the proper use of speedcharts.

Management's Comment

We concur. An invoice for $396.60 was apparently entered without using a speedchart and 100% of the amount was mistakenly charged to the FHWA. This resulted in an overcharge to the FHWA of $79.32, since the allowable amount was 80% of $396.60 or $317.28. A correcting entry was posted on October 27, 2010.

Finding Number	10-DOT-08
CFDA Number	20.205, 20.509
Program Name	Highway Planning and Construction, Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Highway Administration Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	N/A
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	None

In some instances, the department did not comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse, and noncompliance by subrecipients

Finding

The Department of Transportation (DOT) did not always comply with the state's subrecipient monitoring guidelines as described in the Department of Finance and Administration's Policy 22, "Subrecipient Contract Monitoring," and the *Tennessee Subrecipient Contract Monitoring Manual*. In our sample testwork on subrecipient monitoring activities, we noted the following deficiencies:

- program area staff did not complete risk assessment forms for 76% of the subrecipient contracts that we tested in our initial sample and did not complete 33% of the subrecipient contracts that we looked at in subsequent testwork;

- fiscal monitors did not properly complete subrecipient monitoring reviews for 60% of the contracts that we tested, and some programmatic reviews did not address all applicable compliance requirements; and

- the Fiscal Director II did not obtain subrecipient corrective action plans for 36% of the contracts that we tested.

In addition, when we reviewed Davis-Bacon Act compliance for the ARRA - Formula Grants for Other Than Urbanized Areas program, we found that program staff in the Division of Multimodal Transportation Resources did not properly monitor for Davis-Bacon Act compliance for the two subrecipients with construction projects.

Policy 22, which establishes uniform monitoring of subrecipients by state agencies, states that all monitoring activities should address "[t]he applicable core monitoring areas, as defined by the OMB [Office of Management and Budget] Circular A-133 Compliance Supplement. Currently, these core areas include: activities allowed or unallowed; allowable costs/cost

principles; cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, and earmarking; period of availability of funds; procurement, suspension and debarment; program income; real property acquisition and relocation assistance; reporting; and special tests and provisions." The *Tennessee Subrecipient Contract Monitoring Manual*, which provides Policy 22 implementation guidance, describes the following steps as a part of subrecipient monitoring:

- *Risk assessment and assignment* - When selecting and prioritizing contracts for monitoring each year, one of the factors that agencies should consider is the risk the subrecipient poses to the state. A risk assessment should be completed for each subrecipient on an annual basis in order to make this determination.

- *Monitoring cycle* - Agencies should indicate if their monitoring cycle is based on the state fiscal year (July 1-June 30) or the federal fiscal year (October 1-September 30). This cycle will dictate when the new monitoring year for the agency begins and ends, thereby defining the timeframe the agency has to complete the monitoring reviews.

- *Corrective action process* - Subrecipients are required to submit a corrective action plan outlining the steps that will be taken to correct any findings identified in monitoring reports. Agencies must have a process in place to review and approve these corrective action plans and, if needed, provide additional support to the subrecipient to assist them in developing solutions for correcting any monitoring report findings.

Based on our discussions with the External Audit Director, who is in charge of the department's subrecipient monitoring efforts, the department's subrecipient monitoring activities are divided between the Finance Office's External Audit Section and the program areas. According to the External Audit Director, the program areas' reviews are to include the following compliance requirements: activities allowed or unallowed, the Davis-Bacon Act, eligibility, reporting, special tests and provisions (if programmatic in nature), and Title VI (which is a department-specific requirement) while the remaining requirements are under the External Audit Director's responsibility.

Some Program Area Staff Did Not Complete Risk Assessment Forms

We tested the department's monitoring of 25 contracts, 5 involving American Recovery and Reinvestment Act of 2009 (ARRA) funds and 20 non-ARRA contracts. We found that program area staff did not complete risk assessment forms for 19 of the 25 subrecipient contracts tested (76%, 4 ARRA and 15 non-ARRA). Based on our discussions with the External Audit Director, each program area is responsible for preparing a risk assessment form for each subrecipient and for preparing a list of all its subrecipient contracts including the assigned risk level resulting from completion of the risk assessment form. Each program area staff is supposed

to send their subrecipient lists to the External Audit Director and maintain the individual risk assessment forms to support the assigned risk for the subrecipients.

Based on our review, we found that:

- Four of the ARRA contracts and three of the non-ARRA contracts without risk assessment forms were the responsibility of the Division of Multimodal Transportation Resources (DMTR). DMTR's Compliance Coordinator stated that although she did not prepare risk assessment forms for each subrecipient, she determined the risk level based on the following factors: whether ARRA funds were involved, if there were past monitoring findings, how long the subrecipient had been in the program, and if she received special input from the program managers or DMTR management. All of these factors appear to be relevant in the determination of the risk level, but the individual factors considered for each subrecipient were not documented on a risk assessment form.

- The remaining 12 non-ARRA contracts were the responsibility of the Office of Local Program Development. Staff of this office did not complete risk assessment forms for their subrecipients. According to the Transportation Coordinator for Local Program Development, she was not aware that the annual risk assessments were required. She stated that she labeled all ARRA contracts as high risk and all non-ARRA contracts as medium risk. Her labeling of the ARRA contracts as high risk appeared appropriate, but we could not evaluate the medium risk label for all non-ARRA contracts without preparation of an individual risk assessment form for each subrecipient.

In addition, we found that for the five ARRA contracts tested, the Compliance Coordinator for DMTR (responsible for four of the contracts) and the Grant Monitoring Manager for the Aeronautics Division (responsible for one of the contracts) incorrectly assigned a medium risk to the ARRA contracts and reported these contracts to the department's External Audit Section. Appendix 7 of the OMB Circular A-133 Compliance Supplement states that auditors "should consider all Type B programs and clusters with expenditures of ARRA awards to be programs of higher risk." Because the responsible coordinator and manager did not properly identify the subrecipients' contracts as high risk, the department could have failed to monitor. In these cases, because the External Audit Director was aware of the ARRA funding and the federal requirement, he treated all of the ARRA contracts as high risk when selecting the contracts for monitoring. According to the External Audit Director, the fiscal monitors are more likely to perform on-site visits for those contracts that are properly identified as high risk.

After we performed our initial sample testwork to determine the department's compliance with monitoring requirements, we performed additional testwork in the Division of Multimodal Transportation Resources specific to the three not-for-profit agencies that participated in DMTR's Intercity Bus Service Demonstration Program. Based on our review, the Compliance Coordinator did not prepare a risk assessment form for one of the three subrecipient contracts tested (33%). As noted above, the Compliance Coordinator generally determined the risk level

for each subrecipient based on a number of factors, but she did not document these considerations on an individual risk assessment form.

Monitors Did Not Properly Complete Subrecipient Monitoring Reviews

For 15 of the 25 subrecipient contracts tested (60%, one ARRA and 14 non-ARRA), the department's External Audit Section either failed to initiate (before September 30, 2010, the end of the department's annual monitoring cycle) a fiscal monitoring review or failed to determine whether the subrecipients' contracts met the department's expenditure threshold for staff to initiate monitoring activities. Based on our discussions with the External Audit Director, his staff had difficulty in completing the required fiscal reviews due to uncertainties as to when the contractors would expend the minimum level to require monitoring activities. In addition, fiscal monitors experienced difficulties tracking contract expenditures in Edison (the state's new accounting system). A Planning Analyst 5 at the Department of Finance and Administration's Office of Audit and Consulting Services (the office coordinates the state's subrecipient monitoring effort) stated that, while state departments and agencies face some issues outside their direct control, he would have expected DOT to have at least started the monitoring process on all contracts identified for review before the end of the monitoring cycle.

We also noted during our review that some program staff did not list all the required core monitoring areas in their programmatic review reports as discussed below.

- For one of the five ARRA contracts tested (20%), the Aeronautics Division's program staff did not address the subrecipient's compliance with the Davis-Bacon Act in its programmatic review report. The Aeronautics Grants Monitoring Manager stated that Davis-Bacon Act compliance was not monitored because she was unaware that this was a part of program monitoring activities.

- For 12 of the 20 non-ARRA contracts tested (60%), the Office of Local Program Development's program staff did not reference any of the core monitoring areas in its programmatic review reports. The Transportation Coordinator for the Office of Local Program Development stated that she was not familiar with the department's subrecipient monitoring policy.

When the department fails to fully complete subrecipient monitoring activities within the established timeframe that address all applicable compliance requirements, there is an increased risk of inappropriate expenditures, noncompliance with contract terms, and unmet program objectives.

Monitoring Staff Did Not Always Obtain Subrecipient Corrective Action Plans

We tested 25 subrecipient contracts that had monitoring findings in the prior fiscal year to determine if the department obtained corrective action plans addressing the monitoring report findings. For 9 of the 25 subrecipient contracts we tested (36%), the Fiscal Director 2 did not obtain corrective action plans from the subrecipients. Corrective action plans identify the

subrecipients' methods and procedures for correcting the findings documented in the monitoring reports. The department requires subrecipients to submit corrective action plans addressing findings and questioned costs to the Fiscal Director 2 within 30 days of the report date. When the subrecipients failed to submit corrective action plans, the Fiscal Director 2 did not follow-up to obtain them. Therefore, the department had no assurance that the subrecipients had taken corrective action to address the findings.

Davis-Bacon Act Compliance for the ARRA - Formula Grants for Other Than Urbanized Areas Program Not Properly Monitored

Based on our Davis-Bacon Act compliance review of the program staff's subrecipient monitoring reports, DMTR's Compliance Coordinator did not take the necessary steps to determine whether the two ARRA-funded subrecipients responsible for construction projects under the Formula Grants for Other than Urbanized Areas program complied with the Davis-Bacon Act. Under the requirements of the Davis-Bacon Act, workers involved in federally funded construction projects are to be paid no less than the prevailing wage rates established by the United States Secretary of Labor. As noted above, the Davis-Bacon Act is one of the core monitoring areas which must be addressed by the department as a part of its subrecipient monitoring activities.

DMTR's Compliance Coordinator was responsible for ensuring subrecipients complied with Davis-Bacon; however, she did not include Davis-Bacon Act compliance as an area of review. In addition, we noted that the cover letters the Compliance Coordinator sent to the subrecipients with the monitoring reports stated that testing in the "areas of Procurement, Civil Rights, Eligibility, Inventory, special Postings and Emblems, and Reporting as outlined in Finance and Administration's Policy 22, Subrecipient Monitoring, and the Tennessee Subrecipient Manual" was performed. According to the Compliance Coordinator, the Davis-Bacon Act was covered with the following question on the subrecipient self-report form: "Does the agency obtain employment information such as man hours and payroll from venders [*sic*] being paid with ARRA monies?" In addition, even though the Compliance Coordinator stated that she had verified that the subrecipients' invoices included payroll information and that the subrecipients were keeping files with the payroll data that had been collected, none of these activities addressed whether Davis-Bacon Act clauses were included in the construction contracts or whether certified payrolls indicating that workers were paid prevailing wage rates had been properly completed.

When monitoring staff fail to follow the established monitoring plan and do not exercise proper oversight of subrecipients, there is increased risk that fraud, waste, abuse, and noncompliance by subrecipients will occur and not be detected and handled appropriately and timely by the department.

Recommendation

The Commissioner and the Chief of Administration should ensure that External Audit and program area staff comply with the policies and procedures for fiscal and program monitoring activities in order to meet state and federal monitoring requirements. The Transportation Coordinator for the Office of Local Program Development, the Grant Monitoring Manager for the Aeronautics Division, and the Compliance Coordinator for DMTR should ensure that annual risk assessments and programmatic review reports are properly completed. If necessary, the program areas should be required to submit these forms and reports to the department's External Audit Section. The External Audit Director should take the necessary steps to ensure that the required fiscal monitoring reviews are completed timely, possibly adding extra contracts to the subrecipient monitoring sample or starting fiscal monitoring reviews earlier in the monitoring cycle. The Fiscal Director 2 should take the necessary steps to ensure that subrecipients submit the required corrective action plans in response to monitoring findings. The DMTR Compliance Coordinator should revise the program monitoring procedures to ensure that Davis-Bacon Act compliance is properly monitored for subrecipients that have construction contracts.

Management's Comment

We concur. The various program areas of the Department will take steps to ensure that an annual risk assessment is completed for all subrecipients and that risk factors are properly documented. The Finance Office will ensure that fiscal monitoring reviews are completed and that subrecipients submit required corrective action plans timely.

Finding Number	10-DOT-09
CFDA Number	20.205, 20.509
Program Name	Highway Planning and Construction, Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Highway Administration Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	Various
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	None

The Department of Transportation did not reconcile the Schedule of Expenditures of Federal Awards to federal reports and the accounting records

Finding

The department's management has not ensured that all program staff performed the required queries and reconciliations to facilitate accurate preparation of the department's Schedule of Expenditures of Federal Awards (SEFA). The Accounting Manager for the Finance Office's Accounts Receivable Section is responsible for the compilation, preparation, and submission of the department's SEFA. According to the Accounting Manager, she obtains information from the Finance Office accountants who are responsible for federal billings to the U.S. Department of Transportation to assist her in the preparation of the SEFA.

The instructions for the preparation of the SEFA provided by the Department of Finance and Administration state:

- Departments, agencies, boards, commissions, and component units that used Edison during any part of FY10 [the fiscal year ended June 30, 2010] must submit printout(s) of the required Edison queries as support for their schedule. Any reconciling items are to be clearly documented.

- Reconciliations must also be submitted for any instances where amounts per the schedule(s) and amounts per federal financial reports do not agree.

However, the Accounting Manager did not obtain reconciliations of the Edison queries to the SEFA from the accountants and did not ensure that the accountants reconciled the expenditures on the SEFA to related federal financial status reports or the accounting records.

The Edison queries are designed to provide management with tools to extract federal grant expenditure information from Edison, the state's new accounting system. Management must also reconcile the Edison query results with information reported to the federal grantors

through the applicable federal reports and other information available to program staff responsible for administering the federal programs.

When we discussed the SEFA preparation process with the accountants, they all stated that they used the Edison query results to prepare their portions of the SEFA; however, only one of the four accountants prepared any type of reconciliation to document that the accounting records and the federal reports were in agreement. Although this one accountant saved the reconciliation to one of the department's shared network drives, he did not forward the reconciliation to the Accounting Manager. And, even though the Accounting Manager stated that she saw the reconciliation had been posted to the shared drive, she did not review the reconciliation that had been posted before compiling the department's SEFA nor did she obtain any reconciliations from the other accountants before preparing the applicable portions of the SEFA.

Based on our review of the SEFA query and the reconciliation that was prepared, as well as our discussions with the Finance Office accountants, we found that 8 of the 19 grant programs listed on the department's SEFA (42%) were reconciled, although the reconciliation was not reviewed by the Accounting Manager, and for the remaining 11 of the 19 grant programs on the SEFA (58%), the accountants did not prepare reconciliations based on Edison queries, the accounting records, and the federal reports.

We also found that expenditures for at least one Highway Planning and Construction project were not included as expenditures on the SEFA. In our expenditures testwork, we noted that one transaction was not billed to the Federal Highway Administration (FHWA). When we inquired about this transaction, we discovered that the Finance Office staff was unaware of the unbilled amount. After we asked about the unbilled transaction, however, the Finance Office found other unbilled transactions for the project. According to the Finance Director, transactions for this project were entered into Edison using the incorrect activity code, and as a result, the Finance Office accountant responsible for this federal project did not bill the FHWA for these costs. Ultimately, the Finance Office corrected the error, properly billed the FHWA, and recovered these costs. We performed additional testwork to determine whether these expenditures were reported properly on the SEFA. Based on our review, the department's SEFA listed only $10,896.26 in expenditures for this project. The actual fiscal year 2010 expenditures for the project were $4,001,716.87; therefore, the expenditures for this project were understated by $3,990,820.61. Once we notified the department's Finance Office of the errors with this project, staff should have followed up with a reconciliation or other procedures to verify the amounts on the SEFA. The completion of the Edison query and proper reconciliations would have increased the likelihood of staff detecting this understatement promptly.

Our testwork and discussions also found that in some cases even though the accountants used the Edison queries, they did not verify the results and they also did not reconcile the amounts they reported on the SEFA to the amounts per federal financial reports as required by the Department of Finance and Administration. According to the Assistant Director of Finance, federal financial reports were only required for the Federal Transit Administration, and these reports were submitted on a quarterly basis. In addition, based on our discussions with the

Accountant II responsible for Federal Aviation Administration billing, there had been some uncertainty about whether federal financial reports were required, but quarterly reports showing cash receipts and disbursements were submitted as of the quarter ended March 31, 2010. Therefore, the accountants again should have reconciled the query results to amounts reported in the federal reports to ensure that the federal reports were supported by the accounting records.

During our discussions with Finance Office staff about the lack of any reconciliations, the Assistant Director of Finance stated, "In order to reconcile, we have to know where all of the information on the SEFA queries comes from. We do not know that information yet. We hope to have a better understanding of that by this year end [fiscal year 2011]."

When staff do not perform reconciliations of query results for federal expenditures in the state's accounting system to the SEFA and to applicable federal reports, the department's risk of inconsistent and inaccurate reporting on the SEFA and federal financial reports is increased.

Recommendation

The Director of Finance should ensure that the Accounting Manager and all accountants who are responsible for SEFA preparation are fully aware of and comply with the Department of Finance and Administration's SEFA instructions. As required by the instructions, the Accounting Manager or accountants in the Finance Office responsible for billing the federal agencies should reconcile the Edison query results with other accounting information. These reconciling activities should ensure that the expenditures on the SEFA are consistent with the amounts in accounting records and the revenues received from the awarding agencies. The Finance Office staff should also ensure that reconciliations are performed for those federal agencies requiring federal financial reports, regardless of whether the reports are submitted on a quarterly or annual basis. The Assistant Director of Finance or Accounting Manager should perform a documented review of reconciling items and forward them to the Department of Finance and Administration at year-end with the SEFA. In addition, the Fiscal Director should review and approve the SEFA before it is submitted to the Department of Finance and Administration.

Management's Comment

We concur. Finance Office staff responsible for SEFA preparation shall comply with Department of Finance and Administration (F&A) SEFA instructions. Query results and reconciliations performed for SEFA purposes shall be forwarded to F&A along with the SEFA. Prior to submission to F&A, the SEFA query results and reconciliations shall be reviewed for accuracy and completeness by the Assistant Director of Finance.

Finding Number	10-DOT-03
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	N/A
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Equipment and Real Property Management
Questioned Costs	None

Controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets

Finding

The department's controls over the Formula Grants for Other Than Urbanized Areas (Formula Grants) vehicle inventory were not adequate to ensure that the vehicle inventory was properly safeguarded or inspected. The Formula Grants program provides funding, including capital assistance for vehicle purchases, to public transportation services in rural areas. The department's Division of Multimodal Transportation Resources (DMTR), which administers the Formula Grants program, is responsible for keeping an inventory of the vehicles purchased under this program and periodically inspecting them to verify their existence and to ensure that they are maintained. We reviewed the DMTR's inventory and inspection records for these vehicles and performed testwork on all vehicle disposals by the program subrecipients for the fiscal year ended June 30, 2010. As a result of our review and testwork, we noted the following problems:

- The Transportation Specialist I had not adequately maintained the DMTR's vehicle inventory list. During our review of the list, we found that some important information, such as license number, model, purchase date, and title number, was missing for some vehicles. Incomplete inventory information makes it more difficult for DMTR to adequately track the vehicles purchased and to have an up-to-date record of which grant vehicles are nearing or have met the useful life standards as defined in their *State of Tennessee Management Plan for The Administration of Federal Transit Grants*. The Transportation Specialist I stated that he updated the vehicle inventory as time allowed, but he had several other job responsibilities that prevented him from properly completing all of the information on the list.

  The Transportation Specialist I, who was also responsible for performing vehicle inspections, stated that the "Date Inspected" column on the inventory list did not necessarily reflect the exact date that he inspected a particular vehicle. Since a Formula Grants subrecipient may have grant vehicles in several different counties, it was sometimes necessary for him to schedule inspections on several different days in order to see all of the vehicles. In these instances, the date he reported on the list was the first date that any subrecipient vehicles were inspected. According to the

Transportation Specialist I, the exact inspection dates in these cases could only be obtained from the digital camera used during the inspections to take photographs of the vehicles. As discussed below, inspections were not conducted for any of the vehicles for three subrecipients. Therefore, the use of a single date on the inventory list for each subrecipient that had inspections, therefore, calls into question whether all of the vehicles were inspected.

- The vehicle inventory list was based on information supplied by the program subrecipients instead of information in the DMTR's own purchasing and accounting records. The Transportation Specialist I primarily updated the vehicle inventory using the Property Inventory Forms submitted by subrecipients as a part of their annual Formula Grants applications. He stated that he also sometimes learned about new vehicles when visiting the agencies for their inspections. Since DMTR is involved in the procurement of all new grant vehicles, its invoice and purchasing files would be the most accurate and reliable source for the inventory file, and any information obtained from subrecipients would need to be reconciled with DMTR's records to ensure the vehicle inventory list is accurately maintained.

- Based on our review of the DMTR's vehicle inventory file, the Transportation Specialist I did not perform annual inspections for 3 of the 10 rural transit agencies (30%) participating in the Formula Grants program. The *State of Tennessee Management Plan for The Administration of Federal Transit Grants* states that, "each project vehicle is inspected annually at the sub-recipients agency by a staff member or a contractor of Division of Multimodal Transportation Resources." These inspections are to verify that the vehicles are still in use and are in safe operating condition. As stated above, we could not be assured of the exact number of Formula Grants vehicles at subrecipients or inspections performed. Based on our review of the inventory file, however, inspections were not performed for 88 of the 435 grant vehicles listed on the inventory records (20%). The Transportation Specialist I stated that he had not been able to inspect all of the agencies' vehicles in the previous year for the following reasons: subrecipients do not close for inspections, subrecipients frequently store their vehicles in several different counties, there are approximately 850 vehicles for various grant programs to be inspected, and he had several other job responsibilities in addition to conducting the inspections.

- We found that DMTR did not maintain an accurate system to track the sale or disposal of vehicles from inventory. For our vehicle disposal testwork, the Transportation Specialist I originally provided us a list of 58 vehicles sold or otherwise disposed of during the fiscal year ended June 30, 2010. We were later advised that 10 of these vehicles had been disposed of in the prior year and that 2 others had been included twice. This list also had to be updated to add 17 vehicles that were not originally included. DMTR is responsible for accounting for the disposal of vehicles purchased with federal funds, and without an accurate tracking system, the Transportation Specialist I cannot be assured that he has properly accounted for all disposals.

- We reviewed the entire listing of sold vehicles provided by the Transportation Specialist I. According to DMTR's procedures, subrecipients are required to "[a]dvise DMTR by letter that the vehicle has met its useful life in accordance with the SMP [State Management Plan] and it is the desire of the agency to sell / auction the vehicle. The agency should include the following information in the letter, vehicle identification number, mileage, type, make, and proposed date of the auction of the vehicle." The division requires this information since the type, year, and mileage indicate whether the vehicle has met the useful life standards as defined in the State Management Plan. According to the State Management Plan, a pro-rata share of the sale proceeds must be reinvested into the grant program if a vehicle that is disposed of has not met its useful life. For 11 of the 60 disposal requests reviewed (18.33%), we found that DMTR's procedures for vehicle sales were not followed. For 2 of the vehicles, the subrecipient did not submit the required letter advising that the vehicles were to be sold. For the other 9 vehicles, a subrecipient referenced the vehicles that it intended to sell using only partial vehicle identification numbers. Furthermore, the subrecipient's letter did not include pertinent vehicle information such as the vehicles' mileage, type, and make that would have confirmed that each vehicle met the useful life criteria as defined in the State Management Plan.

When program management does not establish adequate controls or does not follow established controls, there is an increased risk that program objectives will not be realized and that assets, including vehicles, may be improperly used or misappropriated. In addition, without adequate controls there is an increased risk that problems, including fraud, waste, abuse, and noncompliance by subrecipients will occur and not be detected timely by the department.

Recommendation

The Transportation Specialist I responsible for vehicle inventory should take the necessary steps to ensure that the vehicle inventory and disposal records are accurate. Specific steps should include

- keeping the vehicle inventory and disposal records up to date,
- completing all fields on the vehicle inventory list fully and accurately,
- updating the vehicle inventory list based on the purchase information submitted to the division, and
- reconciling the vehicle inventory list based on the purchasing records to the information submitted by program subrecipients with their annual grant applications.

In addition, the Transportation Specialist I should ensure that vehicle inspections are performed in accordance with the frequency described in the State Management Plan. Finally, the

Transportation Specialist I should continue to emphasize to subrecipients that departmental policies and procedures should be followed regarding the sale of vehicles.

Management's Comment

We concur. The Division of Multimodal Transportation Resources is responsible for maintaining continuing control of the use of project property to the extent satisfactory to the Federal Transit Administration (FTA), and FTA does not require annual vehicle inspections performed by the grantee. To address the deficiencies, the Division of Multimodal Transportation Resources will take the following corrective actions:

- The Division will retain the original ownership titles for all vehicles purchased with federal and state funds. Ownership titles will be submitted upon the registration of vehicles. The Division will retain ownership titles, until which time the Federal Transit Administration service life of the vehicles is met, and the subrecipient requests vehicle disposition for purposes of replacement.

- The Division will collaborate with the Tennessee Public Transportation Association Maintenance Alliance "Peer to Peer Inspections Program" to obtain data on the results of vehicle inspections and to ensure all agency vehicles are inspected and required information is collected.

- The Division will require the public transit agencies to provide information from vehicle inspections required by the TennCare program and performed by authorized representatives of the Managed Care Organizations Program.

- The Division will require the public transit agencies to provide information from vehicle safety inspections performed by the Tennessee Department of Safety.

- The Division will incorporate a review of vehicle inspection records as a part of the Policy 22 Subrecipient Programmatic Review Process.

The revised Division of Multimodal Transportation Resources State Management Plan will incorporate the actions stated above and the revisions implemented upon approval by the Federal Transit Administration.

Finding Number	10-DOT-04
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X028
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Matching, Level of Effort, Earmarking
Questioned Costs	$23,510.86

The Department of Transportation overcharged the Federal Transit Administration when it used incorrect matching percentages, resulting in federal questioned costs of $23,510.86

Finding

The Department of Transportation (DOT) overcharged the Federal Transit Administration (FTA) by applying incorrect matching contribution rates under the Formula Grants for Other Than Urbanized Areas (Formula Grants) program. The FTA ordinarily funds up to 80% of local transportation providers' capital and project administrative costs. The FTA also provides a 100% match for state administrative assistance, which the state may use for its own administrative expenses and technical assistance or pass through to subrecipients for the same purposes. In addition, the FTA provides an 83% federal match to rural transit providers for the purchase of vehicles that meet the accessibility standards of the Americans with Disabilities Act of 1990 (ADA).

To determine if DOT charged the allowable matching contributions for project expenditures, we tested 20 randomly selected voucher transactions related to 12 subrecipient contracts under the Formula Grants program for the period July 1, 2009, through April 30, 2010. For one sample expenditure totaling $44,858.16, we found that the department charged the FTA for 86.22% of a subrecipient's project administration costs rather than the 80% allowed. This matching error resulted in DOT overcharging the FTA $2,789.16, which was the subrecipient's reimbursement request amount of $38,675.69 minus the $35,886.53 that was allowable based on an 80% matching rate.

Based on our discussions with the Transportation Specialist I / Formula Grants Program Manager, the overcharge occurred because the subrecipient's Public Transportation Program Coordinator mistakenly combined the state administrative cost assistance it was to receive with the federal project administrative assistance in its contract budget document. The Transportation Specialist I / Formula Grants Program Manager failed to ensure that the amounts for administrative assistance were proper and finalized the subrecipient's contract with an FTA match for project administrative costs in excess of the allowable 80%. DOT was not aware of the matching error until the subrecipient advised DOT's Transportation Manager II (responsible for contract management) of the error; however, she took no action since she did not know how to make the necessary changes in Edison (the state's new accounting system) at the time. The

subrecipient submitted a budget revision request, and on its first reimbursement request, the subrecipient listed project and state administrative costs separately. However, since the department did not make the budget revision, the subrecipient began listing all administrative costs under the project administrative assistance category. When the subrecipient submitted reimbursement requests, department staff entered the expenditure amounts into Edison under the activity type for project administrative assistance and used this information to bill the FTA. We expanded our testwork to include a review of all matching requests under this subrecipient's contract and found that the department overcharged the FTA $22,268.70 based on the subrecipient's reimbursement requests that included administrative costs. The total amount billed by the department was $384,795.00, and the amount that should have been billed, based on an 80% federal matching rate, was $362,526.30.

In our sample testwork, we questioned costs of $2,789.16 out of a total sample of $845,013.98. The total amount of the population from which we sampled was $13,047,717.18. In our expanded testwork for the one subrecipient contract with the matching rate error, we found additional questioned costs of $19,479.54.

In addition to the sample testwork discussed above, we reviewed the stratification of expenditure transactions for this program, which was provided by our Information Systems staff, to look for unusual transactions. Based on our follow-up of unusual transactions, we noted one unusually large transaction in the amount of $1,155,267.37 that related to a reimbursement request submitted by a subrecipient for three ADA-compliant buses and a support vehicle. We found that the subrecipient incorrectly used an 83% federal matching rate for the purchase of the $41,405.40 support vehicle. The support vehicle did not meet the ADA accessibility standards and should have been reimbursed at the standard 80% federal matching rate for capital purchases. Since the support vehicle was included on a reimbursement request that included purchases for three large buses, the Transportation Planner IV / 5311(f) Program Manager did not detect this error when she approved the reimbursement request. As a result, the FTA was overcharged $1,242.16 for matching related to this expenditure. The federal questioned costs resulting from our review of unusual items was $1,242.16.

As a result of the Program Managers' failure to adequately review the subrecipients' proposed budget and reimbursement requests, the department's controls to ensure that the subrecipient used the correct matching rates were ineffective. When Program Managers and other departmental staff do not adequately review subrecipients' budget proposals and reimbursement requests and are unaware of how to make necessary changes in Edison, the risk of staff using incorrect matching rates is increased, resulting in the potential departmental risks of overcharging or undercharging the federal program.

Recommendation

The Director of Finance and the Assistant Director of Finance should ensure that the FTA is reimbursed for the $23,510.86 that was overcharged. Program Managers should ensure that the correct matching rates are used on all proposed budgets and reimbursement requests from

subrecipients. The Director of Finance should consider offering additional training to staff on the budgeting process, contracts, and how to make corrections to subrecipients' grant projects in Edison. For the incorrectly combined state and project administrative assistance, the Director of Program Operations for the Division of Multimodal Transportation Resources should submit an amended grant application to the FTA, and the Director of Finance should ensure that the subrecipient's grant contract is revised.

Although the risks associated with not fulfilling the federal program requirements for matching were identified and assessed in the Finance Office's risk assessment, management should continue to assess risks of applying incorrect matching rates and ensure that the controls that are in place to mitigate those risks are being followed.

Management's Comment

We concur. The Federal Transit Administration's State administrative assistance (100% federal funds) and the project administrative assistance (80% federal funds) were combined into one line item in the Edison System. The subrecipient amended its budget to correct the error and billed appropriately thereafter.

The Division of Multimodal Transportation Resources revised the Detail Summary for Reimbursement Requests to clearly define the type of administrative assistance and the appropriate percentage of federal funding.

The Division of Multimodal Transportation Resources reviewed the application and contracts pertaining to the incorrect matching rate used for service vehicle purchase. It was determined that in the Intercity Bus Service Program (U. S. C 5311(f)) application for funding, the Planner IV used the ADA 83% federal rate for capital purchases. The Division will ensure that future applications include the appropriate capital match and identify capital items eligible for the ADA 83% federal funding.

Finding Number	10-DOT-05
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-86-X001
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Davis-Bacon Act
Questioned Costs	None

Department staff did not review construction contracts to verify that program subrecipients had ensured compliance with the Davis-Bacon Act, increasing the risk of workers not receiving the prevailing wage rates

Finding

The department's Division of Multimodal Transportation Resources (DMTR) provided funding for administrative, capital, and operating expenditures to local transportation providers through the federal American Recovery and Reinvestment Act of 2009 (ARRA) - Formula Grants for Other Than Urbanized Areas (Formula Grants) program. Based on our review of the grant applications and contracts, we determined that only two of the subrecipients under the Formula Grants program used ARRA funds for construction projects during the 2010 fiscal year. Under the requirements of the Davis-Bacon Act, the contractors and subcontractors involved in these construction projects were required to pay workers no less than the prevailing wage rates established by the Secretary of Labor. In our testwork on Davis-Bacon Act compliance, we found that DMTR staff did not adequately review the subrecipients' construction contracts to verify that these two subrecipients had ensured compliance with the requirements of the Davis-Bacon Act.

Neither of the two subrecipients included prevailing wage rate clauses in their construction contracts. The *Code of Federal Regulations*, Title 29, Part 5, Section 5(a) states that prevailing wage rate clauses must be included "in any contract in excess of $2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution." The subrecipients' Transportation Directors approved the construction contracts, which were drafted by their contractors using an American Institute of Architects contract form and did not include prevailing wage rate clauses. The contracts also did not include any details about the construction costs beyond the contract sum. DMTR's Manager II for Office of Passenger Transportation and the Transportation Specialist I did not verify that the contracts contained the required federal clauses. According to DMTR's Assistant Director of Program Operations, these two ARRA projects were the first construction projects that current DMTR staff could recall. As a result, DMTR's staff was not well versed on the requirements for

construction projects. The use of construction contracts that do not include prevailing wage rate clauses or details about estimated labor costs increases the risk that not all workers will be paid the prevailing wage rates.

Consequently, neither the DMTR staff nor we could be assured that the wages paid met prevailing wage rate requirements. Since compliance with the Davis-Bacon Act could not be assured, the FTA may disallow the construction costs. During the fiscal year ended June 30, 2010, the construction costs for these two projects totaled $912,304.78; we could not determine what portion of this amount was for labor costs.

During our audit, we also found that the subrecipient monitoring activities conducted by DMTR's Compliance Coordinator did not adequately address whether these two subrecipients had complied with the Davis-Bacon Act (see finding 10-DOT-08).

Without adequate internal controls, including policies and procedures to assure compliance with federal regulations, there is an increased risk that workers are not receiving the prevailing wage rates.

Recommendation

The department should implement the necessary controls to ensure Formula Grants subrecipients comply with the Davis-Bacon Act. The Program Manager should review subrecipients' contracts to verify that they include reference to the Davis-Bacon Act and other federally required clauses. Management should include the risks noted in this finding in management's documented risk assessment.

Management's Comment

We concur. All staff members with the Division of Multimodal Transportation Resources have been provided with guidance regarding Federal Transit Administration required third-party contract clauses. The guidance will be referenced when reviewing third-party contracts. This will ensure that the applicable clauses are included in contracts executed by subrecipients.

The Division of Multimodal Transportation Resources is responsible for subrecipient compliance with the Davis-Bacon Act and to address the deficiencies identified in this finding, will take the following corrective actions:

- For construction, alteration, addition, or repair activities funded either in part or whole with federal grant funds, signed copies of the WH-347 must be submitted with requests for reimbursement.

- Copies of the WH-347 will be provided to the Division compliance section for review.

- Subrecipients shall be notified of any deficiencies or discrepancies and corrections requested.

Finding Number	10-DOT-06
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X023, TN-18-X025, TN-18-X026, TN-18-X027 TN-18-X028 and TN-86-X001
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	None

Incorrect reporting methodology and lack of a proper reconciliation resulted in the department misstating amounts on the required federal reports and not detecting significant unbilled costs

Finding

The Department of Transportation through its Division of Multimodal Transportation Resources (DMTR) administers the Formula Grants for Other Than Urbanized Areas (Formula Grants) program and is required to submit Standard Form (SF)-425 Federal Financial Reports to the Federal Transit Administration (FTA) on a quarterly basis. The SF-425 report provides the federal awarding agency with the following information about the financial progress of its grants: the federal and recipient (state and local) shares of grant expenditures, unliquidated obligations, and remaining unobligated amounts.

The Office of Management and Budget's federal reporting instructions for the SF-425 require states to report actual expenditures not estimates. When we discussed the report preparation process with the DMTR Controller, he said that he did not report actual expenditures under the grant but instead calculated the overall ratio of federal funds to the total recipient shares for each grant and used these ratios to calculate the state and local expenditures, unliquidated obligations, and remaining shares to be provided.

We found that the Controller used that incorrect methodology when he reported the recipient amounts for the following grants: TN-18-X023, TN-18-X025, TN-18-X026, TN-18-X027, and TN-18-X028. Since DMTR did not have an adequate process for tracking the state and local expenditures, unliquidated obligations, and remaining shares to be provided, we could not determine the specific amounts that should have been reported. According to the Controller, it did not occur to him or the previous Controller that this method for reporting the recipient amounts did not accurately represent the actual amounts.

We also found that the Controller incorrectly reported the federal expenditures on the SF-425 report. According to the FTA's instructions for the report, federal expenditures differ from the federal cash receipts and "are the total project costs . . . incurred on the accrual basis of

accounting." We found the following problems related to DMTR's reporting of federal expenditures in our testwork:

- DMTR staff did not reconcile the federal grant drawdowns from FTA to the expenditures paid to subrecipients to ensure that all subrecipient grant expenditures were billed to and recovered from the FTA. During our audit, we discovered that the department's Finance Office staff had not properly established the subrecipients' projects in Edison, the state's new accounting system, and did not promptly draw down federal funds for nine of the subrecipient projects under grant number TN-18-X028 and for one of the subrecipient projects under grant number TN-18-X027, resulting in delays of 48 to 371 days in recovering $8,625,388.40 of federal funds for these grants. In addition, DMTR staff did not include the payments to subrecipients as federal expenditures on the SF-425 report. Neither the department's Finance Office nor DMTR staff was aware of the unbilled expenditures prior to our notifying them.

  Subsequent to our initial testwork, we reviewed Edison to determine the status of unbilled projects and determined that only project #985311S3079 for the Southeast Tennessee Human Resource Agency had transactions totaling $85,757.69 that had not yet been billed to the federal grantor as of January 20, 2011. The majority of these projects were billed on August 17, 2010, and funds were drawn down from FTA on August 18, 2010.

- Effective June 30, 2010, the FTA required states to report expenditures on the accrual basis; however, the DMTR Controller did not include accrued expenditures and reported only the amounts billed to the FTA. The Controller stated that he was aware of the change, but that he did not have any documented instructions and that, based on his review of the spreadsheet used to prepare the reports, he did not make any adjustments for accrued expenditures for any of the active grants under the Formula Grants program: TN-18-X023, TN-18-X025, TN-18-X026, TN-18-X027, TN-18-X028, and TN-86-X001. We could not determine the amounts that should have been accrued.

The significant delays between the state's reimbursements to subrecipients and the drawdowns of federal funds resulted in an inefficient use of state money and the loss of interest income on state money used to fund the expenditures. As a result of the reporting errors, the department risks exposure to federal sanctions, federal withholding, or other penalties associated with noncompliance with federal financial reporting requirements.

Given the problems identified in our testwork, we also reviewed the department's risk assessment, and we found that management's risk assessment did not fully address the issues noted in this finding. Although the Finance Office's specific risk assessment includes the risk of required federal reports not being submitted accurately and timely, management did not address the risk of the staff failing to bill all allowable grant expenditures to the federal awarding agency,

and thus had not established the mitigating control to ensure all allowable expenditures are properly billed and recovered from the federal grantors.

Recommendation

The Director of Program Operations and the Controller for the Division of Multimodal Transportation Resources should revise the process for preparing the SF-425 report to ensure that:

- actual recipient amounts are reported for expenditures, unliquidated obligations, and the remaining share to be provided; and

- federal expenditures reported are the accrual basis costs for the grant projects.

The Controller should immediately begin reconciling grant drawdown amounts to expenditures in order to ensure that expenditures that are allowable for federal reimbursement are billed promptly. If necessary, the Controller should prepare and submit amended SF-425 reports to the FTA for prior periods.

Although the risks associated with noncompliance with federal regulations were partially identified in the Finance Office's risk assessment, management should reassess its risks and include the additional risks noted in this finding in its documented risk assessment. Management should also establish appropriate controls to mitigate the risks.

Management's Comment

We concur. The Finance Division will prepare the SF-425 and submit a copy to the Division of Multimodal Transportation Resources to be used to reconcile federal grant drawdowns from FTA to the expenditures paid to subrecipients. Also, the Finance Division will run a series of queries designed to ensure that all billable expenditures are billed to the applicable entity in a timely manner.

Finding Number	10-DOT-07
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X025; TN-18-X026; TN-18-X028; TN-86-X001
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$79,020.93

The Department of Transportation's Division of Multimodal Transportation Resources failed to thoroughly and adequately review subrecipients' reimbursement requests and ultimately paid subrecipients with federal funds from the Formula Grants for Other Than Urbanized Areas program, resulting in federal questioned costs of $79,020.93 and state questioned costs of $7,238.29

Finding

The Federal Transit Authority defines the objectives of the Formula Grants for Other Than Urbanized Areas (Formula Grants) program as follows: to initiate, improve, or continue public transportation service in nonurbanized areas by providing financial assistance for operating and administrative expenses and for the acquisition, construction, and improvement of facilities and equipment. Title 49 United States Code, Section 5311(f) specifically provides for the support of rural intercity bus service. The department's Division of Multimodal Transportation Resources (DMTR) administers the Formula Grants program for the state. In our testwork on the Formula Grants program, we found that the department did not establish and maintain internal controls over the program, which created an atmosphere for fraud, waste, and abuse to occur and resulted in material noncompliance and questioned costs (see finding 10-DOT-10). The specific instances of unallowed activities and unallowable costs that we noted are discussed below.

Based on our testwork and our discussions with DMTR management, we found that one subrecipient operated bus routes which were not eligible for federal assistance under the Formula Grants guidelines. We also found that DMTR staff failed to adequately review the reimbursement requests from the Formula Grants program subrecipients and ultimately paid the subrecipients $79,020.93 even though their reimbursement requests were not mathematically accurate, were not adequately supported, and included goods and services which were not allowable under the federal guidelines. DMTR billed the federal government for these unallowable expenditures and also spent an additional $7,238.29 in state matching funds. See the specific details in the sections below.

Unallowed Bus Routes

We tested 40 randomly selected transactions charged to the federal Formula Grants program for the period July 1, 2009, through April 30, 2010, which included 20 transactions from American Recovery and Reinvestment Act of 2009 (ARRA) funds and 20 transactions from non-ARRA funds. For 2 of the 40 expenditures tested (5%), we found that these 2 non-ARRA transactions related to reimbursement requests submitted by a transportation provider subrecipient participating in the 5311(f) Intercity Bus Service program, but the subrecipient's expenditures did not support rural transportation or intercity bus service. Based on their review of this subrecipient's intercity bus program activities, the department's internal auditors found that this subrecipient operated a commuter service and an airport shuttle service and included expenditures associated with these services in their reimbursement requests to DMTR. Federal Transit Administration (FTA) Circular 9040.1F regarding the Formula Grants program states that commuter service is not eligible for assistance under the grant program. With regard to the airport shuttle service, the circular defines intercity bus service as making "meaningful connections with intercity bus service to more distant points" and that "[i]ntercity bus service does not include air, water, and rail service." Since the service went to the airport instead of a Greyhound or other intercity bus terminal, it did not meet FTA requirements. DMTR's Intercity Bus Service Program Map and route details included the unallowable routes, and the department took no action to end these routes until after the department's internal auditors released their preliminary report. At that time, DMTR's Assistant Director of Program Operations sent a letter to the subrecipient stating that it should cease all work on Formula Grants program contracts because of overall concerns about the subrecipient's operations, including the unallowable routes. Questioned costs related to this subrecipient are included in finding 10-DOT-10.

Unallowable Costs

For 6 of the 40 sample expenditures tested (15%), we found the following unallowable costs:

<u>ARRA Expenditures</u>

- For one expenditure transaction, we found that the subrecipient submitted a reimbursement request that was not mathematically accurate based on the supporting documentation submitted with the reimbursement request. Apparently, the subrecipient purchased a service vehicle for $17,307.00, but transposed numbers when preparing the reimbursement request and entered $17,370.00. Since none of the supporting documents appeared to have been altered, this did not appear to be an attempt at fraudulent billing. The Transportation Specialist I responsible for reviewing the reimbursement request failed to identify the discrepancy and authorized reimbursement at the higher amount. The Assistant Director of Program Operations discovered the error when she was preparing the September 2009 ARRA Transportation and Infrastructure Report, and she brought it to the attention of DOT's Finance Office. The Director of Finance decided that the difference would be deducted from the next reimbursement request filed by the subrecipient; however, the

subrecipient has not submitted another reimbursement request since the error was detected. This subrecipient's project was funded 100% with ARRA funds; therefore, the entire $63.00 overcharge to the FTA is federal questioned costs.

In the ARRA portion of our testwork, we tested a sample of transactions totaling $6,346,509.84 from a population of $7,691,932.31.

Non-ARRA Expenditures

- We found the following travel reimbursement errors associated with one subrecipient reimbursement request:
  For in-state travel expenditures, the subrecipient claimed travel expenses at a higher rate than authorized in the Department of Finance and Administration's Policy 8, "Comprehensive Travel Regulations." The subrecipient claimed $381.50 for meals and incidental expenses, $35.00 more than the allowed amount of $346.50.

  For one out-of-state travel claim, the subrecipient submitted expenditures in excess of the U.S. General Services Administration's maximum lodging rate, the rate authorized by Policy 8, which resulted in the subrecipient claiming travel expenses of $236.40, $20.19 more than the allowed amount of $216.21. In addition, the subrecipient incorrectly paid the hotel and requested reimbursement for a $9.00 daily parking expense twice for this travel claim, resulting in total questioned costs of $18.00.

  In total, the travel expenses on the subrecipient's reimbursement request were overstated by $73.19 ($35.00 + $20.19 + $18.00). Based on the 80% federal match and the 10% state match for administrative costs, the FTA was overcharged $58.55 ($73.19 x .80), and the state was overcharged $7.32 ($73.19 x .10). The $58.55 is federal questioned costs, and the $7.32 is state questioned costs.

- For four other expenditure transactions, we found that the Transportation Planner IV / 5311(f) Intercity Bus Service Program Manager approved the subrecipients' reimbursement requests without adequate supporting documentation as discussed below and failed to ensure that subrecipients were operating eligible intercity bus routes.

  Reimbursement Request 1: The reimbursement request was for $13,880.79 of capital expenditures, including a vehicle purchase, and was from the subrecipient that did not run valid intercity bus service. The only documentation in support of the vehicle purchase was a checking account statement and the application for tax, title, and registration of the vehicle. The subrecipient did not submit the vehicle title or bill of sale. In addition, the subrecipient's activities were determined to be unallowable as a result of operating ineligible intercity bus service routes. Therefore, all costs associated with this reimbursement request are questioned. Based on the 80% federal matching rate and the 10% state matching rate for capital expenditures, the FTA was

overcharged $11,104.63 ($13,880.79 x .80) and the state was overcharged $1,388.08 ($13,880.79 x .10). The $11,104.63 is federal questioned costs, and the $1,388.08 is state questioned costs.

Reimbursement Request 2: This reimbursement request was for $27,103.30 for labor, fuel, and rent and was also from the same subrecipient without valid intercity routes. For the $10,078.30 for fuel costs, the subrecipient submitted a fuel card statement without any detailed billing or supporting documentation. The subrecipient submitted a copy of its lease in support of the $3,250.00 for rent costs. In neither instance was there any evidence that these costs applied exclusively to the 5311(f) grant for intercity bus service. Since the subrecipient operated its airport shuttle service before it began participating in the 5311(f) program, the supporting documentation should have included some evidence that the costs had been properly allocated among the subrecipient's different activities. This was also true for the $13,775.00 for labor costs, which listed the routes that drivers and dispatchers worked as "Airport," "Downtown," and "Both." The labor costs were documented only by a basic summary schedule (as opposed to a formal payroll system printout) and copies of check fronts. Therefore, we have questioned all costs associated with this reimbursement request. Based on the 50% federal matching rate for operating expenditures, the FTA was overcharged $13,551.65 ($27,103.30 x .50). The $13,551.65 is federal questioned costs. Since the subrecipient's contract did not include any state match for operating assistance, there are no state questioned costs.

Reimbursement Request 3: This reimbursement request (from a different subrecipient) was for $14,551.74 of administrative costs, which included labor, rent, advertising, and marketing costs. The $6,957.52 for labor costs was documented by a labor invoice from the subrecipient's parent company, but no payroll documents or copies of paychecks were submitted. The $200.00 for rent costs was based on four $50.00 invoices from the lessor with only "Rent" listed in the description, but had no further explanation of the charges. The $763.00 for advertising costs for a newspaper advertisement was documented with only an invoice from the publisher; no ad copy was included. Finally, the $5,333.35 for marketing costs was supported with an invoice which only referenced "March Marketing Consulting Fee" and did not describe the type of services provided. Therefore, the costs associated with all of these charges ($6,957.62 + $200.00 + $763.00 + $5,333.35 = $13,253.87) are questioned. Based on the 80% federal matching rate and the 10% state match for administrative expenditures, the FTA was overcharged $10,603.10 ($13,253.87 x .80) and the state was overcharged $1,325.39 ($13,253.87 x .10). The $10,603.10 is federal questioned costs, and the $1,325.39 is state questioned costs.

Reimbursement Request 4: This reimbursement request for $10,953.90 of capital expenditures included charges for a replacement bus part and towing service. The charges for the $2,200.00 replacement bus part came through the subrecipient's parent company and referenced a part number, but the documentation did not provide any description of the part or that it was needed for buses in the 5311(f) program.

The $475.00 towing service was documented by the subrecipient with a credit card statement listing the charges and a copy of the payment check and check stub to the credit card company. The subrecipient failed to submit an invoice from the towing company with the reimbursement request. Therefore, the costs associated with these charges ($2,200.00 + $475.00 = $2,675.00) are questioned. Based on the 80% federal matching rate and the 10% state match for capital expenditures, the FTA was overcharged $2,140 ($2,675.00 x .80) and the state was overcharged $267.50 ($2,675.00 x .10). The $2,140.00 is federal questioned costs, and the $267.50 is state questioned costs.

As stated in Office of Management and Budget (OMB) Circular A-87, costs must "be adequately documented" to be allowable under federal awards.

In the non-ARRA portion of our testwork, we tested a sample of transactions totaling $845,013.98 from a population of $13,047,717.18.

Other Unallowable Costs

In addition to the expenditures tested above, we learned of one instance where DMTR approved a subrecipient's reimbursement request which included the purchase of two vehicles totaling $50,000.00. The reimbursement request included the signed buyer's orders and an unsigned promissory note. Upon receipt of the reimbursement request, the Transportation Planner IV / 5311(f) Program Manager failed to ensure that the subrecipient had indeed purchased the vehicles before she approved the reimbursement request. Apparently, had the Program Manager properly reviewed the reimbursement request and supporting documentation and verified the vehicle purchases, she would have identified the discrepancies between the reimbursement request and the supporting documentation and not authorized payment until the issues were resolved.

During our audit, the subrecipient decided to leave the program and turned over its vehicles to the department. While conducting their close-out review of the subrecipient's contracts, the Finance Office's External Auditors found that the subrecipient's 5311(f) vehicles were not purchased from the vendor listed on the reimbursement request's supporting documentation. This was based on calls that the External Audit Section made to the vendor referenced in the reimbursement request and on DMTR's comparison of the VIN numbers from the reimbursement request to the VIN numbers for the vehicles transferred when the subrecipient left the program. Since the vehicle purchases that the subrecipient claimed on the reimbursement request did not match the supporting documentation, DMTR should not have paid the subrecipient. While an 80% federal matching rate and a 10% state matching rate are used for capital expenditures, the subrecipient was limited to $41,500.00 in federal assistance and $4,250 in state assistance by its contract. The $41,500.00 is federal questioned costs, and the $4,250 is state questioned costs.

Review of Reimbursement Requests Not Properly Documented

In addition to the problems with the department's review and approval of reimbursement requests discussed above, we also noted the following deficiencies during our testwork and audit of the program:

- For 3 of the 40 expenditures we tested (8%), the Program Managers did not properly initial and date the reimbursement request forms. Two reimbursement requests, one ARRA and one non-ARRA, were not initialed by the Program Manager. One non-ARRA reimbursement request was initialed, but not dated, by the Program Manager when it was approved for payment. According to DMTR's invoice processing procedures, the Program Managers are required to "initial and date the invoice as approved for payment."

- We found one instance where a subrecipient reimbursement request was based on promissory notes. We found that one subrecipient requested a $1,155,267.37 federal reimbursement and an $118,310.51 state reimbursement for the purchase of three coach buses and a service vehicle. Since the vehicles were purchased with promissory notes, the lender / bank had a lien on them. Our review of the department's records indicated that the liens on the bus titles were released on the same day as the state's payment. The lien on the title for the support vehicle was not released until 211 days after the state issued payment and 124 days after the FTA was billed. Based on the documentation included in DMTR's invoice file, the Transportation Planner IV responsible for reviewing the reimbursement requests did not confirm that the subrecipient held the vehicle titles. Part 3 of the OMB Circular A-133 Compliance Supplement states that "when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government."

Based on our audit work, we found that the Formula Grants program managers did not adequately review subrecipients' reimbursement requests and require proper supporting documentation. In addition, the program manager responsible for the 5311(f) program did not ensure that subrecipient routes were allowable grant activities. When program controls such as these are nonexistent, there is an increased risk that problems including fraud, waste, abuse, and noncompliance by subrecipients will occur and not be detected in a timely manner by the department.

Recommendation

The Commissioner should ensure that DMTR staff is adequately qualified to administer federal grant programs. In addition, the Commissioner and the Chief of Environment and Planning should take steps to ensure that subrecipients' routes meet program requirements for local transportation or intercity bus service and that only allowable expenditures are paid through the Formula Grants program.

The Director of Program Operations should ensure that subrecipients are aware of expenditures that can be submitted for reimbursement and the maximum travel expense rates. In addition, the Director of Program Operations should ensure that DMTR staff follows the policies and procedures for approving reimbursement requests. When reviewing reimbursement requests, Program Managers and other DMTR staff should verify that the reimbursement requests are mathematically accurate and that the claimed amounts match supporting documentation and are adequately documented per OMB Circular A-87. As applicable, this documentation should include copies of the following: formal payroll system printouts or the front and back of paychecks, evidence that costs have been allocated or are wholly related to grant activities, ad copies, vehicle titles, and invoices or bills of sale. Reimbursement requests, particularly those for large capital expenditures, should be reviewed closely and should only be approved for expenditures that have actually been incurred.

The Director of Finance and the Director of Program Operations for DMTR should require subrecipients to provide adequate supporting documentation for their reimbursement requests. In addition, the Director of Finance and the Assistant Director of Finance should ensure that the FTA and state are reimbursed for questioned costs as necessary.

Although the risks associated with noncompliance with federal regulations were identified and assessed in the department's risk assessment, management should continue to assess risks of noncompliance with federal regulations and ensure controls are in place to mitigate those risks.

Management's Comment

We concur. The Division of Multimodal Transportation Resources implemented corrective action by discontinuing service on routes not in compliance with Federal Transit Administration policy for the Intercity Bus Program, U.S.C. 5311(f). The subrecipient received notification in November 2010 to suspend all 5311(f) operations and to not incur additional expenses related to the Intercity Bus Program 5311(f) grant contracts.

The Division of Multimodal Transportation Resources will ensure that all staff has the current Department of Finance and Administration Policy 8, "Comprehensive Travel Regulations" and U.S. General Services Administration CONUS information when reviewing reimbursement requests. "Comprehensive Travel Regulations" will be provided to subrecipients.

The current Director of Operations for the Division of Multimodal Transportation Resources has worked closely with the Division of Finance Director to develop written guidelines regarding the supporting documentation required to process invoices. The guidelines were distributed to transit agencies, the Tennessee Public Transportation Association, and to Division staff.

The current Director of Operations for the Division of Multimodal Transportation Resources has implemented weekly training for all Multimodal staff. Training sessions include review of FTA C 5010.1D "Grant Management Requirements," and Office of Management and Budget Circular A-133 and Circular A-87, which address allowable and unallowable costs and cost allocations. Copies of all FTA Program Circulars are bound and placed in a centralized location available to all staff.

The Department is currently in contact with the subrecipients to address resolution of the questioned costs.

Finding Number	10-DOT-10
CFDA Number	20.509
Program Name	Formula Grants for Other Than Urbanized Areas
Federal Agency	U.S. Department of Transportation Federal Transit Administration
State Agency	Department of Transportation
Grant/Contract No.	TN-18-X025, TN-18-X026, TN-18-X027
Finding Type	Significant Deficiency, Material Weakness, and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed - Material Weakness and Noncompliance Allowable Costs/Cost Principles - Material Weakness and Noncompliance Program Income - Significant Deficiency and Noncompliance
Questioned Costs	$452,369.72

The Tennessee Department of Transportation did not establish and maintain internal controls over the Formula Grants for Other Than Urbanized Areas program, which created an atmosphere for fraud, waste, and abuse to occur and resulted in material noncompliance with federal questioned costs of $452,369.72 and state questioned costs of $46,135.88

Finding

Based on the results of an investigation performed by the department's Internal Audit Division and based on our own compliance testwork for the Formula Grants for Other Than Urbanized Areas (Formula Grants) program, we determined that the department's Division of Multimodal Transportation Resources (DMTR) did not properly develop and maintain internal controls over compliance for this federal program and therefore, could not provide reasonable assurance that program staff had managed the federal award in compliance with laws, regulations, and provisions of the grant agreement.

The Federal Transit Administration (FTA) provides states with federal transit programs to foster the development and revitalization of public transportation systems that (1) maximize the safe, secure, and efficient mobility of individuals; (2) minimize environmental impacts; and (3) minimize transportation-related fuel consumption and reliance on foreign oil. The Formula Grants program funds are available through the FTA's 5311 federal grant program and are used to reimburse subrecipient transport agencies for capital, operating, and administrative expenditures incurred in providing transportation in other than urbanized (i.e., rural) areas. Also, 49 United States Code (USC), Section 5311, provides for intercity bus service, as well as a limited amount of funding for transportation-related education and training. As part of the program, 49 USC, Section 5311(f), requires each state to spend 15% of its annual Section 5311 apportionment "to carry out a program to develop and support intercity bus transportation," unless the Governor certifies that "the intercity bus service needs of the State are being met adequately."

A 2007 study conducted by TranSystems Corporation, a consultant under contract with the department, concluded that the state's intercity bus service needs had not been met. The study reported that Greyhound, which had provided virtually all private intercity bus service in Tennessee, had discontinued most of its less profitable service to small towns. While the rural transit operators (Human Resource Agencies/Developmental Districts) served as the major intercity transit operators, there was no coordination of services with Greyhound, urban transit operators, or other rural transit operators. Even though the 2007 consultant's study established that the state's intercity transportation was not sufficient to meet Tennessee citizens needs, the assessment report did not specifically describe the additional routes and services that would be necessary to improve intercity bus service.

To address the state's unmet needs for intercity bus service, in 2008, DMTR applied to the FTA and was awarded a demonstration program under the provisions of Section 5311(f). Under this demonstration program, the state could provide eligible subrecipients (transportation providers) Section 5311(f) grant funding to cover capital, operating, and administrative expenditures for public transportation projects that met the needs of rural communities. DMTR created a process to seek potential applicants to assist the state with the demonstration project.

During our audit, the department's Internal Audit Division initiated an internal investigation in response to allegations they received in June 2010, regarding the demonstration 5311(f) program. The department through DMTR had entered into grant contracts with three private, for-profit carriers and four not-for-profits (three Human Resource Agencies and one Developmental District) to provide intercity bus service. The allegations related specifically to the three private, for-profit carriers.

Since the 2008 inception of the 5311(f) program, two of the for-profit carriers have discontinued participation in the program, due to insufficient ridership. As discussed below, the Internal Audit Division's investigation found problems with the grant application review and award process, the recognition of fare revenue, and ineligible expenses/routes. Our audit work confirmed these issues.

Grant Application Review and Award Process

In order for DMTR to select subrecipients (transportation providers) for participation in the 5311(f) program, the division established a six-member grant application review team consisting of two DMTR staff, three other departmental staff, and one public transportation consultant under contract with DMTR; the review team was responsible for evaluating and scoring the grant applications for the 5311(f) program. The grant application review team's scores for each applicant determined the initial amounts of the grant awards. Based on our review, we found that for five of the eight initial applicants (63%), the scores given to an applicant varied greater than 20 points by reviewer, and the consultant noted concerns with several of the submitted applications. To address the wide range of scores, the program manager averaged the scored applications by dropping the highest and lowest score for each applicant and also added points to each applicant's average score. The additional points were based on the

criteria listed on the point compilation sheet prepared by the program manager, which stated that "applicants must attempt to meet one or all of the priority points" as listed below:

> *Priority 1* - Provide a base level of funding support to preserve the existing intrastate system. [5 points]
>
> *Priority 2* - Provide support for the development of new connector/feeder service. [5 points]
>
> *Priority 3* - Provide funding assistance for route specific marketing projects. [5 points]
>
> *Priority 4* - Provide support for vehicle and bus terminal improvements. [number of points unavailable since no applicant met criteria]

While a priority point system is allowed under the 5311(f) guidance, DMTR did not include the priority point process in the department's state management plan which is required by the FTA. In their investigation, Internal Audit found that DMTR had no formal documented process for awarding priority points. Federal Transit Administration Circular C9040.1F requires DMTR to prepare a plan to document its policies and procedures for administering the State-Managed portion of the 5311(f) program and states, "whether the State uses a formula for allocation, imposes its own limitations on use of the funds (e.g., capital only), or uses an entirely discretionary selection process, the plan should explain the policy rationale and the methods used."

Based on our testwork and discussions with DMTR staff, we found that the program manager added priority points for two private, for-profit carriers which increased their funding by 45% and 60%. As a result of these increases, both of these private carriers received 95% of their original request amounts, despite the lower award amounts that they would have received based on the grant application review team's evaluations. We examined the program manager's handwritten notes, which apparently were intended to support the priority points awarded, but the notes did not clearly link the priority points awarded to the point criteria listed above. We also found that even though the priority points' allocation was not supported, the Director of Program Operations ultimately approved the point awards without input from the grant application review team. DMTR awarded contracts totaling $3,617,577 for seven of the eight approved applicants; one applicant declined the award.

Fare Revenue Not Appropriately Netted Against Expenses

Under the 5311(f) demonstration project, DMTR was also required to ensure that subrecipients appropriately reported their fare revenue by deducting all collected fare revenue from their operating expenses before submitting their invoices for reimbursement to the department's DMTR. Based on our review of the monthly ridership reports, both the 5311(f) program manager and the program manager for the regular 5311 transportation service failed to ensure that subrecipients deducted fare revenues from their operating expenses. The circular for

the Formula Grants program states that "[n]et operating expenses are eligible for assistance. Net operating expenses are those expenses that remain after the provider subtracts operating revenues from eligible operating expenses. States may further define what constitute operating revenues, but at a minimum, operating revenues must include farebox revenues."

According to the 5311 program manager, the fare revenues on the monthly ridership reports should match the amounts deducted from operating expenses on the subrecipients' reimbursement requests; however, the program manager for the 5311(f) program stated that she was unaware of the requirements for deducting fare revenues from operating expenses. Based on our discussions with both program managers, they did not check the ridership reports against the subrecipients' reimbursement requests to verify that the amounts were the same and that revenue was deducted from expenses. In fact, DMTR had not established any controls to ensure that program income was deducted from operating expenses. As a result of the program staff's apparent lack of knowledge of federal program requirements and failure to establish proper controls, subrecipients were allowed to submit reimbursement requests to the state which had not been properly adjusted by $239,043.34 of subrecipients' fare revenue. This involved two for-profit subrecipients and one not-for-profit subrecipient. As a result, both the FTA and the state were overcharged for operating expenses by these subrecipients. Since the subrecipients received different state match amounts for operating expenditures and the fare revenues were not verified by DMTR, the exact overcharge amounts for operating expenses could not be determined.

Ineligible Expenses/Routes

Based on Internal Audit's investigation and our testwork, we found that subrecipients submitted reimbursement requests for program expenses which were not adequately supported, and DMTR reimbursed subrecipients based on the incomplete and inadequate documentation. We reviewed the reimbursement requests submitted to DMTR, and found that expenses claimed by the subrecipients lacked the documentation necessary to support allowability of the expenditures. We also found that some of the subrecipients did not operate the intercity bus routes required to meet federal requirements under the 5311(f) program. Office of Management and Budget Circular A-87 states that "[t]o be allowable under Federal awards, costs must . . . [b]e adequately documented." The following costs were questioned:

Inadequate Documentation for Subrecipient Reimbursement Requests

Subrecipient	Federal Questioned Costs	State Questioned Costs	Total Questioned Costs
#1	$ 27,390.49 (1)	$ 3,423.81 (2)	$ 30,814.30
#2	198,597.29 (3)	23,121.62 (4)	221,718.91
#3 (7)	226,381.94 (5)	19,590.45 (6)	245,972.39
Total	$452,369.72	$46,135.88	$498,505.60

(1) This amount is net of questioned costs of $41,500.00 that were included in finding 10-DOT-07.

(2) This amount is net of questioned costs of $4,250.00 that were included in finding 10-DOT-07.

(3) This amount is net of questioned costs of $10,983.10 that were included in finding 10-DOT-07.

(4) This amount is net of questioned costs of $1,372.89 that were included in finding 10-DOT-07.

(5) This amount is net of questioned costs of $24,656.28 that were included in finding 10-DOT-07.

(6) This amount is net of questioned costs of $1,388.08 that were included in finding 10-DOT-07.

(7) For subrecipient #3, we also found questioned costs from FY 2009 and FY 2011 as follows:

Federal Questioned Costs	State Questioned Costs	Total Questioned Costs	Fiscal Year Expenditures of Expenditures	Non-ARRA/ ARRA
$ 106,076.65	$ 11,631.18	$ 117,707.83	2009	Non-ARRA
253,120.72	18,052.64	271,623.36	2011	Non-ARRA
612,634.12	-	612,634.12	2011	ARRA
$ 971,831.49	30,133.82	1,001,965.31		

The Director of Program Operations and the Program Manager apparently lacked the experience and knowledge to administer a new federal/state program. As a result, they failed to ensure that subrecipients had adequate knowledge or understanding prior to submitting initial reimbursement requests.

As a part of the state's Single Audit, the scope of our audit of the department covered the applicable federal compliance requirements for the Formula Grants program. In addition to the department's failure to establish internal controls and to properly oversee the subrecipients as noted in this finding, we have also reported the following significant deficiencies in internal control, noncompliance, and questioned costs in other findings in this report:

- Activities Allowed or Unallowed and Allowable Costs/Cost Principles - The Department of Transportation's Division of Multimodal Transportation Resources failed to thoroughly and adequately review subrecipients' reimbursement requests and ultimately paid subrecipients with federal funds from the Formula Grants for Other Than Urbanized Areas program, resulting in federal questioned costs of $79,020.93 and state questioned costs of $7,238.29 (finding 10-DOT-07);

- Davis-Bacon Act - Department staff did not review construction contracts to verify that program subrecipients had ensured compliance with the Davis-Bacon Act, increasing the risk of workers not receiving the prevailing wage rates (finding 10-DOT-05);

- Equipment and Real Property Management - Controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets (finding 10-DOT-03);

- Matching, Level of Effort, Earmarking - The Department of Transportation overcharged the Federal Transit Administration when it used incorrect matching percentages, resulting in federal questioned costs of $23,510.86 (finding 10-DOT-04);

- Reporting - Incorrect reporting methodology and lack of a proper reconciliation resulted in the department misstating amounts on the required federal reports and not detecting significant unbilled costs (finding 10-DOT-06);

- Subrecipient Monitoring - In some instances, the department did not comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse, and noncompliance by subrecipients (finding 10-DOT-08).

Based on the results of our audit in conjunction with the department's Internal Audit Division investigation, we have qualified our opinion on compliance for the Formula Grants program because of material noncompliance at the activities allowed or unallowed, allowable costs/costs principles, and program income compliance requirements level. We have also reported material weaknesses in internal controls over compliance for the Formula Grants program. An investigation into the Division of Multimodal Transportation Resources is ongoing.

Recommendation

Government officials are responsible for our tax dollars. Taxpayers rightly expect that state officials responsible for the oversight of public transportation programs will ensure that departmental personnel are adequately qualified to manage such programs. In addition, those responsible should appropriately select transportation providers as required by federal and state requirements and ensure that these providers are performing the activities required in their grant contracts.

In such circumstances, it is critical that those individuals charged with the responsibility for evaluating transportation providers, monitoring their routes, and reviewing their expenditures realize that there are real consequences for failure to meet their obligations. To that end, all remedies, including administrative, civil, and criminal actions, should be taken to hold those individuals accountable for their actions or failures to act. One of the greatest defenses to fraud, waste, and abuse is individuals understanding that there will be consequences for their behavior.

The Commissioner should ensure that the Formula Grants Program, including 5311(f) Intercity Bus Service, is carried out in accordance with all applicable rules and regulations. Failure to comply with federal requirements or adequately manage the grant program may cause the state to lose substantial federal funding for which our citizens pay taxes.

The Commissioner should ensure that all DMTR staff responsible for federal/state programs are experienced and adequately trained for their positions. The Director of Program Operations should ensure that grant applications are adequately reviewed and the grant scoring process is documented and disclosed in the State Management Plan. Program Managers should verify that fare revenues have been properly deducted from operating expenses by reconciling ridership reports to amounts deducted from operating expenses on reimbursement requests.

The Commissioner should ensure that plans of action are developed immediately to implement the recommendations in this report. The Commissioner should determine if the leadership of the Division of Multimodal Transportation Resources is capable of correcting the significant problems noted in the department's operation of the Formula Grants program. The Commissioner and the Internal Audit Division should frequently monitor the activities of the individuals responsible for correcting the problems and determine whether satisfactory progress is being made. The Commissioner should take appropriate action if the problems are not corrected in accordance with the plans of action.

Management's Comment

We concur. The Division of Multimodal Transportation Resources will ensure that any future application solicitations for the Intercity Bus Program will include grading criteria so that there is full disclosure regarding the method for grading all proposals.

The current Director of Operations for the Division of Multimodal Transportation Resources has implemented weekly training for all Multimodal staff. Training sessions include review of FTA C 5010.1D "Grant Management Requirements," and Office of Management and Budget Circular A-133 and Circular A-87, which address allowable and unallowable costs and cost allocations. Copies of all FTA Program Circulars are bound and placed in a centralized location available to all staff.

The current Director of Operations for the Division of Multimodal Transportation Resources has worked closely with the Division of Finance Director to develop written guidelines regarding the supporting documentation required to process invoices. The guidelines were distributed to transit agencies, the Tennessee Public Transportation Association and to Division staff. None of the staff members involved or responsible for the initial implementation and management of the Intercity Bus Program 5311(f) are currently employed with the Department of Transportation.

The Department is currently in contact with the subrecipients to address resolution of the questioned costs.

Finding Number	10-TDEC-01
CFDA Number	66.458 and 66.468
Program Name	Capitalization Grants for Clean Water State Revolving Fund and Capitalization Grants for Drinking Water State Revolving Fund
Federal Agency	Environmental Protection Agency
State Agency	Department of Environment and Conservation
Grant/Contract No.	N/A
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Subrecipient Monitoring
Questioned Costs	$10,506,832 (66.458)

The management and staff of the Department of Environment and Conservation did not familiarize themselves with federal requirements in OMB Circular A-133, Section 400(d), which resulted in noncompliance and $10,506,832 in related federal questioned costs

Finding

Because management and staff of the Department of Environment and Conservation (TDEC) did not adequately familiarize themselves with OMB Circular A-133, Section 400(d), which defines the responsibilities of pass-through entities who pass federal grant funds to subrecipients, the department and the subrecipients who received and spent federal funds did not comply with these requirements, resulting in federal questioned costs of $10,506,832.

Background Information

The Environmental Protection Agency awarded capitalization grants to the state to create and maintain the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund programs. Under the Clean Water program, the state encourages (1) construction of wastewater treatment facilities to meet the enforceable requirements of the Clean Water Act; (2) increasing the emphasis on nonpoint source pollution control and protection of estuaries; and (3) establishing permanent financing institutions to provide continuing sources of financing to maintain water quality. The Clean Water fund provides loans and other types of financial assistance (but not grants) to qualified communities and local agencies; it is a permanent revolving fund. Under the Drinking Water program, TDEC established the revolving loan fund to assist public water systems in financing the costs of infrastructure needed to achieve or maintain compliance with Safe Drinking Water Act requirements and protect the public health objectives of the act. The Drinking Water fund can be used to provide loans and other types of financial assistance for qualified communities, local agencies, and private entities. The federal regulations also allow states to set aside certain percentages of their capitalization grant or allotment for various activities that promote source water protection and enhanced water systems management.

To carry out the Clean Water and Drinking Water programs, the state as part of its initial application for the capitalization grant designated TDEC the responsibility to administer the State

Revolving Fund Loan Program (SRFLP) in accordance with the Safe Drinking Water Act. The SRFLP provides local governments, utility districts, and water and/or waste water authorities (subrecipients) with low-cost loans for the construction of waste water and drinking water facilities. The SRFLP is funded by the federal capitalization grants, state matching dollars, and the repayment of previous loans. Each year, TDEC management determines the amount available for loans to subrecipients and makes loan awards to subrecipients as approved by the governing board, the Tennessee Local Development Authority. The SRFLP Manager notifies subrecipients that they have been approved for a loan, though no money is loaned until the subrecipient incurs project expenses and submits reimbursement requests. Once a subrecipient incurs costs and requests reimbursement, the SRFLP Manager approves the reimbursement request and authorizes the loan payment to the subrecipient from the State Revolving Fund.

Because the State Revolving Fund contains federal and state funds, the SRFLP manager must determine which source of funds will be used to reimburse each loan reimbursement request. Based on our discussions with the SRFLP manager, he stated that in order to draw down federal reimbursement dollars sooner, for the Clean Water State Revolving Fund projects he has historically awarded federal loan funds to larger subrecipients who have multiple projects. Also, the manager stated that this method of awarding loan funds reduces the chances of smaller subrecipients incurring the cost of a single audit, which is required when subrecipients receive and spend federal funds above a certain threshold. According to the SRFLP manager, he does not determine whether federal or state funds make up each loan at the time the loan is awarded, but rather at the time reimbursements are made. The Program Manager told us that he does not notify subrecipients at either time whether the loan award included federal funds. In fiscal year 2010, the Program Manager notified subrecipients when their loan agreements included federal dollars from the American Recovery and Reinvestment Act (ARRA); however, specific award information was not included in that notification. When subrecipients are unaware that they have received federal funds, the risk of federal noncompliance by TDEC and the subrecipients is increased.

<u>OMB A-133, Section 400(d) Requirements</u>

The Office of Management and Budget (OMB) Circular A-133, Section 400(d), requires that pass-through entities exercise seven specific oversight responsibilities for the federal awards it makes to its subrecipients. However, we found that TDEC management and staff only addressed one of these seven responsibilities. Specifically, TDEC relies on its compliance with the Department of Finance and Administration's Policy 22, Subrecipient Contract Monitoring, to ensure subrecipients who receive federal funding through TDEC are monitored and applicable federal compliance requirements are met. The state's Policy 22 specifically allows state departments and agencies to address the compliance with Section 400(d)(3), to "*[m]onitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.*"

However, management and staff had not sufficiently familiarized themselves with the remaining responsibilities of Section 400(d) and failed to ensure compliance with these specific

requirements: subrecipients' audit requirements, the issuance of management decisions for subrecipients' audit findings, and notifying the subrecipient of specific award information.

In addition, based on our testwork, we determined that none of the Clean Water State Revolving Fund and Drinking Water State Revolving Fund subrecipients' loan agreements were included in the department's 2009 and 2010 federal fiscal year Policy 22 annual monitoring plans. Therefore, because management failed to include the loan agreements in the population of subrecipients, the loan agreements were not subject to monitoring efforts through a Policy 22 review. We identified 11 Clean Water fund and Drinking Water fund subrecipients in 2009 and 36 subrecipients in 2010 that were awarded federal loans and reimbursed for expenses totaling $15,090,534.57 and $31,064,580.27, respectively. But these subrecipients were not monitored for compliance requirements related to Clean Water fund and Drinking Water fund program requirements or for requirements under OMB A-133, Section 400(d).

We did determine that programmatic staff performed inspections of subrecipient construction sites to ensure that work performed conformed to state-approved plans, agreed to reimbursement requests submitted, and used agreed-upon materials; however, their reviews did not address specific program or OMB A-133, Section 400(d) requirements.

Subrecipients' Audits and Management Decisions

Based on our interviews, follow-up meetings, and e-mails, TDEC officials outlined what they believed were their responsibilities regarding subrecipients' independent audit reports. Specifically, we also found that the Division of Water Supply and the Division of Internal Audit were unaware that it was their responsibility to ensure subrecipients were audited in accordance with OMB Circular A-133, Section 400(d)(4), and erroneously believed that the subrecipient audit report requirement was the responsibility of the Tennessee Office of the Comptroller of the Treasury. However, OMB Circular A-133, Section 400(d)(4), states that ensuring subrecipients meet their audit requirements is the pass-through entity's responsibility. Section 400(5) also requires the pass-through agency to issue management decision letters to subrecipients within six months of an audit report containing findings.

Staff auditors of the Division of Internal Audit performed desk reviews of Clean Water fund and Drinking Water fund subrecipients as part of their normal monitoring activities, but because they believed the Comptroller's Office was responsible for subrecipient audit reports, the division's internal auditors did not look for the subrecipients' audit reports.

We reviewed all 11 Clean Water fund and Drinking Water fund subrecipients who received federal loans in 2009, and we found the following noncompliance:

- Based on a comparison of a listing of fiscal year 2009 federal disbursements to subrecipients (generated by the Office of State and Local Finance) to subrecipients' fiscal year 2009 independent audit reports, we found that Metropolitan Nashville and Davidson County (Nashville) expended $10,506,832.98 in Clean Water federal funds in fiscal year 2009 but did not include the expenditures on its Schedule of Expenditures of Federal Awards.

In addition, the independent auditors did not audit the program as a major federal program for the year ended June 30, 2009. Since 1991, Nashville has been awarded 26 separate Clean Water fund loans totaling over $200 million in state and federal funds, but Nashville's independent auditors have never audited the Clean Water fund as a major program, and Nashville has never included the funds on its SEFA. OMB Circular A-133, Section 400(d)(4), requires TDEC to "*[e]nsure that subrecipients expending $300,000 ($500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year*." The SRFLP Manager's failure to notify subrecipients when they are awarded federal loans seriously hinders Nashville's (and other cities') independent auditors from identifying the dollars as federal and auditing them appropriately. For fiscal year 2009, TDEC awarded and reimbursed 100% of the state's Clean Water fund federal loan dollars to Nashville. All other Clean Water fund subrecipients were awarded and reimbursed with either state matching funds or repaid dollars from previous loans.

Because TDEC management and staff did not ensure this subrecipient was audited for the Clean Water program, they cannot be assured federal funds were spent in accordance with applicable requirements. We have questioned the entire loan payments to Metropolitan Nashville and Davidson County (Nashville) totaling $10,506,832.98 in Clean Water federal funds for the year ended June 30, 2009.

We also found, based on interviews with the Director of Internal Audit and staff, that they did not know that 6 of the 11 subrecipients in 2009 had reached the federal expenditure threshold and were required to have an audit completed within 9 months after the year ended June 30, 2009, as required by Section 320(a) of OMB Circular A-133. This section states that "*[t]he audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.*" In addition to TDEC management and staff not knowing that subrecipient audits were even required, we found 3 of the 6 subrecipients did not ensure their audits were completed within 9 months after their fiscal year-end. Ultimately, these subrecipients' audits were completed; however, the audits were 56, 77, and 148 days beyond the 9-month deadline.

- As part of our review, we identified only one independent auditor's report with audit findings. The City of Livingston audit report contained two findings concerning the Clean Water program. Because TDEC did not comply with the requirement to ensure subrecipients' audit reports were received, the

department was also unaware of the findings in this report and did not comply with the requirement to issue a management decision on the audit findings. OMB Circular A-133, Section 400(d)(5), requires the "pass-through entity" (TDEC) to *"[i]ssue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely action*." We notified both Division of Internal Audit and Division of Water Safety staff on August 27, 2010, of this independent auditor's report and the findings on the City of Livingston. According to both the Director of Internal Audit and the SRFLP Manager, neither was aware of the requirement to issue a management decision letter to the City of Livingston by September 30, 2010. After we brought this to management's attention, TDEC officials issued the management decision letter to the City of Livingston on December 22, 2010, 83 days after the six-month deadline.

Award Identification

OMB Circular A-133, Section 400(d)(1), states that a pass-through entity must *"[i]dentify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award*."

As noted above, we identified 36 Clean Water fund and Drinking Water fund subrecipients who were awarded federal loans for the fiscal year ended June 30, 2010, and 11 subrecipients who were awarded federal loans for the fiscal year ended June 30, 2009, but TDEC failed to notify the subrecipients either at the time of the award or at the time of reimbursement of the required information noted above.

Based on discussions with the SRFLP Manager, he was unaware of the requirement to notify subrecipients of the required award information. After we informed management on August 12, 2010, of this award notification requirement, they amended their loan agreements for new loans awarded after September 1, 2010, to include the best information available to describe the federal award.

As documented in this finding and based on meetings, inquiries, and observation, we determined that TDEC officials were unaware of certain OMB Circular A-133 requirements concerning subrecipient monitoring. As a result, TDEC management has failed to fulfill its responsibility as a pass-through entity to ensure controls governing subrecipient monitoring were in place and operating effectively to mitigate the risks of noncompliance, fraud, waste, and abuse within the federal programs. In addition, failure to exercise proper oversight of subrecipients increases the risk that the mission of the Clean Water fund and Drinking Water fund programs will not be carried out.

Recommendation

The Commissioner of TDEC should require all employees who are responsible for federal grants to familiarize themselves with all federal requirements and take immediate action to ensure TDEC is in compliance with all federal regulations. The Commissioner should have staff update their risk assessment to include the risks identified in this finding. Management and staff should develop adequate controls to mitigate the risks identified and then ensure these controls are placed in operation to ensure compliance with federal regulations and to mitigate risks of fraud, waste, and abuse. Specifically, management should

- ensure that the population of subrecipients includes all Clean Water State Revolving Fund and Drinking Water State Revolving Fund subrecipients;
- ensure subrecipients are informed of federal award identification at the time of the award;
- ensure subrecipients who receive more than $500,000 in federal dollars annually obtain the required independent auditor's report timely; and
- issue management decision letters related to findings in independent audit reports timely and ensure that corrective action is taken promptly.

Management's Comment

We concur. Management and staff will develop controls to mitigate the risks identified and ensure these controls are in place to ensure compliance with federal regulations to mitigate risks of fraud, waste and abuse. Risk assessments due December 31, 2011, will include the risks identified in this finding. Below are management's responses to each recommendation.

Recommendation 1: Ensure that the population of subrecipients includes all Clean Water State Revolving Fund and Drinking Water State Revolving Fund subrecipients.

Tennessee Department of Environment and Conservation's (TDEC) Subrecipient Monitoring Plan submitted on September 27, 2010, to Finance & Administration (F&A) included all Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) subrecipients. F&A's Office of Audit and Consulting approved TDEC's Subrecipient Monitoring Plan on November 17, 2010. All future submittals to F&A will include all the CWSRF and DWSRF loan recipients.

Recommendation 2: Ensure subrecipients are informed of federal award identification at the time of the award.

Loan agreements have been amended for new loans awarded after September 1, 2010, to provide the following information to loan recipients: (1) CFDA Title; (2) CFDA #; (3) Research and Development Award (Yes or No); (4) Grant Number; (5) Federal Awarding Agency; (6) the location of the website to obtain confirmations of actual federal funding at fiscal year end from the Tennessee Comptroller of the Treasury, Division of Municipal Audit website at

http://www.tn.gov/comptroller; and (7) OMB Circular A-133 Audit Requirements. The Division of Internal Audit (DIA) contacted the Office of State and Local Finance[1] to discuss including the amount of federal funds disbursed with each payment from the State Revolving Fund to every loan recipient. As of March 2, 2011, letters sent to loan recipients from the Office of State and Local Finance will include the amount of federal funds disbursed to each loan recipient.

Recommendation 3: Ensure subrecipients who receive more than $500,000 in federal dollars annually obtain the required independent auditor's report timely.

Pursuant to Section 320(a) of OMB Circular A-133, DIA has implemented procedures to check the Federal Audit Clearing House to verify that TDEC's subrecipients and loan recipients submit their data collection form and reporting package within nine months[2] after the end of the audit period. If a TDEC subrecipient or loan recipient has not submitted their data collection form and reporting package by March 31st each year, DIA will check the Comptroller's website for audit reports submitted to Municipal and County Audit. If the audit reports indicate that a subrecipient or loan recipient should have submitted their data collection form and reporting package, DIA will issue letters requesting a reply from the subrecipient or loan recipient with an explanation for the lack of submission.

Recommendation 4: Issue management decision letters related to findings in independent audit reports timely and ensure that corrective action is taken promptly.

The procedures implemented above (see Recommendation 3) by DIA include reviewing data collection forms to ascertain if the audit reports include findings against TDEC federal awards. DIA will notify program management and provide guidance to them in issuing management decision letters related to findings timely and ensure that corrective action is taken promptly.

Regarding the $10,506,833 of questioned costs for a loan to Metropolitan Nashville and Davidson County (Nashville), DIA issued a letter to Nashville on October 15, 2010, requesting corrective action to: (1) amend their Single Audit Report for the fiscal year ending June 30, 2009[3], and (2) submit a copy of the amended audit report to the State of Tennessee Comptroller's Office, Division of County Audit. DIA received a response from Nashville on November 29, 2010. After receiving guidance from the Environmental Protection Agency (EPA) on January 26, 2011, supporting our request for corrective action, TDEC met with Nashville representatives on February 22, 2011. Nashville indicated they would comply with the corrective action. DIA received an email from Nashville on March 7, 2011, indicating the status of their corrective action. Nashville will amend and reissue the audit report for the year ending June 30, 2009, by March 31, 2011.

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[1] With the Comptroller of the Treasury's office.

[2] The majority of TDEC's subrecipients has a year end of June 30 and has a March 31 deadline to submit the reporting package to the Federal Audit Clearing House.

[3] To include an amended submittal of the data collection form described in paragraph (b) and reporting package described in paragraph (c) of Section 320(a) of OMB Circular A-133.

Finding Number	10-DHS-01
CFDA Number	81.042
Program Name	Weatherization Assistance for Low-Income Persons
Federal Agency	Department of Energy
State Agency	Department of Human Services
Grant/Contract No.	DE-FG26-07NT43135 DE-EE0000114
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Activities Allowed or Unallowed Allowable Costs/Cost Principles
Questioned Costs	$92,448

The Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs totaling $92,448 and increased risk of fraud, waste, abuse, and additional noncompliance

Finding

The Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons (WAP) program, which resulted in federal questioned costs of $92,448 for unallowable costs.

On April 1, 2009, the U.S. Department of Energy (DOE) awarded the state $99 million in American Recovery and Reinvestment Act of 2009 (ARRA) funds for the WAP program. The ARRA funds are available for a three-year period ending March 31, 2012. In addition, DOE awarded $7 million of non-ARRA funding to the state in the fiscal year ended June 30, 2010, bringing the total award to $106 million. To implement the program, DHS contracted with 18 subrecipients (nonprofit organizations) across the state.

Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," requires us to plan and perform our audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements that could have a direct and material effect on a major federal program.

Program Objectives

According to the OMB Circular A-133 Compliance Supplement:

> The objective of the Weatherization Assistance for Low-Income Persons (WAP) program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. WAP has a special interest in addressing these needs for low-income persons who are particularly vulnerable, such as the elderly, disabled

persons, and families with children, as well as those with high energy usage and high energy burdens.

DHS is responsible for administrating the WAP program. As the pass-through entity, DHS is responsible for advising subrecipients and monitoring the subrecipients' activities to ensure that federal awards are used for authorized purposes and in accordance with the grant award, grant requirements, and OMB Circular A-133.

Scope of the Review

To determine whether DHS and the subrecipients complied with WAP federal activities allowed or unallowed/allowable costs requirements, we reviewed the related client files, energy auditor files, and contractor files for 446 files from a population of 6,796 weatherized homes. Our work also included site visits at 84 weatherized homes. We noted that contractors had not performed weatherization measures, had not properly completed the weatherization measures, or had performed work that was not allowable under the weatherization program.

Overview of the Weatherization Process

DHS contracted with the following 18 subrecipients to administer the weatherization program:

- Blount County Community Action Agency (Blount)
- Bradley-Cleveland Community Services Agency (Bradley)
- Chattanooga Human Services Department (Chattanooga)
- Clarksville-Montgomery County Community Action Agency (Clarksville)
- Delta Human Resource Agency (Delta)
- East Tennessee Human Resource Agency (East Tennessee)
- Highland Rim Economic Corporation (Highland Rim)
- Knoxville-Knox County Community Action Committee (Knoxville)
- Metropolitan Development and Housing Agency (Metro)
- Mid-Cumberland Community Action Agency (Mid-Cumberland)
- Mid-East Community Action Agency (Mid-East)
- Northwest Tennessee Economic Development Council (Northwest)
- Shelby County Community Services Agency (Shelby)
- South Central Human Resource Agency (South Central)
- Southeast Tennessee Human Resource Agency (Southeast)
- Southwest Human Resource Agency (Southwest)
- Upper Cumberland Human Resource Agency (Upper Cumberland)
- Upper East Tennessee Human Development Agency (Upper East)

Applicants seeking to obtain weatherization assistance under the program must apply at the subrecipient which serves their location. The applicants must meet the eligibility

requirements of the weatherization program and the subrecipients' weatherization coordinators are responsible for ensuring that all eligibility requirements are met and fully documented.

To meet eligibility requirements, the applicant's income must be at or below 200% of the poverty level. In addition, the dwelling may not have more than four units. If the dwelling is more than two units, half of the units must meet the eligibility requirements. Furthermore, the dwelling can not have been weatherized since September 30, 1994.

In addition, to be eligible for weatherization assistance, the homeowners are required to certify that weatherization work is allowed on the home. Rented dwellings are eligible for the program. However, if the dwelling is rented, a homeowner authorization form is to be signed by the homeowner (landlord) approving the weatherization work. The subrecipients' weatherization coordinators are responsible for ensuring that there is proper documentation of homeownership and that homeowners granted permission for the weatherization work. See Finding 2 for the results of our eligibility testwork.

Once the subrecipient weatherization coordinators approve the applicants and the dwellings, the subrecipients' weatherization coordinators send a certified energy auditor to the dwelling to perform a pre-energy audit to determine the weatherization work needed. The energy auditor completes the pre-energy audit using the National Energy Audit Tool (NEAT) or Mobile Home Energy Audit Tool (MHEA) to determine which weatherization measures should be installed on the home, based on a savings-to-investment ratio. The approved weatherization measures are then placed onto a NEAT or MHEA, which becomes the work order.

All work orders are displayed on the DHS website for 10 days. Approved weatherization contractors are allowed to submit sealed bids during this time period. After the 10 days, bids are opened by at least two individuals during a bid award ceremony. The subrecipient weatherization coordinator and either a board member or an individual who does not work in the weatherization program open the bids. Contractors are invited to attend the bid award ceremony but are not required to attend. The contracts are awarded to the lowest bidder.

The contractors are responsible for properly completing the weatherization work within the contracted time period. Once the contractors complete the work, the subrecipients' weatherization coordinators send a certified energy auditor to the home to perform a post-energy audit. The energy auditor inspects the contractors' work to ensure that the work was properly completed. The post-energy audit is a critical point in the process because it determines if the home was properly weatherized. The energy auditor can either pass or fail the contractors' work. These final inspections are a key control for DHS and the subrecipients because the results of the inspections initiate the payment to the contractors.

The contractors invoice the subrecipients for the work performed. The subrecipients' weatherization coordinators are responsible for comparing the bids, contractors' invoices, and the post-energy audits to ensure the contractors' invoices are correct and that the work was properly completed. The subrecipients then pay the contractors and invoice DHS for reimbursement.

Results of Our File Review and Site Visit Testwork

Non-Weatherization Measures

Our review determined that weatherization coordinators at nine subrecipients (Blount, Delta, East Tennessee, Highland Rim, Metro, Mid-East, South Central, Southwest, and Upper East) failed to detect when energy auditors inappropriately recommended weatherization measures that were not allowed under WAP.

The nine subrecipients had energy auditors that inappropriately recommended non-weatherization measures such as stairs, steps, ramps, and shower surrounds, which do not increase the energy efficiency of the home. As a result, contractors installed non-weatherization measures and were paid. These errors were discovered during our file review and site visits.

According to the OMB A-133 Compliance Supplement, Part 4 (I), "The objective of the Weatherization Assistance for Low-Income Persons (WAP) program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. . . ."

Based on our file review, we found that weatherization coordinators at seven subrecipients (Blount, Delta, East Tennessee, Highland Rim, Mid-East, South Central, and Southwest) approved and paid for non-weatherization work. We noted that non-weatherization measures were performed on 10 of 446 homes (2%). The subrecipients paid $10,870 for these non-weatherization measures. See the table below for the number of problems for each subrecipient.

Based on site visits, we found that weatherization coordinators at four subrecipients (Highland Rim, Metro, Southwest, and Upper East) approved and paid for non-weatherization work. We noted that non-weatherization measures were performed on 7 of 84 homes (8%). The subrecipients paid $3,451 for these non-weatherization measures. See the table below for the number of problems for each subrecipient.

The subrecipients' weatherization coordinators failed to identify the non-weatherization measures either before the measures were completed or after the work was completed but before contractors were paid.

The total federal questioned costs are $14,321.

Non-Weatherization Measures

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
# of Overall Deficiencies	1	0	0	0	2	3	2	0	4	0	1	0	0	1	0	2	0	1	17
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	1	0	0	0	2	3	1	0	0	0	1	0	0	1	0	1	0	0	10
Questioned Costs for File Review	$450	$0	$0	$0	$6,950	$1,170	$500	$0	$0	$0	$600	$0	$0	$600	$0	$600	$0	$0	$10,870
Site Visit Deficiencies Noted																			
# of Site Visits	3	3	2	3	5	4	4	3	25	6	3	4	4	2	3	5	2	3	84
# of Deficiencies Noted from Site Visits	0	0	0	0	0	0	1	0	4	0	0	0	0	0	0	1	0	1	7
Questioned Costs for Site Visits	$0	$0	$0	$0	$0	$0	$500	$0	$1,501	$0	$0	$0	$0	$0	$0	$950	$0	$500	$3,451
Total Questioned Costs	$450	$0	$0	$0	$6,950	$1,170	$1,000	$0	$1,501	$0	$600	$0	$0	$600	$0	$1,550	$0	$500	$14,321

Weatherization Measures Not Completed

Based on our file review and site visits, we determined that weatherization coordinators at nine subrecipients (Chattanooga, Highland Rim, Knoxville, Metro, Mid-Cumberland, Mid-East, Southeast, Southwest, and Upper East) approved and paid the weatherization contractors for weatherization measures that were not completed.

According to 10 Code of Federal Regulations (CFR), Part 440.16(g), "No dwelling unit may be reported to DOE as completed until all weatherization materials have been installed and the subgrantee, or its authorized representative, has performed a final inspection(s) including any mechanical work performed and certified that the work has been completed in a workmanlike manner and in accordance with the priority determined by the audit procedures required by §440.21."

Based on our file review, we found the Chattanooga, Southeast, and Upper East weatherization coordinators approved and paid the weatherization contractors for weatherization measures that were not complete. We noted weatherization measures were not complete for 3 of 446 homes (1%). Subsequent to our file review, we obtained documentation from the Southeast weatherization coordinator stating that the measures were subsequently completed for one home. Chattanooga and Upper East paid $3,118 for the incomplete weatherization measures. See the table below.

Based on our site visits, we found Chattanooga, Highland Rim, Knoxville, Mid-Cumberland, Metro, Mid-East, Southeast, Southwest, and Upper East weatherization

coordinators approved and paid contractors for weatherization measures that were not completed. Specifically, we noted weatherization measures were not complete for 24 of 84 homes (29%). Subsequent to our site visits, the weatherization coordinators at Highland Rim, Knoxville, Southeast, and Upper East provided us with documentation that the measures were subsequently completed at six homes. The weatherization coordinators (for the other five subrecipients) paid $4,309 for the incomplete weatherization measures. See the table below for the number of problems for each subrecipient.

The subrecipients' energy auditors failed to identify during their post-energy audits that weatherization measures invoiced by the contractor had not been completed. In one instance during a site visit, we found where a contractor had invoiced Metro for a crawl space door, but the door was not installed. The contractor also invoiced Metro for installing floor insulation; however, the contractor provided the bags of insulation which were left at the house without installing it. See the photos below.

The total federal questioned costs are $7,427.

Weatherization Measures Not Completed

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	3
# of Deficiencies Subsequently Corrected for File Review	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1
# of Deficiencies Not Corrected as of February 28, 2011	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2
Questioned Costs for File Review	$0	$0	$2,338	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$780	$3,118
Site Visit Deficiencies Noted																			
# of Site Visits	3	3	2	3	5	4	4	3	25	6	3	4	4	2	3	5	2	3	84
# of Deficiencies Noted from Site Visits	0	0	1	0	0	0	3	1	13	2	1	0	0	0	1	1	0	1	24
# of Deficiencies Subsequently Corrected for Site Visits	0	0	0	0	0	0	3	1	0	0	0	0	0	0	1	0	0	1	6
# of Deficiencies Not Corrected as of February 28, 2011	0	0	1	0	0	0	0	0	13	2	1	0	0	0	0	1	0	0	18
Questioned Costs for Site Visits	$0	$0	$50	$0	$0	$0	$0	$0	$3,784	$175	$125	$0	$0	$0	$0	$175	$0	$0	$4,309
Total Questioned Costs	$0	$0	$2,388	$0	$0	$0	$0	$0	$3,784	$175	$125	$0	$0	$0	$0	$175	$0	$780	$7,427

Weatherization Measures Not Completed

The contractor was paid to install a crawl space door; however, the contractor only installed plywood and cinder block at Metro.

At Metro this was the photo taken by the energy auditor of the floor insulation that was to be repaired and installed.

For the same house as above, this is the photo we took at the time of our review where the contractor was paid to repair and install floor insulation which was not completed.

The contractor left the floor insulation instead of installing.

Weatherization Measures Not Properly Completed

Based on our site visits, we determined that weatherization coordinators at six subrecipients (Chattanooga, Highland Rim, Knoxville, Metro, Southwest, and Upper East) approved and paid weatherization contractors for weatherization measures not properly completed. As noted above, 10 CFR, Part 440.16(g), requires all work to be completed in a workmanlike manner.

We noted that contractors had not properly completed weatherization measures for 14 of 84 homes (17%). For example, at Metro we observed that contractors did not properly wrap water heaters or properly install doors at homes. At Highland Rim, we observed that the contractor did not properly replace the brick molding ledge on the front of a home. See below for photos of work not properly performed.

Subsequent to our initial field review, the Highland Rim and Knoxville weatherization coordinators provided us with documentation that the work was later corrected for two homes. However, for the 12 remaining homes, the weatherization coordinators approved and paid $2,912

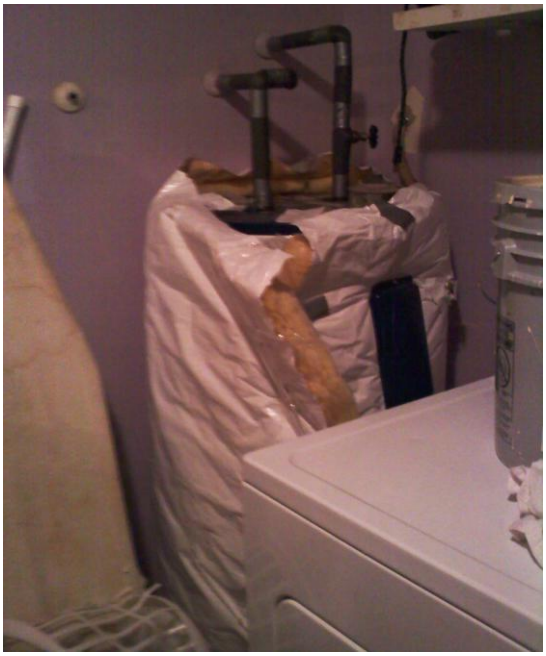
for the weatherization measures even though the measures were not properly completed. See the table below for the number of problems for each subrecipient.

The federal questioned costs are $2,912.

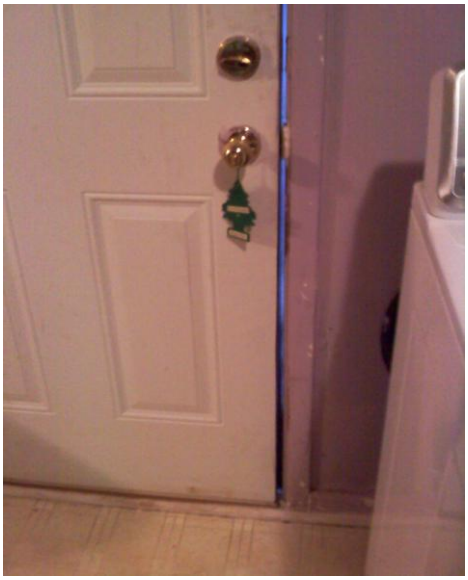
Weatherization Measures Not Properly Completed

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
Site Visit Deficiencies Noted																			
# of Site Visits	3	3	2	3	5	4	4	3	25	6	3	4	4	2	3	5	2	3	84
# of Deficiencies Noted from Site Visits	0	0	1	0	0	0	1	1	8	0	0	0	0	0	0	2	0	1	14
# of Deficiencies Subsequently Corrected	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0	0	0	2
# of Deficiencies Not Corrected as of February 28, 2011	0	0	1	0	0	0	0	0	8	0	0	0	0	0	0	2	0	1	12
Questioned Costs for Site Visits	$0	$0	$0	$0	$0	$0	$0	$0	$2,670	$0	$0	$0	$0	$0	$0	$242	$0	$0	$2,912

Weatherization Measures Not Properly Completed



The hot water heater wrap was not properly installed at Metro.



The contractor did not properly install the door allowing air to enter the home at Metro.

The brick molding ledge was not properly completed at Highland Rim.

Weatherization Measures Not Verified

Based on our file review, we determined that weatherization coordinators at nine subrecipients (Blount, Bradley, Delta, East Tennessee, Highland Rim, Knoxville, Northwest, Southwest, and Upper East) failed to ensure that the post-energy auditors verified all of the weatherization measures invoiced by the contractor. As noted above, 10 CFR, Part 440.16(g), requires the subrecipients' weatherization coordinators to ensure through verification during post-energy audits, that work performed was properly completed.

Based on file review, the subrecipients did not provide documentation that the post-energy auditors verified the work was installed. We were not provided evidence of appropriate final inspections and verification of weatherization measures for 30 of 446 homes (7%).

Subsequent to our file review, the subrecipients' weatherization coordinators and DHS Director of Program Review provided documentation that measures at 11 homes had been verified as installed. For the remaining 19 homes, the weatherization coordinators approved and paid $12,775 for the weatherization measures not verified. See the table below for the number of problems for each subrecipient.

The federal questioned costs are $12,775.

Weatherization Measures Not Verified

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	3	1	0	0	10	1	2	3	0	0	0	2	0	0	0	6	0	2	30
# of Deficiencies Subsequently Corrected	3	0	0	0	0	0	1	3	0	0	0	0	0	0	0	4	0	0	11
# of Deficiencies Not Corrected as of February 28, 2011	0	1	0	0	10	1	1	0	0	0	0	2	0	0	0	2	0	2	19
Questioned Costs for File Review	$0	$0	$0	$0	$8,065	$1,225	$240	$0	$0	$0	$0	$1,750	$0	$0	$0	$1,210	$0	$285	$12,775

<u>Payments to the Contractors Did Not Agree to the Original Bid or Invoice, or Payments Included Duplicate Measures</u>

Based on file review, we found that weatherization coordinators at four subrecipients (Bradley, Chattanooga, Mid-Cumberland, and Southwest) approved and paid contractors an amount that did not agree with the contractors' original bids or invoices, or the contractors were paid for duplicate measures.

We noted differences in the amount the contractors were paid compared to the contractors' original bids and invoices, or the contractors were paid twice for weatherization measures installed for 7 of 446 homes (2%). The differences resulted in overpayments of $1,906 to the contractors. See the table below for the number of problems for each subrecipient.

Payments to the Contractors Did Not Agree to the Original Bid or Invoice, or Payments Included Duplicate Measures

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	0	2	3	0	0	0	0	0	0	1	0	0	0	0	0	1	0	0	7
Questioned Costs for File Review	$0	$750	$826	$0	$0	$0	$0	$0	$0	$300	$0	$0	$0	$0	$0	$30	$0	$0	$1,906

In addition to the 22 client files selected at Mid-Cumberland, we reviewed 23 expenditures. Based on file review and inquiry of Mid-Cumberland staff, we found that the weatherization coordinator failed to ensure that for 4 of 23 expenditures (17%) the amount paid to the contractor agreed with what was invoiced, resulting in a net overpayment of $2,585.

The total federal questioned costs are $4,491.

Payments to the Energy Auditor Exceeded the Maximum Amount

Based on discussion with South Central's staff, we found that the weatherization coordinator paid an energy auditor an amount in excess of the amount allowed by DHS for energy audits. According to the "ARRA WAP FAQ" (Frequently Asked Questions) dated June 24, 2009, the maximum limit allowed for a subcontractor audit is $200 for a post-energy audit.

Based on discussion with South Central's weatherization coordinator, the energy auditor was paid $250 for each post-energy audit because that was the contract amount agreed upon between South Central and the energy auditor, resulting in an overpayment of $2,900 for the 58 energy audits completed.

The federal questioned costs are $2,900.

Payment Made for a Measure that Should Not Have Been Recommended

Based on file review, we found that the Metro weatherization coordinator paid a contractor for a weatherization measure installed which should not have been recommended on the pre-energy audit.

According to the OMB A-133 Compliance Supplement, Part 4 (I), "The objective of the Weatherization Assistance for Low-Income Persons (WAP) program is to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total expenditures on energy, and improve their health and safety. . . ."

Based on file review of the pre-energy audit documentation, we found that for one of 446 homes (0.2%), the energy auditor added a weatherization measure during the pre-energy audit based on the client's request. The client requested the energy auditor to recommend removing a window air conditioner and replacing with a window. The energy auditor did add this measure to the work order and the window was installed by the contractor. The energy auditor should not recommend a measure solely based on a client's request. Therefore, we questioned the $250 cost that Metro paid to the contractor for installation of this weatherization measure.

The federal questioned costs are $250.

Payments for Change Orders Not Properly Approved

Based on our file review and discussion with the energy auditors and subrecipients' weatherization coordinators, we found that weatherization coordinators at nine subrecipients (Blount, Chattanooga, Clarksville, Delta, Metro, Mid-Cumberland, Northwest, Upper Cumberland, and Upper East) did not follow the change order procedures when making changes to bids. As a result, contractors were paid for weatherization measures performed but not properly approved.

According to the U.S. Department of Energy State Plan/Master File Worksheet, pp. 2-3, ". . . client files shall include the following documentation . . . Written justification for installation of measures not recommended by energy surveys and/or omission(s) of allowable measures recommended on energy surveys. . . ." Furthermore, the WAP ARRA Memorandum 09-28 states, ". . . any change order in excess of $100 will require the local agency representative to make a visit to the site . . ." for the purpose of determining if the change is necessary to the home.

Based on our file review and discussion, we found that the change orders were not always properly approved. Of the 446 files, 194 contained change orders or should have contained change orders. We noted that for 26 of 194 files, the changes (13%) were not approved or properly approved. Specifically, the files did not include documentation that a subrecipient representative conducted the required site visits prior to approval of the change order. Without the subrecipient making a site visit, the subrecipient may approve work that is not necessary to weatherize the home. The cost of changes made to the original bids that were not properly approved was $7,069. See the table below for the number of problems for each subrecipient.

The federal questioned costs are $7,069.

Payments for Change Orders Not Properly Approved

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Change Orders	12	8	11	10	12	17	15	15	9	8	15	6	9	2	11	6	15	13	194
# of Deficiencies Noted from File Review	2	0	2	1	1	0	0	0	4	8	0	2	0	0	0	0	3	3	26
Questioned Costs for File Review	$500	$0	$87	$0	$900	$0	$0	$0	$0	$5,385	$0	$0	$0	$0	$0	$0	$197	$0	$7,069

Pre-Energy Audit and Original Bid Did Not Agree

Based on our file review, we found that the Metro weatherization coordinator failed to ensure that the pre-energy audit and contractor's original bid agreed.

The U.S. Department of Energy State Plan/Master File Worksheet, pp. 2-3, states that ". . . client files shall include the following documentation . . . Written justification for installation of measures not recommended by energy surveys and/or omission(s) of allowable measures recommended on energy surveys. . . ."

We noted the pre-energy audit and original bid did not agree for one of 446 homes (0.2%). A weatherization measure was included on the contractor's original bid and invoice but was not listed on the NEAT Recommended Measures or work order. Metro paid the contractor $46 although neither the energy auditor nor NEAT recommended the weatherization measure.

We also noted that several items were on the NEAT Recommended Measures and work order but were not listed on the contractor's original bid or invoice. Since the contractor did not bid on these weatherization measures or perform the work, there were no costs related to the weatherization measures.

The federal questioned costs are $46.

Payments to Uncertified and Unauthorized Energy Auditors and Payments for Energy Audits that Lacked Documentation of an Authorized Energy Auditor

Pre-Energy Audits

Pre-Energy Auditors Not Certified

During our file review and discussion with the subrecipients' staff, we noted that Clarksville's and Upper Cumberland's weatherization coordinators paid for pre-energy audits performed by unauthorized or uncertified energy auditors.

According to the ARRA Contracts between DHS and the subrecipients, Section A, part 11, "The Grantee [Subrecipient] shall be responsible for ensuring that all energy auditors and weatherization installers have either a TVA-issued [Tennessee Valley Authority] certificate or other State approved weatherization training document."

Based on discussion with the Upper Cumberland's weatherization coordinator, we found that the subrecipient paid $4,400 for pre-energy audits performed by an uncertified energy auditor for 22 home energy audits.

Based on our file review at Clarksville, we discovered that pre-energy audits were preformed by uncertified energy auditors. We discovered that 6 of 446 pre-energy audits (1%) were performed by uncertified energy auditors or unauthorized individuals. The agency paid $1,800 for the pre-energy audits performed by uncertified energy auditors.

Based on discussion with the weatherization coordinators, we found certified energy auditors gave the energy audits to uncertified persons to complete.

The total federal questioned costs are $6,200.

Lack of Documentation of Certified Energy Auditors or Authorized Individuals

Based on file review, we discovered that weatherization coordinators at 11 subrecipients (Blount, Bradley, Clarksville, Delta, Highland Rim, Metro, Mid-Cumberland, Mid-East, Southwest, Upper Cumberland, and Upper East) failed to ensure client files contained documentation that the pre-energy audit was performed by a certified energy auditor or authorized individual.

According to the ARRA Contracts between DHS and the subrecipients, Section A, part 11, "The Grantee [Subrecipient] shall be responsible for ensuring that all energy auditors and weatherization installers have either a TVA-issued certificate or other State approved weatherization training document."

We noted 94 of 446 client files (21%) did not contain documentation that the pre-energy audit was performed by a certified energy auditor or authorized individual. See the table below for the number of problems for each subrecipient.

Subsequent to our initial file review, we determined, based on documentation provided by DHS and subrecipients' management that 87 of the 94 audits were completed by certified energy auditors or authorized individuals. However, we found for 7 energy audits, the subrecipients did not document that the energy audit was performed by a certified energy auditor or authorized individual. The subrecipients paid $2,100 for the energy audits.

The federal questioned costs are $2,100.

Lack of Documentation of Certified Energy Auditors or Authorized Individuals

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	6	8	0	7	12	0	20	0	6	2	10	0	0	0	0	15	2	6	94
# of Deficiencies Subsequently Corrected	6	8	0	0	12	0	20	0	6	2	10	0	0	0	0	15	2	6	87
# of Deficiencies Not Corrected as of February 28, 2011	0	0	0	7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7
Questioned Costs for File Review	$0	$0	$0	$2,100	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$2,100

Post-Energy Audits

Post-Energy Audits Not Properly Performed

Based on our file review and site visits, we found that weatherization coordinators at 15 subrecipients (Blount, Bradley, Chattanooga, Clarksville, Delta, East Tennessee, Highland Rim, Knoxville, Metro, Mid-Cumberland, Mid-East, Northwest, Southeast, Southwest, and Upper East) did not ensure the energy auditor properly performed the post-energy audits. Five subrecipients had file review errors, one subrecipient had only site visit errors, and eight subrecipients had both file review and site visit errors. We also noted that one subrecipient had errors based on additional review of post-energy audits. See the table below for the number of problems for each subrecipient.

According to 10 CFR, Part 440.16(g), "No dwelling unit may be reported to DOE as completed until all weatherization materials have been installed and the subgrantee, or its authorized representative, has performed a final inspection(s) including any mechanical work performed and certified that the work has been completed in a workmanlike manner and in accordance with the priority determined by the audit procedures required by §440.21."

Based on our file review of the clients' files, we found that 41 of 446 homes (9%) did not contain proper documentation of a post-energy audit. We specifically noted that the post-energy auditor did not verify all the weatherization measures invoiced by the contractor. The energy auditors apparently did not verify weatherization measures were completed for multiple reasons with the most common reasons as follows:

- the client was not at home during the inspection, and therefore the energy auditor could not verify all of the weatherization measures installed;

- the energy auditor could not verify the weatherization measures because the weatherization coordinator left the measures off of the post-energy audit inspection form;

- the energy auditor failed to mark the weatherization measures either passed or failed on the post-energy audit inspection form; or

- the energy auditor failed to reinspect the weatherization measures which had previously been failed in the post-energy audit to ensure the measures were ultimately properly completed.

The subrecipients paid $3,498 for the energy audits not properly documented.

Based on site visits, we found that for 28 of 84 homes (33%), the post-energy audits were not properly performed. During our site visits, we found that the subrecipients had paid contractors for work that was not an allowable weatherization measure under the program, and subrecipients had paid contractors for weatherization measures that were not completed, were not properly completed, or were not verified. Specifically, in all of these cases, the post-energy auditor should have failed the energy audits.

The energy auditors failed to adequately perform their jobs, and the weatherization coordinators failed to ensure the energy auditors performed the post-energy audits properly before paying the contractors for the work. As a result, the subrecipients paid $2,924 for post-energy audits which were not properly performed. See the table below for the number of problems for each subrecipient.

In addition to our conclusions from our file reviews and site visits related to post-energy audits not properly performed, we also reviewed 35 post-energy audits completed at Clarksville. During this review, we noted that one post-energy audit was not properly performed because the

client was not at home at the time of the inspection; therefore, the energy auditor was unable to verify all of the measures. The cost of this post-energy audit inspection was $200.

The total federal questioned costs are $6,622.

Post-Energy Audits Not Properly Performed

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
# of Overall Deficiencies	3	1	2	1	10	1	4	5	21	6	1	2	0	0	2	8	0	3	70
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	3	1	1	0	10	1	1	3	5	5	0	2	0	0	1	6	0	2	41
Questioned Costs for File Review	$600	$0	$40	$0	$1,457	$40	$200	$114	$0	$600	$0	$82	$0	$0	$0	$328	$0	$37	$3,498
Site Visit Deficiencies Noted																			
# of Site Visits	3	3	2	3	5	4	4	3	25	6	3	4	4	2	3	5	2	3	84
# of Deficiencies Noted from Site Visits	0	0	1	0	0	0	3	2	16	1	1	0	0	0	1	2	0	1	28
Questioned Costs for Site Visits	$0	$0	$0	$0	$0	$0	$600	$76	$1,645	$200	$39	$0	$0	$0	$200	$164	$0	$0	$2,924
Other Deficiencies Noted																			
# of Other Deficiencies Noted	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1
Questioned Cost for Other Deficiencies	$0	$0	$0	$200	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$200
Total Questioned Costs	$600	$0	$40	$200	$1,457	$40	$800	$189	$1,645	$800	$39	$82	$0	$0	$200	$492	$0	$37	$6,622

Post-Energy Auditors Not Certified or Authorized

Based on our file review, we found that Clarksville and Mid-Cumberland weatherization coordinators did not ensure the post-energy audits were conducted by certified energy auditors or authorized individuals.

According to the ARRA contracts between DHS and the subrecipients, Section A, part 11, "The Grantee [subrecipient] shall be responsible for ensuring that all energy auditors and weatherization installers have either a TVA-issued certificate or other State approved weatherization training document."

We found that 9 of 446 homes (2%) included post-energy audits performed by uncertified and unauthorized individuals. Based on discussion with the subrecipients' weatherization coordinators, they told us that the certified energy auditor allowed uncertified persons, who were their assistants, to complete the post-energy audits. The subrecipients paid $1,800 to the post-energy auditors for these post-energy audits. See the table below for the number of problems for each subrecipient.

The federal questioned costs are $1,800.

Post-Energy Auditors Not Certified or Authorized

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	0	0	0	2	0	0	0	0	0	7	0	0	0	0	0	0	0	0	9
Questioned Costs for File Review	$0	$0	$0	$400	$0	$0	$0	$0	$0	$1,400	$0	$0	$0	$0	$0	$0	$0	$0	$1,800

Post-Energy Audit Not Documented

Based on our file review, we found that the Delta weatherization coordinator did not ensure that there was documentation that a post-energy audit was completed. The client's file contained a blank post-energy audit, and the subrecipient weatherization coordinator still authorized payment to the contractor and to the energy auditor responsible for the post-energy audit. As noted above in 10 CFR, Part 440.16(g), the subrecipient is responsible for ensuring weatherized homes receive post-energy audits (final inspections).

We found that one of 446 homes (0.2%) did not have documentation of a post-energy audit. Based on discussion with the weatherization coordinator, we were told the documentation for the post-energy audit was misplaced at the time of our review. We found a blank post-energy audit form in the client's file. Without the proper documentation, we could not determine if the weatherization work on the home was inspected and approved by a certified energy auditor or authorized individual. The weatherization coordinator approved and paid $7,129 to weatherize this home.

The federal questioned costs are $7,129.

<u>Contractor Not Licensed</u>

Based on inquiry, the Northwest weatherization coordinator failed to ensure a contractor was licensed prior to awarding the contract and beginning weatherization work.

According to the "Agreement for Contracting Weatherization Work" between the subrecipients and the contractors, "The Contractor shall have a current Tennessee General Contractor Licenses BC-A or General Contractor License BC or Home Improvement License and maintain such license throughout the term of this agreement."

Based on discussion with the Northwest weatherization coordinator, she disclosed that a contractor was not licensed. The weatherization coordinator informed DHS of the unlicensed contractor. Northwest had allowed this contractor to perform weatherization work for the period July 2009 through March 2010. In December 2009, the Northwest coordinator determined that the contractor did not have a license; however, because work had already been performed, DHS allowed the unlicensed contractor to complete the jobs he had started and be paid for the jobs. We questioned the cost paid to the contractor for weatherization work performed on homes prior to DHS approving the contractor to continue work on homes the contractor had started but had not completed as of December 2009. Northwest paid the unlicensed contractor $13,293 for the weatherization work completed without a required license.

The federal questioned costs are $13,293.

Contractor Insurance, License, and Training Documentation Not in File

Based on our file review, we found that the Chattanooga, Highland Rim, South Central, and Southeast weatherization coordinators did not ensure that five contractors' files contained all of the required documentation related to the contractors' insurance, licenses, and training.

According to the "Master Contract for Weatherization Assistance Program Services" between the subrecipients and the contractors, "The Contractor shall purchase and maintain liability insurance in the amount that will protect against claims which may arise out of or result from the Contractor's operations under this Contract. The Contractor shall, upon request from the Agency, provide documentation of current and valid insurance."

In addition, the ARRA Contracts between DHS and the subrecipients, Section A, part 11, state, "The Grantee [subrecipient] shall be responsible for ensuring that all energy auditors and weatherization installers have either a TVA-issued certificate or other State approved weatherization training document."

Based on our testwork, the five contractors performed weatherization work for 23 of 446 homes (5%). Subsequent to our file review, we obtained documentation from the Highland Rim, South Central, and Southeast weatherization coordinators that the contractors had current insurance and license documentation for four contractors representing 21 homes weatherized. However, although Chattanooga could not provide the required documentation for one contractor's file, the Chattanooga weatherization coordinator approved and paid $3,113 to the contractor for two jobs. Without evidence of the current insurance, license, or training documentation, we could not determine if the contractor met the contract requirements to be eligible to perform weatherization work.

The federal questioned costs are $3,113.

Contractor Insurance, License, and Training Documentation Not in File

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
File Review Deficiencies Noted																			
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted from File Review	0	0	2	0	0	0	1	0	0	0	0	0	0	8	12	0	0	0	23
# of Deficiencies Subsequently Corrected	0	0	0	0	0	0	1	0	0	0	0	0	0	8	12	0	0	0	21
# of Deficiencies Not Corrected as of February 28, 2011	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Questioned Costs for File Review	$0	$0	$3,113	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,113

Weatherization Measures Not Installed That Should Have Been Installed

Based on our site visits to 84 weatherized homes, we observed that Bradley, Chattanooga, Metro, and Upper East weatherization coordinators did not ensure that four homes under their responsibility received the critical weatherization measures needed to achieve energy efficiency.

According to 10 CFR, Part 440.1, the objective of the Weatherization Assistance for Low-Income Persons (WAP) program is ". . . to increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total residential expenditures, and improve their health and safety, especially low-income persons who are particularly vulnerable such as the elderly, persons with disabilities, families with children, high residential energy users, and households with high energy burden."

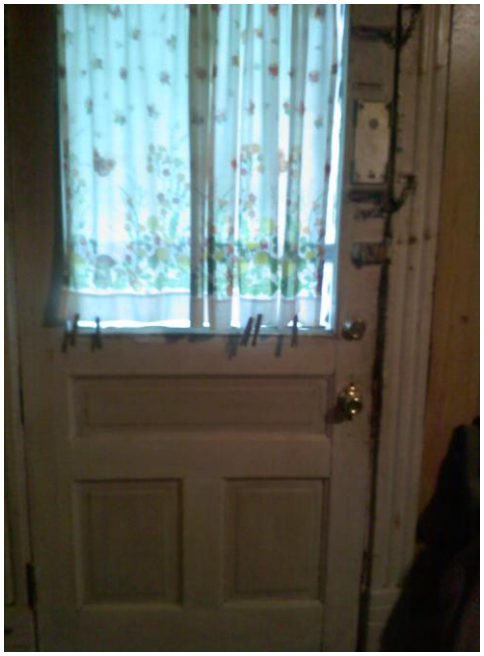
We noted that work performed to weatherize 4 of 84 homes (5%) did not include critical weatherization measures which would have increased energy efficiency of the homes. See the table below for the number of problems for each subrecipient.

At Chattanooga and Metro, we found that the pre-energy audit recommended measures such as a water heater replacement or a door to be installed on the homes. However, the contractors requested a change order to delete these recommended measures because the contractors claimed that there was faulty wiring which prevented the water heater from being replaced and the door was a unique size and required a special order. At Metro, the subrecipient weatherization coordinator approved the change order without actually visiting the home as is required by procedures. At Chattanooga, the subrecipient weatherization coordinator approved a

change order after the site visit that indicated that the contractor would not install a water heater because of faulty wiring. Apparently, the weatherization coordinator agreed with the contractor and approved the change order; however, we also performed a site visit to the home with an energy auditor and we did not find any faulty wiring. Based on our site visits, we did not see that these change orders were justified and the measures should have been completed. See photos below.

At the same house in Chattanooga, we found that a window was broken and held together with duct tape, and there was mold around the seal. We believe this window should have been replaced or repaired. However, the pre-energy audit stated the window was good. The weatherization coordinator explained that the energy auditor was new and most likely overlooked the window; therefore, the window was not included on the pre-energy audit.

Weatherization Measures Not Installed That Should Have Been Installed



At Metro the back door was in need of replacement.

At Bradley, the pre-energy audit recommended that broken window panes in a home should be replaced; however, based on discussion with the subrecipient's weatherization coordinator, she stated that she prioritized and authorized the weatherization measures according to the prior state plan. While this statement may be factual, we believe the weatherization coordinator should have recommended weatherization measures in a priority to better achieve energy efficiency. The measures were added until the available $7,100 spending limit was reached, and therefore this recommended measure was not a high enough priority to be added to the final work order. In this case, the dwelling needed so many repairs that the WAP limit per

home was not sufficient to cover the costs of all needed measures. In our opinion, the Bradley weatherization coordinator did not properly prioritize the weatherization measures to achieve optimal energy efficiency for the dwelling. In fact, we found that the Bradley weatherization coordinator authorized measures such as Attic Access modification, Bath Exhaust Fan, Junction Boxes in Attic, Air Seal Sink Drain, and Air Seal Kitchen Flue, instead of making the window pane replacement a priority. In our opinion, without the window panes to prevent air from entering the home, the subrecipient could not achieve energy efficiency in this home. See the photos below.

Weatherization Measures Not Installed That Should Have Been Installed

The window panes should have been replaced to reduce the flow of air that entered the home at Bradley.

At Upper East, the pre-energy audit recommended the replacement of the front and back doors of the client's house; however, the recommended measures were not included on NEAT Recommended Measures or the work order. During our site visit to the home, we observed that the doors did not shut properly and the back door had a plastic cover over one window where the glass was missing. The subrecipient weatherization coordinator at Upper East could not provide any explanation as to why the doors did not make it onto the work order. In our opinion, the doors should have been replaced or repaired to achieve optimal energy efficiency for the home.

Weatherization Measures Not Installed That Should Have Been Installed

At Upper East a back door had plastic covering an opening in the door.

Weatherization Measures Not Installed That Should Have Been Installed

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
Site Visit Deficiencies Noted																			
# of Site Visits	3	3	2	3	5	4	4	3	25	6	3	4	4	2	3	5	2	3	84
# of Deficiencies Noted from Site Visits	0	1	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	4

As discussed throughout this finding, our testwork involved a review of 446 client files representing $2,135,214 of home weatherization costs and our 84 home site visits representing $410,163 of home weatherization costs from a total population of $36,050,423. Based on the results of our original sample testwork, we questioned costs totaling $213,449. Subsequent to our testwork, managements of DHS and the subrecipients began addressing the deficiencies we found and in some cases corrected the deficiencies. When we could verify the corrective action, we adjusted the original questioned costs to arrive at final federal questioned costs.

The final adjusted federal questioned costs for the activities allowed or unallowed/allowable costs errors noted were $92,448. See table below for a summary of all errors noted above.

Activities Allowed or Unallowed/Allowable Costs Errors by Subrecipient

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
Files Reviewed	**25**	**25**	**21**	**25**	**28**	**25**	**25**	**25**	**25**	**22**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**446**
File Review Deficiencies Noted																			
Non-Weatherization Measures	1	0	0	0	2	3	1	0	0	0	1	0	0	1	0	1	0	0	**10**
Weatherization Measures Not Completed	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	1	**3**
Weatherization Measures Not Verified	3	1	0	0	10	1	2	3	0	0	0	2	0	0	0	6	0	2	**30**
Payments to the Contractors Did Not Agree to the Original Bid or Invoice, or Payments Included Duplicate Measures	0	2	3	0	0	0	0	0	0	1	0	0	0	0	0	1	0	0	**7**
Payment Made for a Measure that Should Not Have Been Recommended	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	**1**
Payments for Change Orders Not Properly Approved	2	0	2	1	1	0	0	0	4	8	0	2	0	0	0	0	3	3	**26**
Pre-Energy Audit and Original Bid Did Not Agree	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	**1**
Pre-Energy Auditors Not Certified [1]	0	0	0	6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**6**
Lack of Documentation of Certified Energy Auditors or Authorized Individuals	6	8	0	7	12	0	20	0	6	2	10	0	0	0	0	15	2	6	**94**
Post-Energy Audits Not Properly Performed	3	1	1	0	10	1	1	3	5	5	0	2	0	0	1	6	0	2	**41**
Post-Energy Auditors Not Certified or Authorized	0	0	0	2	0	0	0	0	0	7	0	0	0	0	0	0	0	0	**9**
Post-Energy Audit Not Documented	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	**1**
Contractor Insurance, License, and Training Documentation Not in File	0	0	2	0	0	0	1	0	0	0	0	0	0	8	12	0	0	0	**23**
Total File Review Deficiencies Noted[2]	**15**	**12**	**9**	**16**	**36**	**5**	**25**	**6**	**17**	**23**	**11**	**6**	**0**	**9**	**14**	**29**	**5**	**14**	**252**

[1] These deficiencies involved the same pre-energy audit contractor.

[2] This total may represent a file with more than one deficiency.

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
Sites Visited	**3**	**3**	**2**	**3**	**5**	**4**	**4**	**3**	**25**	**6**	**3**	**4**	**4**	**2**	**3**	**5**	**2**	**3**	**84**
Site Visit Deficiencies Noted																			
Non-Weatherization Measures	0	0	0	0	0	0	1	0	4	0	0	0	0	0	0	1	0	1	**7**
Weatherization Measures Not Completed	0	0	1	0	0	0	3	1	13	2	1	0	0	0	1	1	0	1	**24**
Weatherization Measures Not Properly Completed	0	0	1	0	0	0	1	1	8	0	0	0	0	0	0	2	0	1	**14**
Post-Energy Audits Not Properly Performed	0	0	1	0	0	0	3	2	16	1	1	0	0	0	1	2	0	1	**28**
Weatherization Measures Not Installed That Should Have Been Installed	0	1	1	0	0	0	0	0	1	0	0	0	0	0	0	0	0	1	**4**
Total Site Visit Deficiencies Noted[2]	**0**	**1**	**4**	**0**	**0**	**0**	**8**	**4**	**42**	**3**	**2**	**0**	**0**	**0**	**2**	**6**	**0**	**5**	**77**

[1] These deficiencies involved the same pre-energy audit contractor.

[2] This total may represent a file with more than one deficiency.

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
Other Deficiencies Noted																			
Payments to the Contractors Did Not Agree to the Original Bid or Invoice, or Payments Included Duplicate Measures	0	0	0	0	0	0	0	0	0	4	0	0	0	0	0	0	0	0	**4**
Payment to the Energy Auditor Exceeded the Maximum Amount	0	0	0	0	0	0	0	0	0	0	0	0	0	58	0	0	0	0	**58**
Pre-Energy Auditors Not Certified	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22	0	**22**
Post-Energy Audits Not Properly Performed	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**1**
Contractor Not Licensed	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	**1**
Total Other Deficiencies Noted	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**4**	**0**	**1**	**0**	**58**	**0**	**0**	**22**	**0**	**86**
Total Deficiencies Noted	**15**	**13**	**13**	**17**	**36**	**5**	**33**	**10**	**59**	**30**	**13**	**7**	**0**	**67**	**16**	**35**	**27**	**19**	**415**

Recommendation

Government officials are responsible for tax dollars. Taxpayers rightly expect that state officials responsible for the weatherization program will design and implement effective internal controls to provide reasonable assurance that the program is being conducted as required by applicable laws and rules. To that end, those officials, working with the subrecipients should determine needed and allowable weatherization measures, have the weatherization work performed by qualified contractors, verify that the work has been completed as specified, and ensure accurate payments.

The Commissioner and department management have to rely on all parties involved in the process to perform their responsibilities in accordance with contract terms and federal regulations. In light of the unprecedented number of homes weatherized due to the ARRA funding, the risk of fraud, waste, abuse, and noncompliance is also unprecedented. In such circumstances, it is critical that those individuals upon whom the department relies to carry out the responsibility for approving, performing, and reviewing the work realize that there are real consequences for failure to meet their obligations. To that end, all appropriate remedies, including administrative, civil, and criminal actions, should be taken to hold those individuals accountable for their actions or failures to act. One of the greatest defenses to fraud is insuring that individuals understand that there will be consequences for their behavior.

Because of the ongoing potential for risks of noncompliance, fraud, waste, and abuse in the program, it is imperative that department management continue to monitor the work performed by subrecipients. Management should use the knowledge gained from monitoring efforts to continue to identify and mitigate these and other risks promptly.

The Commissioner of DHS should ensure the weatherization program is carried out in accordance with all applicable rules and regulations that govern the weatherization program.

The Commissioner and department management have worked to provide proper oversight of the weatherization program. Since the ARRA funding began, they have adjusted some of their procedures in order to adapt to the new challenges posted by the unprecedented growth in the size of the program. They have increased their presence in the field and have stressed to subrecipients to improve the way they carry out the program.

DHS management must continue to communicate to subrecipients that the critical point in the weatherization process is when the energy auditor inspects the contractor's work to ensure it was properly and fully performed. The energy auditor has the authority to either pass or fail the contractor's work. If the energy auditor passes the work, payments are initiated to the contractor. Since so much is relying on the outcome of the energy auditors' post-energy audits, it is essential that those energy auditors realize the importance of their work and the consequences of erroneous energy audits. The energy audits should be fully documented, itemizing the list of the various work performed and should contain the signature or initials of the energy auditor by each measure completed. If that energy auditor does not properly complete the post-energy audit the

risk of noncompliance, fraud, waste and abuse is heightened. Merely signing a general statement that all the work was performed and properly inspected should not be acceptable.

And, in light of the critical nature of this point of control, subrecipient coordinators and management should carefully review the completed post-energy audits and compare them with the work order, change order, and contractor's invoice for consistency and completeness.

The fact that auditors from this office and staff of the department noted weaknesses in these key controls, including passed inspection for work that was either not performed or performed incompletely or inadequately, calls into question the degree to which this critical control is working. As a result, the department and subrecipients should take all steps necessary to mitigate the risks that this control is not being performed properly or is being overridden.

Specifically, DHS management, at a minimum, should continue to take all reasonable measures to ensure that

- payments are not made for non-weatherization measures, or weatherization measures not completed, properly completed, or unverified;
- payments to contractors agree to the amount invoiced;
- payments to the contractor and energy auditor do not exceed the maximum allowed amount;
- measures that should not have been recommended are not included on the bid;
- all change orders in excess of $100 (addition or deletion) are properly approved, including site visits;
- pre-energy audits and bids agree;
- pre- and post-energy audits are performed by certified energy auditors or authorized individuals;
- all energy audits are properly performed and documented (the energy auditors should ensure that all weatherization measures are verified during the post-energy audits); and
- contractors are properly licensed and insured prior to performing weatherization work, and the contractor files include the proper documentation.

Management's Comment

We do not concur. The Department of Human Services has developed a transparent and accountable weatherization program designed to adapt to the multi-million dollar increase in funding that was received as a result of the American Recovery and Reinvestment Act of 2009 (ARRA). We agree the Subrecipients responsible for the direct administration of the program has sometimes lacked the proper controls over the administering the program, however we do not agree that the Department failed to ensure key controls were in place. All of the current controls in place were designed by the Department to create a system of checks and balances where there was not previously. Additionally, this has not resulted in question cost in the amount of $92,448. In fact, the only costs incurred in this finding which we have not already questioned to the Subrecipient are $36,137.

As noted in the recommendations, the Department has and will continue to provide proper oversight of the weatherization program, we have adjusted procedures and processes to continually ensure the Subrecipients are following Department of Energy (DOE) policy and state contractual requirements.

We have already established statewide standards and tools, a centralized on-line bidding process, a post-inspection process prior to payment, and a state maintained centralized database to address our mutual concerns over the potential for waste, abuse and fraud. Each of the respective Subrecipients has been notified as to their respective findings and we have already questioned the cost and provided documentation to the Comptroller's auditors that the costs are being recouped.

The following will detail the specific response to the specific findings resulting from the file review and site visit test work.

Non-Weatherization Measures

We agree that the Subrecipients inappropriately recommended non-weatherization measures. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Weatherization Measures Not Completed

We agree that the Subrecipients inappropriately approved incomplete weatherization measures. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Weatherization Measures Not Properly Completed

We agree that the Subrecipients did not properly complete recommended weatherization measures. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Weatherization Measures Not Verified

We agree that the Subrecipients did not properly verify the recommended weatherization measures. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Payments to the Contractors Did Not Agree to the Original Bid or Invoice, or Payments Included Duplicate Measures

We agree that the Subrecipients did not properly verify the original bid, invoice or ensure they did not pay for duplicate measures. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Payments to the Energy Auditor Exceeded the Maximum Amount

We agree that the Subrecipient overpaid for the post-audits in question. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Payment Made for a Measure that Should Not have been Recommended

We agree the energy auditor should not recommend a measure "solely based" on a client's request. We are evaluating whether or not, regardless of the source of the request, the window replacement complied with WAP program policies. If the replacement of the window does not comply with WAP policy the cost will be questioned.

Payments for Change Orders Not Properly Approved

We agree that the Subrecipients did not follow proper change order procedures for the jobs in question. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Pre-Energy Audit and Original Bid Did Not Agree

We agree that the Subrecipient did not ensure the bid and pre-energy audit were in agreement for the job in question. We have already questioned the costs of this item. We have previously provided documentation for this job. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Payments to Uncertified and Unauthorized Energy Auditors and Payments for Energy Audits that Lacked Documentation of an Authorized Energy Auditor

Pre-Energy Auditors Not Certified

We agree that the Subrecipients paid for energy audits performed by uncertified individuals for the jobs in question. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Lack of Documentation of Certified Energy Auditors or Authorized Individuals

We agree the Clarksville jobs are shown as C & W Weatherization, an approved auditing company, rather than the individual name. We will question the costs of these items. There will be no federal questioned costs as the problem will be rectified or all of the money will be recouped.

Post-Energy Audits Not Properly Performed

We agree that the Subrecipients paid for post energy audits that were not properly performed. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Post-Energy Auditors Not Certified or Authorized

We agree that the Subrecipients paid for energy audits performed by uncertified individuals for the jobs in question. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Post-Energy Audit Not Documented

We agree that the Subrecipient did not properly document the completion of a post-energy audit. We have already questioned the cost of this item. We have previously provided

documentation for this job. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Contractor Not Licensed

We do not agree these are questioned costs as we allowed a transition period for individuals previously working in the program to obtain a license (See WAP ARRA Memorandum 09-24). The agreement cited for the finding was a specimen contract provided to all agencies. Under the former weatherization program individuals and contractors did not have to maintain any sort of licensure. We believed it more prudent to only allow those who had some sort of state license to work in the program; however, we did not want to exclude people who already had been doing this work just because they did not have a license. This is why WAP ARRA Memorandum 09-24 gave agencies an extended time period to get their contractors licensed.

Contractor Insurance, License, and Training Documentation Not in File

We agree that the Subrecipient could not provide the required documentation for the jobs in question. We have already questioned the costs of these items. We have previously provided documentation for these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Weatherization Measures Not Installed That Should Have Been Installed

We agree the Subrecipients in each of the homes listed did not ensure the level of quality that we require for our agencies in the weatherization program. Without a properly completed energy audit, by a certified and approved auditor, it is impossible to know what should be done to properly weatherize the home.

Auditor's Rebuttal

Management has agreed that all but one of the discrepancies noted in the finding occurred. Management, however, disagrees with the amount of questioned costs reported in the finding.

Within the finding, we have reported both the gross amount of questioned costs and the net amount of questioned costs. The gross amount of questioned costs, which is the most important amount, was $213,449. That amount must be used to determine the prevalence and consequences of the problems found in the items examined in our samples as well as being used by the federal grantor in estimating the likely questioned costs in the much larger population of transactions not examined. We believe that not reporting these questioned costs would be grossly misleading.

The net questioned costs we reported, $92,448, reflect deductions for corrective action taken by subrecipients, and verified by us as of February 28, 2011.

Finding Number	10-DHS-02
CFDA Number	81.042
Program Name	Weatherization Assistance for Low-Income Persons
Federal Agency	Department of Energy
State Agency	Department of Human Services
Grant/Contract No.	DE-FG26-07NT43135 DE-EE0000114
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$93,913

The Department of Human Services did not ensure that the subrecipients accurately determined eligibility and maintained adequate eligibility documentation for the Weatherization Assistance for Low-Income Persons program, which resulted in federal questioned costs of $93,913

Finding

The Department of Human Services (DHS) and its subrecipients did not accurately determine eligibility for applicants or for dwellings in the state's Weatherization Assistance for Low-Income Persons (WAP) program and did not maintain adequate eligibility documentation, resulting in federal questioned costs of $93,913.

DHS was awarded $106 million from the United States Department of Energy (U.S. DOE) for the WAP program and is responsible for administering the program in coordination with 18 subrecipients. See finding 1 for an overview of the weatherization process and specific roles and responsibilities.

To determine compliance of DHS and the 18 subrecipients with WAP federal eligibility requirements, we reviewed 446 client files, and we visited 84 weatherized homes. Our samples were selected from a population of 6,796 weatherized homes. We also discussed reweatherization determination procedures (homes may be eligible for reweatherzation measures under certain federal guidelines) with the subrecipients.

DHS Weatherization Subrecipients

- Blount County Community Action Agency (Blount)
- Bradley-Cleveland Community Services Agency (Bradley)
- Chattanooga Human Services Department (Chattanooga)
- Clarksville-Montgomery County Community Action Agency (Clarksville)
- Delta Human Resource Agency (Delta)
- East Tennessee Human Resource Agency (East Tennessee)
- Highland Rim Economic Corporation (Highland Rim)
- Knoxville-Knox County Community Action Committee (Knoxville)

- Metropolitan Development and Housing Agency (Metro)
- Mid-Cumberland Community Action Agency (Mid-Cumberland)
- Mid-East Community Action Agency (Mid-East)
- Northwest Tennessee Economic Development Council (Northwest)
- Shelby County Community Services Agency (Shelby)
- South Central Human Resource Agency (South Central)
- Southeast Tennessee Human Resource Agency (Southeast)
- Southwest Human Resource Agency (Southwest)
- Upper Cumberland Human Resource Agency (Upper Cumberland)
- Upper East Tennessee Human Development Agency (Upper East)

Based on our review of the clients' files and during our site visits, we found a total of 35 eligibility deficiencies in 446 files of weatherized homes and the 84 site visits. Specifically, we found the following.

Applicant Not Income Eligible

Based on our file review, we found that the Southeast weatherization coordinator allowed an applicant's home to be weatherized although the applicant was not income eligible for the program.

The OMB A-133 Compliance Supplement, Part 4 (III)(E)(1)(a) states, "A dwelling unit is eligible for weatherization assistance if it is occupied by a family unit: (1) Whose income is at or below 200 percent of the poverty level . . ."

Also, according to the federal poverty guidelines for determining weatherization eligibility for 2009 - 2010, for a household of one, 200% of the poverty level is $21,660.

We found that one of 446 applicant homes (0.2%) was weatherized although the applicant was not income eligible for the program. Based on our review of the client's file, the applicant reported annual income of $25,824 and was therefore not eligible for the WAP program. We questioned the $2,442 in federal costs associated with this home.

Dwellings Not Eligible

As part of our file review and site visits, we found that the Metro weatherization coordinator authorized contractors to weatherize homes even though the dwellings did not meet the eligibility guidelines under the weatherization assistance program.

The U.S. Department of Energy State Plan/Master File Worksheet, p. 15, states,

> Buildings with more than four (4) dwelling units are not eligible for WAP assistance in Tennessee. Also, before a two (2) to four (4) unit building may be weatherized, fifty (50%) percent of the dwelling units in the building must be eligible dwelling units. . .

Based on our file review, we found evidence that 1 of 446 dwellings (0.2%) were part of a four-unit multi-dwelling, 50% of which was not eligible for the WAP program. Based on our site visits, we also found 1 of 84 dwellings (1%) were part of a six-unit multi-dwelling although the related client file did not contain evidence that the dwelling was part of a multi-dwelling. According to federal regulations, six-unit dwellings are not eligible for weatherization under the WAP program. We questioned all costs associated with these dwellings, $1,814 for the home in our file review and $1,339 for the home we visited, for total federal questioned costs of $3,153.

Files Did Not Contain Required Eligibility Documentation

Based on our file review of homes weatherized through the WAP program, we determined that the subrecipients' weatherization coordinators failed to ensure all the required eligibility documentation was obtained and/or maintained in the clients' files. In general, clients' files lacked documentation for the clients' proof of homeownership, the clients' written permission to weatherize the dwelling, the clients' signed applications, or the clients' income documentation. See details below.

Files Lacked Proof of Homeownership, Written Permission to Weatherize, or Client-Signed Application

We found that the weatherization coordinators at nine subrecipients (Blount, Bradley, Clarksville, Delta, Highland Rim, Metro, Mid-East, South Central, and Southwest) could not provide the above-mentioned documentation. We found insufficient documentation in 27 of 446 clients' files (6%) reviewed. (See the table below for the number of problems for each subrecipient.)

According to Part 4 of the A-133 Compliance Supplement, to comply with eligibility requirements subrecipients, should obtain written permission from the owner of the home or the owner's agent to weatherize the home.

Furthermore, without documentation, we could not determine whether the subrecipients' weatherization coordinators adequately performed their jobs as subrecipients under the program.

Subsequent to our initial testwork and review of clients' files, four subrecipients' weatherization coordinators from Blount, Highland Rim, Metro, and Southwest provided us with the necessary documentation for proof of homeownership and written permission to weatherize for 12 clients' files. Therefore, we did not question costs associated with these 12 homes. However, we questioned all costs associated with weatherizing homes for the 15 clients' files that did not contain the required proofs of homeownership, written permissions from the homeowner permitting the weatherization work, or the client-signed application. Total federal questioned costs are $73,634.

Files Lacked Proof of Homeownership, Written Permission to Weatherize, or Client-Signed Application

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted	6	5	0	1	3	0	1	0	6	0	1	0	0	1	0	3	0	0	27
# of Deficiencies Subsequently Corrected	6	0	0	0	0	0	1	0	4	0	0	0	0	0	0	1	0	0	12
# of Deficiencies Not Corrected as of February 28, 2011	0	5	0	1	3	0	0	0	2	0	1	0	0	1	0	2	0	0	15
Total Questioned Costs	$0	$22,628	$0	$6,932	$18,477	$0	$0	$0	$13,158	$0	$1,182	$0	$0	$2,808	$0	$8,449	$0	$0	$73,634

Files Lacked Income Documentation

Based on our file review, we found that five subrecipients' weatherization coordinators (Chattanooga, Delta, Highland Rim, South Central, and Southwest) failed to ensure that all the required income documentation was obtained and maintained in the clients' files.

We found that these weatherization coordinators did not obtain and/or maintain the income documentation for 5 of 446 clients' files (1%). Without the income documentation, we could not determine whether the clients were income eligible for the program. (See the table below for the number of problems for each subrecipient.)

According to the U.S. Department of Energy State Plan/Master File Worksheet, p. 2,

> Procedures to determine that units weatherized have eligibility documentation: client files shall include the following documentation. . . Income eligibility documentation, and if required, a Statement of Support form. . .

Subsequent to our initial field review and testwork, the weatherization coordinators at Highland Rim provided us with income documentation for one of the clients' files; therefore, we did not question the costs to weatherize this home. The remaining four clients' files did not contain income documentation. For the homes where we could not determine if they were income eligible, we questioned the entire cost of weatherizing the home. The federal questioned costs are $14,684.

Files Lacked Income Documentation

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
# of Files Reviewed	25	25	21	25	28	25	25	25	25	22	25	25	25	25	25	25	25	25	446
# of Deficiencies Noted	0	0	1	0	1	0	1	0	0	0	0	0	0	1	0	1	0	0	5
# of Deficiencies Subsequently Corrected	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	1
# of Deficiencies Not Corrected as of February 28, 2011	0	0	1	0	1	0	0	0	0	0	0	0	0	1	0	1	0	0	4
Total Questioned Costs	$0	$0	$3,390	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$4,173	$0	$7,121	$0	$0	$14,684

Inadequate Reweatherization Determination Procedures

The U.S. DOE allows occupants of homes that were weatherized through DOE or other federal funds prior to September 30, 1994, to reapply for reweatherization assistance.

Based on discussion with all of the subrecipients' weatherization coordinators, excluding the weatherization coordinator at Chattanooga, which was no longer a subrecipient at the time of the discussions, we determined that 10 of the 17 subrecipients' weatherization coordinators (Blount, Delta, East Tennessee, Highland Rim, Metro, Mid-East, South Central, Southeast, Shelby, and Upper Cumberland) (59%) did not have adequate procedures in place to determine whether a dwelling had been weatherized since September 30, 1994.

According to the U.S. Department of Energy State Plan/Master File Worksheet, pp. 15 - 16,

> Regardless of household income eligibility, no WAP funds shall be used for the following purposes: . . . 2. To install or otherwise provide weatherization materials for a dwelling unit weatherized previously with WAP funds unless: . . . (b) Such dwelling unit was partially weatherized with DOE or other Federal funds prior to September 30, 1994. When considering these dwelling units for reweatherization, the occupant must reapply for assistance and be certified as eligible. . . .

Specifically, we found:

- Two of 17 subrecipients (12%), Southeast and Upper Cumberland, maintained records of homes weatherized dating back to September 30, 1994. However, when

the weatherization coordinators approved new weatherization applicants, the coordinators did not search the weatherization records maintained by client address to determine if the dwelling had previously been weatherized.

- Four of 17 subrecipients (24%), Blount, Delta, Highland Rim, and Metro, maintained some weatherization records, but the records did not date back to September 30, 1994. Furthermore, when approving new weatherization applicants, the weatherization coordinators did not search the weatherization records by client address to determine if the dwelling had previously been weatherized.

- Four of 17 subrecipients (24%), East Tennessee, Mid-East, Shelby, and South Central, maintained some weatherization records, but the records did not date back to September 30, 1994. When approving new weatherization applicants, the weatherization coordinators searched the available weatherization records by client address to determine if the dwelling had previously been weatherized; however, because the records were not complete back to September 30, 1994, the weatherization coordinators could not determine whether the dwelling had been previously weatherized.

As noted above, our testwork involved a review of 446 client files representing $2,135,214 of home weatherization costs and our 84 home site visits representing $410,163 of home weatherization costs from a total population of $36,050,423. Based on the results of our original sample testwork, we questioned costs totaling $158,321 related to eligibility determination and documentation issues. Subsequent to our testwork, DHS and subrecipients' management began addressing the deficiencies and in some cases the deficiencies were corrected. When we could verify the corrective action, we adjusted the original questioned costs to arrive at the final total federal questioned costs for the eligibility errors of $93,913.

Total Eligibility Deficiencies Noted by Subrecipient

	Blount	Bradley	Chattanooga	Clarksville	Delta	East Tennessee	Highland Rim	Knoxville	Metro	Mid-Cumberland	Mid-East	Northwest	Shelby	South Central	Southeast	Southwest	Upper Cumberland	Upper East	Totals
Files Reviewed	**25**	**25**	**21**	**25**	**28**	**25**	**25**	**25**	**25**	**22**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**25**	**446**
File Review Deficiencies Noted																			
Applicant Not Income Eligible	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1
Dwellings Not Eligible	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1
Files Lacked Proof of Homeownership, Written Permission to Weatherize, or Client-Signed Application	6	5	0	1	3	0	1	0	6	0	1	0	0	1	0	3	0	0	27
File Lacked Income Documentation	0	0	1	0	1	0	1	0	0	0	0	0	0	1	0	1	0	0	5
Total File Review Deficiencies Noted	**6**	**5**	**1**	**1**	**4**	**0**	**2**	**0**	**7**	**0**	**1**	**0**	**0**	**2**	**1**	**4**	**0**	**0**	**34**
Sites Visited	**3**	**3**	**2**	**3**	**5**	**4**	**4**	**3**	**25**	**6**	**3**	**4**	**4**	**2**	**3**	**5**	**2**	**3**	**84**
Site Visit Deficiencies Noted																			
Dwellings Not Eligible	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	1
Total Site Visit Deficiencies Noted	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1**
Other Deficiencies Noted																			
Inadequate Reweatherization Determination Procedures	1	0	N/A	0	1	1	1	0	1	0	1	0	1	1	1	0	1	0	10
Total Other Deficiencies Noted	**1**	**0**	**0**	**0**	**1**	**1**	**1**	**0**	**1**	**0**	**1**	**0**	**1**	**1**	**1**	**0**	**1**	**0**	**10**
Total Deficiencies Noted	**7**	**5**	**1**	**1**	**5**	**1**	**3**	**0**	**9**	**0**	**2**	**0**	**1**	**3**	**2**	**4**	**1**	**0**	**45**

Recommendation

Government officials are responsible for our tax dollars. Taxpayers rightly expect that state officials responsible for the weatherization program for low-income persons will identify eligible persons, eligible dwellings, and maintain proper documentation to support expenditures charged to the Weatherization Assistance for Low-Income Persons (WAP) program.

Given the large number of homes weatherized through ARRA and non-ARRA funding, the Commissioner and department management must rely on all parties involved in the weatherization process to perform their responsibilities in accordance with contract terms and federal regulations. In such circumstances it is critical that those individuals charged with the responsibility for approving and reviewing weatherization applications realize that there are real consequences for failure to meet their obligations.

However, because the Commissioner and department management must rely on subrecipients to carryout the program, and due to the ongoing potential for risks of noncompliance, fraud, waste, and abuse in the program, it is imperative that management

continue to carefully monitor the work performed by subrecipients. The department should use the knowledge gained from these monitoring efforts to identify and mitigate these and other risks promptly.

Specifically, DHS management, at a minimum, should ensure that

- subrecipients' weatherization coordinators properly determine that applicants are income eligible,
- dwellings are eligible for the program,
- eligibility documentation is maintained in the clients' files, and
- the department staff or the subrecipients develop an adequate tracking database to determine if a home has been weatherized since September 30, 1994.

Failure to comply with program requirements may cause the state to lose substantial federal funding for which our citizens pay taxes.

Management's Comment

We do not concur. The Department of Human Services has developed a transparent and accountable weatherization program designed to adapt to the multi-million dollar increase in funding that was received as a result of the American Recovery and Reinvestment Act of 2009 (ARRA). We agree the Subrecipients responsible for the direct administration of the program have not always appropriately maintained adequate eligibility documentation. However, this has not resulted in questioned costs in the amount of $93,913. In fact, the only costs incurred in this finding which we have not already questioned to the Subrecipient are $31,880.

Our responses to each specific portion of the findings are set out below.

Applicant Not Income Eligible

We agree the Subrecipient responsible for determining eligibility incorrectly determined eligibility for the job in question. We have already questioned the cost of this job. We have previously provided documentation for this job. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Dwellings Not Eligible

We agree the Subrecipient incorrectly weatherized non-eligible dwellings. We have already questioned the costs of these items. We have previously provided documentation for all of these jobs. There are no federal questioned costs as all of the money has been or will be recouped.

Files Did Not Contain Required Eligibility Documentation

Files Lacked Proof of Homeownership, Written Permission to Weatherize, or Client-Signed Application

We agree the Subrecipient responsible did not properly document the jobs in question. We have already questioned the costs of these jobs. We have previously provided documentation for these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Files Lacked Income Documentation

We agree the Subrecipients responsible did not properly document the jobs in question. We have already questioned the costs of these jobs. We have previously provided documentation for these jobs. There are no federal questioned costs as the problem has been subsequently rectified or all of the money has been or will be recouped.

Inadequate Reweatherization Determination Procedures

We agree the Subrecipients cannot always determine when homes have last been weatherized, to that end; the State is developing a statewide weatherization system to ensure homes previously weatherized are not incorrectly reweatherized.

Auditor's Rebuttal

Management has agreed that discrepancies noted in the finding occurred. Management, however, disagrees with the amount of questioned costs reported in the finding.

Within the finding, we have reported both the gross amount of questioned costs and the net amount of questioned costs. The gross amount of questioned costs, which is the most important amount, was $158,321. That amount must be used to determine the prevalence and consequences of the problems found in the items examined in our samples as well as being used by the federal grantor in estimating the likely questioned costs in the much larger population of transactions not examined. We believe that not reporting these questioned costs would be grossly misleading.

The net questioned costs we reported, $93,913, reflect deductions for corrective action taken by subrecipients, and verified by us as of February 28, 2011.

Finding Number	10-TSAC-01
CFDA Number	84.032
Program Name	Federal Family Education Loans - Guaranty Agencies
Federal Agency	Department of Education
State Agency	Tennessee Student Assistance Corporation
Grant/Contract No.	N/A
Finding Type	Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	None

The Tennessee Student Assistance Corporation Did Not Comply With a Special Test and Provision Regarding a Conflict of Interest

Finding

As noted in the prior audit, a program review conducted by the U.S. Department of Education noted a prohibited conflict of interest by a contractor of the corporation. The review report dated May 28, 2009, stated:

> NGS [Nelnet Guarantor Services] provides various services to TSAC, which include default aversion assistance and default collections. NGS has subcontracted with R&B Receivables Management to provide default aversion services. R&B Receivables Management Corporation does not provide any post default collection services. NGS subcontracts collection functions to various collection agencies. TSAC approves the use of all subcontractors before NGS awards the contracts.
>
> The *Code of Federal Regulations*, Title 34, Part 682, Section 404(k)(4), states:
>
> . . . If a guaranty agency contracts with an outside entity to perform any default aversion activities, that outside entity may not—
>
> (i) Hold or service the loan; or
>
> (ii) Perform collection activities on the loan in the event of default within 3 years of the claim payment date.
>
> In the program review report, the U.S. Department of Education required that
>
> TSAC must terminate contracting arrangements that create a conflict of interest. TSAC must provide this office with TSAC's plan for eliminating this conflict of interest and its plan for future default aversion and collection activities.

Management responded to the U.S. Department of Education in a letter dated June 15, 2009, and stated:

> . . . THEC [Tennessee Higher Education Commission]/TSAC has begun the process to issue a Request for Proposals (RFP) for a new loan servicer contract to replace the current contract with Nelnet Guarantor Solutions (NGS) when it expires on December 31, 2010. This new contract will contain default aversion activities but not contain collection activities. As a result, THEC/TSAC will also issue a RFP for collection activities for a collections contract that will be at the same time the new loan servicer contract begins. . . .

The Health Care and Education Affordability Reconciliation Act was signed into law by the President on March 30, 2010. The bill includes sweeping changes to the student loan industry, most notably the elimination of new loans in the FFEL Program. Management felt that due to the uncertainty of the scope of TSAC's future loan program, it would be best to continue with its current provider until future requirements can be best determined. Therefore, management obtained a one-year extension to the current contract with NGS, changing the contract's expiration date to December 31, 2011.

Noncompliance with this requirement increases the risk that the contractor responsible for both collection activities and default aversion assistance activities may not adequately perform default aversion assistance activities in an effort to increase collection activity volume.

Recommendation

The Executive Director of the Tennessee Student Assistance Corporation should seek guidance from the U.S. Department of Education concerning the effect of the Health Care and Education Affordability Reconciliation Act on the requirements of the *Code of Federal Regulations*, Title 34, Part 682, Section 404(k)(4).

Management's Comment

We concur. THEC/TSAC management notified the U.S. Department of Education (ED) on April 15, 2009, that upon expiration of the current contract with TSAC's loan servicer, THEC/TSAC would ensure the conflict of interest is eliminated. THEC/TSAC will further consult with ED regarding the effect of the Health Care and Education Affordability Reconciliation Act on the requirement in 34 CFR 682, 404(k)(4) to avoid conflicts of interest.

Finding Number	10-TSAC-02
CFDA Number	84.032
Program Name	Federal Family Education Loans - Guaranty Agencies
Federal Agency	Department of Education
State Agency	Tennessee Student Assistance Corporation
Grant/Contract No.	N/A
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting and Special Tests and Provisions
Questioned Costs	None

Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund

Finding

During the prior audit of the Tennessee Student Assistance Corporation's (TSAC's) Federal Family Education Loan Program (FFEL), management reported to us an overstatement of the corporation's FFEL Federal Fund balance. This error also resulted in a corresponding understatement of the balance of the Operating Fund. This problem existed for the years ended June 30, 2005, through June 30, 2009, and a portion of the year ended June 30, 2010. The *Code of Federal Regulations* (CFR) Title 34, Part 682, Section 423(a), states that TSAC must

> establish and maintain an Operating Fund in an account separate from the Federal Fund. . . . The Operating Fund is considered the property of the guaranty agency.

Section 423 also describes the types of funds that can be deposited into the Operating Fund and allowable uses of the Operating Fund; 42 CFR 682.419 describes funds that should be deposited in the Federal Fund as well as allowable uses of the Federal Fund.

TSAC guarantees student loans made by lending institutions and performs certain administrative and oversight functions for the FFEL program. One of the functions is to coordinate the repurchase of loans from the lenders when borrowers default on the loans. TSAC has contracted with Nelnet Guarantor Solutions to process claims from lenders for defaulted loans and to maintain a lockbox to record and process subsequent recoveries on defaulted loans and payments received from lenders for repurchased loans that are later determined not to have been in default.

Nelnet deposits the funds in a state bank account and makes the appropriate adjustments in the borrower's records. Nelnet provides TSAC with itemized payment and receipt activity and records the amounts on the monthly Guarantee Agency Financial Report. After review, TSAC files the monthly report with the U.S. Department of Education (DOE). The amounts on the monthly report determine the amount the DOE pays TSAC for the previous month's activity. The itemized amounts reported on the monthly Guarantee Agency Financial Report trigger a series of

journal entries made in TSAC's general ledger system that are designed to ensure funds are appropriately recorded in the Federal Fund and the Operating Fund.

Annually TSAC must also file a Guarantee Agency Financial Report that discloses both the Operating Fund and the Federal Fund's beginning and ending balances as well as a breakdown of additions and deductions. On the annual report, TSAC also must complete a balance sheet for the Federal Fund.

Discussions with the Fiscal Manager and the Accounting Manager disclosed that several years ago a decision was made by former TSAC executive management to send some lender payments to TSAC instead of the lockbox. The Fiscal Manager was not an employee of the corporation when the decision was made and did not know why this decision was made.

When funds were received by TSAC instead of the lockbox, an entry was made in TSAC's general ledger system to increase the Federal Fund's balance and record the receipt of cash. These funds were then deposited in a state bank account. TSAC then forwarded all the borrower information to Nelnet so the borrower's records could be updated. However, through the monthly reporting and journal entry process described above, the Federal Fund's balance was increased a second time for certain categories of funds received at TSAC, and the Operating Fund's balance was decreased.

Discussions with management during fieldwork revealed that this error could have been avoided if all receipts had been processed through the lockbox. TSAC's current procedures require all lender payments to be sent to the lockbox.

Management concurred with the prior finding and stated:

> . . . Management has completed its review of Fiscal Year 2009 and determined the federal fund was overstated by $3,782,145.43 and the operating fund understated by the same amount. This problem existed from FY 2005-2010. As the 2005-2008 and 2010 fiscal years are researched and documented, the Comptroller's Division of State Audit will be notified before corrections are requested from the U.S. Department of Education. Corrective actions were taken to resolve the issue. The original process has been reinstated where vendors send all payments to the NGS lockbox account.

Management had not finished its research of all the payments involved to determine the amount of the overstatement by the end of fieldwork. However, management had determined overstatements of the Federal Fund and understatements of the Operating Fund for the fiscal years 2008, 2009, and 2010 totaled $2,519,166.25, $3,782,145.43, and $1,751,007.93, respectively. A letter dated October 22, 2010, from the DOE to the Executive Director of TSAC approved TSAC's request to transfer the $3,782,145.43 relating to fiscal year 2009. During fieldwork, it was determined that management had made an accounting entry to record the approved transfer for the 2009 amounts in Edison. Management stated they had not made the entry in the TSAC general ledger because they were waiting to close fiscal year 2010, and they

stated they would make the entry in fiscal year 2011. In addition, we determined that management had also sent a request to DOE for the amounts relating to fiscal years 2008 and 2010.

Recommendation

The Executive Director of the Tennessee Student Assistance Corporation should continue to ensure that all future payments from lenders are sent to the lockbox and are reflected only once in the monthly accounting entries. The Fiscal Manager and Internal Auditor should continue to research the payments activity to determine the total amount of overstatement of the Federal Fund and the understatement of the Operating Fund for fiscal years 2005 through 2007. When amounts are determined, the Executive Director should request permission from DOE to make the necessary corrections to the Federal Fund balance. The Fiscal Manager should ensure all accounting records are adjusted to reflect the federally approved transfer.

Management's Comment

We concur. Management has completed its review of accounting entries related to averted claim transactions occurring in Fiscal Years 2008 through 2010. An accounting entry to correct the operating and federal fund balances for 2009 accounting errors totaling $3,782,145.43 was requested and subsequently approved by the U.S. Department of Education in October 2010. The appropriate accounting entry was made in the State of Tennessee's Edison Accounting System, effective October 2010. Corrections for 2008 and 2010 totaling $2,519,166.25 and $1,751,007.93, respectively, have been submitted to the U.S. Department of Education for approval. TSAC continues to research transactions in Fiscal Years 2005 through 2007. TSAC now directs all averted claim payments to the state authorized servicer "lockbox" bank account used exclusively for Federal Family Education Loan Program related collections. This account is used solely by our contracted servicer in Aurora, Colorado, to deposit collections on defaulted Federal Family Education Loan Program loans guaranteed by TSAC. Therefore, Federal Family Education Loan collections are not comingled with other TSAC program deposits. This process change reduces the risk of duplicate entries that could result in misstatements of operating and federal fund balances.

Finding Number	10-TBR-01
CFDA Number	84.394
Program Name	State Fiscal Stabilization Fund Cluster
Federal Agency	U.S. Department of Education
State Agency	Tennessee Board of Regents
Grant/Contract No.	S394A090043
Finding Type	Significant Deficiency
Compliance Requirement	Equipment and Real Property Management, Procurement and Suspension and Debarment, and Reporting
Questioned Costs	None

Some institutions under the Tennessee Board of Regents' statutory responsibility failed to follow established policies and procedures for ARRA reports, purchases, and property, which increased the risk of errors, noncompliance, fraud, waste, and abuse

Finding

Under the American Recovery and Reinvestment Act of 2009 (ARRA), the state received $321,458,899.85 in State Fiscal Stabilization Funds (SFSF). Of that total, the Tennessee Board of Regents (TBR) expended $89,609,509.82, with the 26 Tennessee Technology Centers (TTC) expending $5,268,544.10 or 5.88% of the TBR total. According to Section 14004 (a) of the Act, the funds provided to public institutions for higher education through the SFSF program were to be used as follows:

> ...to mitigate the need to raise tuition and fees for in-State students, or for modernization, renovation, or repair of institution of higher education facilities that are primarily used for instruction, research, or student housing, including modernization, renovation, and repairs that are consistent with a recognized green building rating system.

Within the program's guidelines, TBR institutions were authorized to use the ARRA SFSF monies to purchase equipment, pay salaries and benefits, and to fund voluntary employee buyouts.

TBR has governance over all state universities, community colleges, and technology centers, other than the University of Tennessee system. According to the TBR website, the board has established standardized policies to ensure institutional accountability. These policies establish both standards for consistency among the institutions and defined parameters to promote institutional flexibility and discretion. All TBR institutions are required to follow TBR system policies and guidelines and incorporate them into their own campus policies and guidelines. TBR, through state statute, has the responsibility to ensure that the institutions under its governance follow established policies and procedures.

We reviewed the State Fiscal Stabilization Funds received at 36 of the 45 TBR institutions and noted that:

- Three TBR institutions did not follow established controls requiring monthly reviews of SFSF program reports and reconciliations between the SFSF expenditures recorded at the institution and the amounts reported to TBR.

- One TBR institution did not have the requisition and purchase order approved before purchasing goods with SFSF funds as required by institutional purchasing policies and procedures.

- Two TBR institutions did not tag equipment or include serial numbers and model numbers on the property listing when accounting for equipment purchased with SFSF funds as required by institutional property policies and procedures.

Specific details of these discrepancies are described below.

ARRA Reviews and Reconciliations Not Performed

As a result of our review of monthly ARRA reports and reconciliations, we found that management and staff of 3 of 36 TBR institutions reviewed (8%) had not performed reviews and reconciliations as required by their institutional policies. In their risk assessments, all three institutions listed supervisory review as an internal control that would be utilized to decrease the risk of inaccurate reporting. However, we noted that the control was not in place or was not operating effectively. We found the following:

- Based on our review of the payroll registers, monthly Tennessee Recovery Act Management (TRAM) Track reports, and the September 9, 2010, detailed expenditure listing, the Assistant Director at TTC Crossville failed to review and reconcile the above mentioned reports for four of the five months tested (80%). We also found that several amounts reported in the detailed expenditure listing were incorrect. The ARRA SFSF detailed expenditure listing reported total expenditures through June 30, 2010, as $262,850.68. However, the drawdown report provided by the Department of Finance and Administration reported TTC Crossville's ARRA SFSF expenditures as $249,895.76. We determined that part of the difference of $12,954.92 was caused by a $12,980.46 draw request made by the Assistant Director for the month of June. The Assistant Director later retracted the draw request without citing a specific reason for the retraction. While the net difference between the two reported amounts was only $25.54, the fact that management failed to review and reconcile the reports increased the risk that errors, noncompliance, fraud, waste, and abuse could occur and not be detected promptly. Also, because TTC Crossville management and staff failed to perform the control reviews and reconciliations and were not aware of the errors until we told them, they reported the inaccurate information to their lead institution, Roane State Community College (RSCC), who subsequently reported inaccurately to TBR. In this instance, TTC Crossville staff failed to report all ARRA expenditures to RSCC

and TBR. According to RSCC, TTC Crossville's Assistant Director was supposed to review the payroll registers and the Organization Detail Activity report on a monthly basis and perform the monthly reconciliations to ensure accurate records were maintained. In addition, according to RSCC's policy, TTC Crossville is required to notify RSCC of any errors noted so the errors can be corrected the following month. However, because the Assistant Director at TTC Crossville did not perform the reviews and reconciliations, he was not aware of the errors. Once we brought this to RSCC management's attention, the errors were corrected.

- Based on our review of a sample of TTC McMinnville's monthly Organization Detail Activity reports and our discussion with the Coordinator of Fiscal Services II, she failed to reconcile Banner records to QuickBooks for the month of April 2010. Normally, the Coordinator of Fiscal Services II reconciles QuickBooks to the Banner records and then reconciles the Banner records to the Organization Detail Activity reports. Although we noted no errors or discrepancies, management and staff's failure to reconcile this information increases the risk of inaccurate financial records and financial reports.

- In our review of the monthly reports at Cleveland State Community College, we noted that the Vice President for Finance and Administration failed to review the December 2009 Summary, TRAM Track, and Organization Detail Activity reports to ensure the accuracy of the required reports. Although we noted no errors or discrepancies, without an adequate review, management cannot ensure that the information is properly reported to TBR.

All recipients of federal funds under ARRA are required by Section 1512 to report the amount of funds expended and the purposes of those expenditures. Failure to review and reconcile SFSF program reports increases the risk that expenditures will not be accurately reported in the institutions' financial reports or in the required ARRA Section 1512 reports. In addition, without a routine process of performing monthly reviews of reports and reconciliations, management has not mitigated the increased risks of errors, noncompliance, fraud, waste, and abuse of program expenditures.

Purchasing Policies and Procedures Not Followed

As a result of our review of ARRA-funded procurement transactions, we found that management and staff of 1 of 36 TBR institutions audited (2.78%) did not follow purchasing policies and procedures when purchasing goods. According to TTC Harriman's purchasing policies and procedures, the Director is required to approve a purchase requisition, and then the Coordinator of Fiscal Services prepares a purchase order to be approved by the Director. Once the requisition and purchase order have been approved, then staff is authorized to purchase the item. Based on our review of the supporting documents, we found that for one of 13 items tested at TTC Harriman (8%), staff did not complete the requisition and purchase order until two days after the vendor invoice was received. Therefore, TTC Harriman staff purchased items using

federal ARRA SFSF funds without proper approval. Subsequently, approval for the purchase was obtained. The purchase was for an allowable item and totaled $1,060.

In addition, TTC Harriman did not address the risk of management's and staff's failure to follow established purchasing policies and procedures in its ARRA-specific risk assessment. It is management's responsibility to adequately evaluate its institution to ensure that risks material to the program have been identified and controls have been implemented and are functioning effectively. Failure to follow the purchasing policies and procedures increases the risk of unallowable and unnecessary purchases including the increased risks of errors, noncompliance, fraud, waste, and abuse. Management's approval process is an integral part of internal control over purchasing which decreases the risks identified.

Property Policies and Procedures Not Followed

As a result of our review of ARRA-funded equipment items purchased, we found that management and staff at 2 of 36 TBR institutions audited (6%) did not follow the property policies and procedures when purchasing equipment. The specific instances are discussed below.

- The Director of Procurement and Business Services at Tennessee State University (TSU) failed to tag two of eight pieces of equipment that we examined (25%). The university received the equipment between June 7 and June 11, 2010; however, at the time of our examination on October 21, 2010, the equipment had not been tagged. According to TSU's *Property Management Manual*, each department is responsible for ensuring that all equipment and property costing over $1,000 is accounted for and properly tagged. The policy also states that it is Central Receiving's responsibility to affix the tag numbers to the equipment prior to delivering the items. The tags were stapled to the paperwork for the items, and the Central Shipping and Receiving Supervisor affixed the correct tags to the items prior to our departure.

- The Director at TTC Harriman failed to record the serial number and/or model number in the center's property records for two of four ARRA equipment items (50%). Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* states, "The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include . . . (ii) Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number." Once we brought these deficiencies to management's attention, the Business Office Secretary added the information to the property records.

Failure to tag equipment upon receipt and to maintain complete equipment records impedes an institution's ability to properly account for its assets, which increases the risk of asset misappropriation or loss.

In addition, TSU did not include the risk of management's and staff's failure to follow established property policies and procedures in its ARRA-specific risk assessment. As noted above, it is management's responsibility to adequately evaluate its institution to ensure that risks material to the program have been identified and controls have been implemented and are functioning effectively to mitigate the potential risks of errors, noncompliance, fraud, waste, and abuse.

Because TBR has been entrusted with the responsibility of governing and managing 45 state educational institutions, proper oversight is critical to achieving reasonable assurance that the institutions follow TBR's established policies and procedures as well as their own institutional policies and procedures. Without appropriate TBR oversight and institutional managements' commitment to follow established internal control processes, which are designed to ensure accurate reporting of transactions and proper expenditure of federal funds, institutional management cannot effectively mitigate the risks of errors, noncompliance, fraud, waste, and abuse.

Recommendation

TBR should continue to be vigilant in its oversight role to help ensure that the 45 state educational institutions under its governance and management follow established policies and procedures to decrease the risks of errors, noncompliance, fraud, waste, and abuse. As part of its oversight function:

- TBR should remind the Assistant Director at TTC Crossville, the Coordinator of Fiscal Services II at TTC McMinnville, and the Vice President for Finance and Administration at Cleveland State Community College of the importance of following the institutions' policies and procedures by consistently performing monthly reviews and reconciliations.

- TBR should communicate to the Director at TTC Harriman the importance of ensuring that established purchasing policies and procedures are consistently followed by first completing a requisition, having the requisition approved by the authorized individual, and finally generating a purchase order before a purchase is made. TBR should also ensure that the appropriate personnel at TTC Harriman update the institution's ARRA-specific risk assessment to address the risks associated with not following purchasing policies and procedures and ensure that there are controls in place to mitigate the risks noted in the risk assessment.

- TBR should remind the Director of Procurement and Business Services at TSU and the Director at TTC Harriman of the importance of consistently following property/equipment policies and procedures and ensuring that all new equipment is tagged when received and property records contain all pertinent information. TBR should also ensure that the appropriate personnel at TSU update the institution's ARRA-specific risk assessment to address the risks associated with not following

property policies and procedures and ensure that there are controls in place to mitigate the risks noted in the risk assessment.

Managements' Comments

Tennessee Board of Regents

We concur that TBR should continue to be vigilant in fulfilling its oversight role. Examples of current oversight activities include conducting quarterly meetings of institutional leadership staff in various functional areas to review policies and procedures and the results of internal and external audits; the review and approval of certain purchasing, personnel, and other transactions by TBR staff to ensure compliance with state law and TBR policies; quarterly discussion of significant operational issues with institutional Presidents and Directors; and a system-wide internal audit effort. As part of these activities, TBR will emphasize to all institutional leadership (1) the importance of following policies and procedures regarding monthly reviews and reconciliations; (2) the importance of ensuring that purchasing policies and procedures are consistently followed; (3) the importance of consistently following property/equipment policies and procedures; and (4) the importance of performing risk assessments, including the design and testing of controls to mitigate against the potential for errors, noncompliance, fraud, waste, and abuse.

Department of Finance and Administration

We concur with State Audit's recommendation and the management comments from the Tennessee Board of Regents.

Finding Number	10-DOC-01
CFDA Number	84.397
Program Name	State Fiscal Stabilization Fund Cluster
Federal Agency	U.S. Department of Education
State Agency	Tennessee Department of Correction
Grant/Contract No.	S397A090043
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	None

Management at the Department of Correction failed to develop a program-specific risk assessment process for ARRA funds, thus increasing the risk of noncompliance

Finding

The Director of Budget and Fiscal Services at the Department of Correction failed to comply with Tennessee Recovery Act Management (TRAM) directives by not ensuring that an American Recovery and Reinvestment Act of 2009 (ARRA) risk assessment process was developed for the State Fiscal Stabilization Fund (SFSF) monies the department received. An ARRA-specific risk assessment process was required by TRAM Directive 8, which states:

> All recipients and subrecipients of ARRA funds are required to adopt a risk assessment process for all ARRA programs to include risk identification, risk evaluation and mitigation plans. The risk assessment must also include items that address meeting program requirements and objectives.

Risk assessments are a tool management uses to evaluate the department's programs and internal controls to identify potential risks of error, fraud, waste, and abuse and to help management ensure that adequate controls are in place and that the controls are operating effectively. Risk assessments give management the opportunity to be proactive in determining where problem areas might exist within their organization so they can develop controls to mitigate any risks that they identify.

The Judicial Cost Accountant at the Department of Correction stated that the Department of Finance and Administration did not inform them of the need to develop an ARRA program-specific risk assessment process; however, based on our discussion with management at the Department of Finance and Administration, the Department of Correction was included in weekly conference calls where the TRAM directives were discussed. In addition, the TRAM directives are readily available on the Department of Finance and Administration's website. It is management's responsibility to know what is required of the department with regard to compliance with federal regulations when the department receives federal monies. Without proper due diligence, the department could be in jeopardy of losing federal funds or be penalized for noncompliance.

Recommendation

The Director of Budget and Fiscal Services should ensure that the Department of Correction develops a risk assessment process that addresses ARRA programs and includes risk identification, evaluation, and mitigation plans, as well as items that address meeting program requirements and objectives as required in the TRAM directive. In addition, management at the Department of Correction should ensure compliance with all federal regulations and compliance requirements related to federal monies received.

Managements' Comments

Department of Correction

We concur that the Department of Correction failed to develop a program-specific risk assessment process for ARRA funds. The Director of Budget and Fiscal Services will ensure that for any future ARRA funded programs, a risk-assessment process is developed and implemented. This process will include risk identification, evaluation, and mitigation plans that address meeting program requirements and objectives as required by TRAM directives. In addition, management will review funds received from federal sources to ensure compliance with all federal regulations and compliance requirements.

Department of Finance and Administration

We concur with State Audit's recommendation and the management comments from the Department of Correction.

Finding Number	10-DHS-03
CFDA Number	93.558 and 93.714
Program Name	TANF Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Human Services
Grant/Contract No.	G0802TNTANF, G0902TNTANF, and G1002TNTANF
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Special Tests and Provisions
Questioned Costs	$23,819

The Department of Human Services failed to deny Temporary Assistance for Needy Families benefits for participants who failed to cooperate with child support requirements, resulting in federal questioned costs of $23,819

Finding

The Department of Human Services (DHS) failed to deny or reduce Temporary Assistance for Needy Families (TANF) benefits when recipients failed to cooperate with the federal child support requirements. DHS administers TANF, which is a federal program established for the purpose of providing time-limited assistance to needy families with children. To be eligible for TANF benefits, the head of the family's household must cooperate with child support enforcement efforts, which includes both naming the absent parent and assigning child support collections to the state. A TANF recipient is also required to establish paternity, if necessary, and pursue collection of child support from that absent parent. For those TANF recipients who do not cooperate with child support enforcement efforts, federal regulations specify that DHS must deny or reduce recipients' TANF benefits.

In fiscal year 2007, the department was subject to a $1,247,701 penalty by the United States Department of Health and Human Services resulting from the previous findings reported for the periods July 1, 2000, through June 30, 2005. Management concurred with the prior audit findings and created the Family Assistance Service Center, which is located in Clarksville, Tennessee. This center was created to monitor and process the cases of TANF recipients who were not cooperating with child support enforcement efforts. The transition of having the staff at this center monitoring and processing these cases was completed on July 1, 2006.

DHS uses the Tennessee Child Support Enforcement System (TCSES) as the primary information system used to maintain data for child support enforcement and uses the Automated Client Certification and Eligibility Network for Tennessee (ACCENT) information system to maintain data for TANF recipients. When Child Support Enforcement staff determine that an individual is not cooperating with child support enforcement, this notice of noncooperation is first documented in TCSES; then through a system interface, the ACCENT system is automatically updated, and a system alert is posted to reflect this individual's noncooperation.

The Family Assistance Service Center has the responsibility for resolving all noncooperation alerts regarding TANF benefits and uses an ACCENT report showing the system alerts to determine which cases to resolve. However, these system alerts were not always transferred over to ACCENT and thus did not appear on the reports used by the Family Assistance Service Center. According to the Director of Child Support Field Operations and Management, the system alerts were not always transferred due to programming problems with the interface between TCSES and ACCENT. The department's Division of Information Systems is responsible for maintaining the interface between the two systems.

To determine whether DHS had complied with federal regulations, we selected a sample of 418 families from the 34,909 individuals identified in TCSES as not cooperating. Of these 418 families not cooperating, we determined that only 60 had received TANF benefits during the period July 1, 2009, through June 30, 2010. The Family Assistance Service Center did not reduce or deny benefits to 34 of the 60 families tested (57%). These 34 families continued to receive $21,333 in TANF benefits after the benefits should have been denied. Our testwork also found that one additional family was not on the ACCENT report used by the Family Assistance Service Center to resolve noncooperation alerts. This family also continued to receive $2,486 in TANF benefits after the benefits should have been denied.

Title 45, Chapter 2, Section 264.30(c), *Code of Federal Regulations*, requires recipients of TANF benefits who do not cooperate with child support authorities to be sanctioned by "(1) Deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or (2) Denying the family any assistance under the program." The State of Tennessee has elected to deny the family or assistance unit (AU) any assistance under the program. The *Families First Policy Handbook* states:

> . . . if a caretaker, eligible adult or minor parent who is the caretaker of an AU fails or refuses to cooperate with Child Support Services without good cause, the entire assistance unit will be ineligible for Families First benefits until the caretaker complies with the child support cooperation requirement.

In addition, Title 45, Chapter 2, Section 264.31(a), *Code of Federal Regulations*, as of October 2009, states that the state may be penalized from 1% to 5% of the State Family Assistance Grant if it does not comply with this child support cooperation requirement. The penalty increases from the first year to the third year of being noncompliant.

When cases are not identified as noncooperative in ACCENT, the Family Assistance Service Center cannot follow up to ensure the noncooperation alerts are either resolved or the benefits are sanctioned. When this happens, the state is at risk of federal noncompliance and relating federal penalties. The department did include a risk of ineligible individuals receiving benefits from federal programs in its risk assessment and has relied on the Family Assistance Service Center as its control to enforce the child support enforcement requirement for TANF recipients. However, when the interface between the two systems does not function properly, the

Family Assistance Service Center cannot be assured it has complete data regarding noncooperation alerts.

Recommendation

The Director of Information Systems should ensure that system interface problems between TCSES and ACCENT are corrected promptly. Until the interface problems are corrected, the Clarksville Family Assistance Service Center should utilize a daily report of noncooperation alerts directly from TCSES, instead of the one from ACCENT, to identify the families not cooperating with child support enforcement. By using this report from TCSES, the noncooperation information would not go through the interface. The staff at the Clarksville Family Assistance Service Center should continue to take steps to ensure that benefits to noncooperative clients are reduced or denied. Also, management should ensure the controls established to mitigate the risks noted in the finding are effective to ensure all noncooperation alerts are identified and handled promptly.

Management's Comment

We concur. Based upon discussions with auditors from the Comptroller's staff during fieldwork, we have created a new report that comes directly from the Tennessee Child Support Enforcement System (TCSES). By utilizing this report, rather than relying on the interface between the Automated Client Certification and Eligibility Network for Tennessee (ACCENT) and TCSES, we are assured of receiving all of the proper non-cooperation alerts.

As to the 34 cases that have been identified as non-cooperating, we have sanctioned the individuals in 15 of the cases. The remaining 19 cases have been resolved.

Finding Number	10-DHS-04
CFDA Number	93.569, 93.710, 93.575, 93.596, 93.713, and 96.001
Program Name	CSBG Cluster CCDF Cluster Disability Insurance/SSI Cluster
Federal Agency	Department of Health and Human Services and Social Security Administration
State Agency	Department of Human Services
Grant/Contract No.	G08B1TNCOSR, G09B1TNCOSR, G10B1TNCOSR, G0901TNCOSR09S, G0801TNCCDF, G0901TNCCDF, G1001TNCCDF, G0901TNCCD7, 04-08-04TNDI00, 04-09-04TNDI00, and 04-10-04TNDI00
Finding Type	Material Weakness and Noncompliance
Compliance Requirement	Reporting
Questioned Costs	None

The department failed to submit federally required financial reports and did not submit seven federally required reports to federal agencies timely

Finding

The federal government requires financial reports from the Department of Human Services (DHS) as one method to monitor the federal programs. However, DHS failed to submit federal reports or did not submit federal reports timely.

Reports Not Submitted

The Director of Fiscal Services failed to submit federally required financial reports for the Community Services Block Grant (CSBG) funded by United States Department of Health and Human Services (U.S. DHHS) and the CSBG funded by the American Recovery and Reinvestment Act of 2009. The Tennessee Department of Human Services (DHS) was required to submit the SF-269A *Financial Status Report* (Short Form) for these two federal grants by Title 45, Part 96, Section 30(b)(3 and 4), *Code of Federal Regulations*, which states:

> (3) *Block grants containing time limits only on expenditure of funds.* After the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department:
> (i) Total funds expended by the grantee during the statutory period;
> and
> (ii) The date of the last expenditure.
>
> (4) *Submission of information.* Grantees shall submit the information required by paragraph (b)(1), (2), and (3) of this section on OMB Standard Form 269A,

> Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.

This financial report was required for the quarter ending September 30, 2009, while the SF-425 *Federal Financial Report* replaced the SF-269A for the remaining three quarters of the state fiscal year. The Director of Fiscal Services did not submit the required SF-269A or the SF-425 reports to U.S. DHHS during the period July 1, 2009, through June 30, 2010, for either of these grants.

DHS contracts with subrecipients to administer CSBG. These subrecipients provide funding directly to entities, such as utility companies, on behalf of individuals who need assistance. These subrecipients also provide services, such as counseling and referrals to other programs, to individuals in order to help address the causes and consequences of poverty. DHS received additional CSBG funding as a result of the American Recovery and Reinvestment Act of 2009, and DHS is required to submit separate reports for the CSBG based on the funding sources. The SF-269A and the SF-425 reports provide the federal government a quarterly summary of financial information about the block grants.

The Director of Fiscal Services was not aware that the reports were required to be submitted to the U.S. DHHS, and as a result, has not complied with Title 45, Part 96, Section 30(b)(3 and 4), *Code of Federal Regulations*, which puts the department at risk of losing federal grant money.

The department did include the risk of not submitting all required federal reports in its risk assessment. However, the identified internal control to mitigate this risk was not applicable to ensuring compliance with federal reporting requirements. Management apparently did not identify the risk that the Director of Fiscal Services would be unfamiliar with federal reporting requirements, and therefore management has not properly assessed all risks or established all mitigating controls.

<u>Reports Submitted Late</u>

A Fiscal Director and an Administrative Secretary with the Department of Human Services (DHS) failed to submit seven federally required reports timely. Six of these reports are regarding the Child Care and Development Fund (CCDF), while one report is regarding Social Security Disability Insurance (SSDI).

DHS receives federal funding under the CCDF grant to allow low-income families better child care services, when the parents are working or attending educational/training programs. Based on our review, the Fiscal Director responsible for the Child Care and Development Fund submitted six financial quarterly ACF-696 *Child Care and Development Fund Financial Reports* between 3 and 16 days late, with an average of 9 days late. The *Instructions for Completion of Form ACF-696, Financial Reporting Form for the Child Care and Development Fund*, states:

> This form must be submitted quarterly by January 31, April 30, July 31, and October 31.

These instructions also require the department to submit quarterly reports until all of the federal funds are expended. The amounts are based on information from the last month of the quarter that must go through a departmental closing process before it can be reported. The Fiscal Director said that because the closing process is lengthy, he submitted the reports late.

Also, DHS receives federal funding for the SSDI grant to verify the claimant's medical disability. An Administrative Secretary in the Disability Determination Services section prepares the quarterly time report SSA-4514, *Time Report of Personnel Services for Disability Determination Services*. The Social Security Administration's Program Operations Manual System, Section DI 39506.230, *Time Report of Personnel Services for Disability Determination Services – Form SSA-4514*, states that this report is required to be submitted to the Social Security Administration:

> no later than the 30th day after the close of the quarter.

Based on our review, we found that for the quarter ending June 30, 2010, the SSA-4514 was submitted to the Social Security Administration 10 days late. The Administrative Secretary said that he did not receive necessary information from the Edison Support Group to prepare the report timely.

The department did include a risk of not submitting the federally required reports timely in its risk assessment. However, the internal control to mitigate this risk does not include requesting an extension to the reporting deadline or informing the appropriate federal government contact when the federally required reports will be submitted late.

Failure to submit the quarterly reports on time increases the likelihood that the federal grantor would not have complete and accurate information to make financial decisions.

Recommendation

The Commissioner should ensure that the staff submit the federal reports by the required federal deadlines. When it appears unlikely that the department can meet those deadlines, the staff responsible for the reports should promptly request an extension from the federal grantor in writing. The staff should maintain documentation of all approved extensions. Also, staff should request the information needed to prepare the reports timely. Management should also reassess all risks associated with federal reporting and develop appropriate mitigating controls to address the risks.

Management's Comment

We concur. The details for our concurrence are listed below.

Reports Not Submitted

The Department has assumed that our submission of the Community Services Block Grant (CSBG)-IS programmatic reports, which includes the required financial information, has satisfied the quarterly CSBG reporting requirement. Our assumption is based on the fact that for the last twenty-eight (28) years we have never received any notification from our federal government partner that our submission of the CSBG-IS programmatic report did not fully satisfy all the quarterly reporting requirements for the CSBG grants. The department and our CSBG federal partners have agreed that the reporting confusion can be resolved by the department submitting SF-269 to satisfy all future quarter CSBG reporting requirements.

Reports Submitted Late

Because Child Care Development Fund (CCDF) reporting is impacted by final reporting of Temporary Assistance to Needy Families (TANF) expenditures, the submission of the CCDF report has been delayed until final TANF numbers are available. Recognizing the complexities of the TANF program, the federal government has determined the TANF reports are not due until 45 days after close of the quarter. As a result, the final CCDF report has been impacted. Because the CCDF reporting deadline does not coincide with the TANF reporting deadline, the department will submit the CCDF report timely and revise as necessary to reflect the final TANF reporting information.

The submission of the SSA-4514 was delayed during the audit period because of the department's conversion to Edison. During the conversion, the information for the SSA-4514 had to be obtained from an Edison query that only Edison staff could run. As a result, this information was not always received timely. With the full implementation of Edison, this query is run by Department of Human Resources' staff on a regular basis and supplied to us timely.

If the agency/department determines it unlikely that staff can submit federal reports by deadlines, the agency will notify the federal grantor and request an extension of the deadline. Staff will maintain documentation of the request.

Management staff shall periodically reassess all risks associated with federal reporting and develop appropriate controls to address risks.

Finding Number	10-DCS-01
CFDA Number	93.659
Program Name	Adoption Assistance
Federal Agency	Department of Health and Human Services
State Agency	Department of Children's Services
Grant/Contract No.	0901TN1407, 1001TN1407, 0901TN1403, and 1001TN1403
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$25,808

Similar to findings over the past eight years, the Department of Children's Services has made certain adoption assistance payments that were not justified by supporting documentation

Finding

For the year ended June 30, 2010, we found certain adoption assistance payments which lacked documentation to support all or a portion of those payments. The discrepancies found pertained to:

- payments for children who were 18 and older,
- enhanced subsidy rates,
- subsidy rates that were not in place 90 days prior to the signing of the adoption assistance agreement,
- children's files without documentation that the children were in the home, and
- children who were not eligible to receive federally funded adoption assistance.

The department has had similar audit findings for the past eight years. The most recent audit finding addressed payments for children age 18 and older and enhanced subsidy rates.

Management concurred with the prior audit finding and stated:

> . . . Central office staff will be responsible for timely eligibility determinations for subsidies paid past the child's 18th birthday, including accurate entry into the applicable eligibility system (ChipFins/TFACTS) [Tennessee Family and Child Tracking System]. This includes making sure there is adequate supporting documentation of any physical or mental handicap to warrant continuation of any Title IV-E subsidy. . . .

The prior audit finding follow-up report sent by DCS management to the Division of State Audit stated:

> …Beginning September 6, 2010, the Division of Foster Care and Adoption Services began the transition of oversight, supervision, and management of the Adoption Assistance program. Specifically, additional staff members will be responsible for any approval of special/extraordinary rates and the ongoing renewal of all subsidies, including those for children 18 and over. The initial approval of what we would classify as a standard adoption assistance subsidy will continue to be reviewed, approved, and authorized at the regional level. With the conversion of the management of the AA [Adoption Assistance] case files in the new SACWIS (State Automated Child Welfare Information System) system, there will be a dual approval process for all rates by the Program and Fiscal staff prior to the initiation of any payment. All documentation supporting any rate will be maintained in both TFACTS . . . and the hard copy files that will be maintained by central office staff. Likewise, management and support to the new staff members will come directly from Central Office rather than in the region. . . .

Instances of Noncompliance

For the year ended June 30, 2010, we examined a non-statistical sample of federal adoption assistance subsidies for 120 adopted children and reviewed the related children's files. We found the following instances of noncompliance:

- For three children's files examined, we noted that the children had reached their 18th birthday and the department did not have documentation of a physical or mental disability which would have warranted the continuation of the adoption assistance. According to the *Child Welfare Policy Manual* 8.2B.9, adoption assistance is available until the child reaches age 18 or up to age 21 if the child has a mental or physical disability which warrants the continuation of the adoption assistance. Federal questioned costs resulting from these cases totaled $5,811, which includes $504 of questioned costs from American Recovery and Reinvestment Act (ARRA) funds.
- In one case, the subsidy rate was not in place 90 days prior to the signing of the adoption assistance agreement and there was not a waiver in the file to allow the rate. Current DCS Policy 15.11, I.3 states, ". . . rates must have been in place at least ninety (90) days prior to signing adoption assistance agreements. If this requirement presents a barrier or delays permanency for any child, a waiver can be obtained from the Director of Foster Care, Adoptions, & Kinship [the Director of Foster Care and Adoption Services] or his/her designee waiving the 90 day requirement. . . ." Federal questioned costs resulting from this case totaled $5,456, which includes $473 of questioned costs from ARRA funds.
- Three children received rates that were more than the regular board rates and did not have documentation in their files to support the rates. Current DCS Policy 15.11, O.4 states children approved for special or extraordinary adoption assistance rates must have documentation from service providers verifying the current diagnosis, prognosis, a summary of services for the previous year, and an estimated summary of necessary

services to meet the exceptional or uncommon needs of the child. One of the three children also did not have documentation described below that they currently resided with the family. The questioned costs for that child are included in questioned costs below. Federal questioned costs resulting from the other two cases totaled $1,277, which includes $111 of questioned costs from ARRA funds.

- Two children's files contained no documentation to prove that the children were in the homes of their adoptive parents. According to the memo attached to the Adoption Assistance Renewal Affidavit, proof must be provided by the families that the children currently reside in the family home and must be attached to the affidavit. The Adoption Assistance Agreement states that documentation to establish continuing eligibility must be provided at the annual renewal process or else the case will be closed. Federal questioned costs resulting from these cases totaled $5,904, which includes $513 of questioned costs from ARRA funds.
- For two cases, children were paid through Title IV-E funding but were not eligible for the funding. Both children's adoption assistance should have been state funded. Federal questioned costs resulting from these cases totaled $7,360, which includes $638 of questioned costs from ARRA funds.

The total amount paid on behalf of all children in the sample was $907,072. The total federal share of the Title IV-E Adoption Assistance program for the current period exceeded $36,000,000. The total amount of federal questioned costs is $25,808 and includes in total, $2,239 of ARRA funds.

Recommendation

The Acting Director of the Office of Child Permanency and the Director of Foster Care and Adoption Services should continue efforts to transition the oversight, supervision, and management of the Adoption Assistance program as described in the report of corrective actions. As the transition is implemented, the director should evaluate the effectiveness of the current procedures to ensure that Adoption Assistance files contain

- documentation of a physical or mental disability which warrants the continuation of adoption assistance for children who have attained their 18th birthday;
- documentation from service providers verifying the current diagnosis, prognosis, a summary of services for the previous year, and an estimated summary of necessary services to meet the exceptional or uncommon needs of the child in cases of rates that exceed the standard subsidy rates;
- an appropriate waiver of the 90 day requirement for cases where rates are not in place at least 90 days prior to signing adoption assistance agreements;
- adoption assistance renewal affidavits that have proof that the children currently reside in the family's home; and

- documentation to show that children are eligible for federal funding.

Management's Comment

We concur.

As of February 2011, staff responsible for subsidies has completely transitioned under the direct management and supervision of Central Office for ongoing maintenance and oversight of subsidy records. Central office staff will be responsible for timely eligibility determinations for subsidies paid past the child's 18th birthday, including accurate entry into TFACTS [Tennessee Family and Child Tracking System]. This includes making sure there is adequate supporting documentation of any physical or mental handicap or an educational component that would warrant the continuation of any Title IV-E subsidy.

In addition, Central Office staff will conduct quarterly Case Process Reviews of subsidy records to ensure documentation to support any rate paid beyond the regular adoption assistance rate is located in the file and also in TFACTS. This process will also ensure current renewal affidavits are located in the file to verify the child's residence.

The Director of Foster Care & Adoption will provide training to staff, during the next quarterly Permanency meetings, regarding the requirement for submitting a waiver of the 90-day requirement for subsidies where special/extraordinary rates are not in place at least 90 days prior to signing adoption assistance agreements if the child is place in a DCS resource home.

The Department has refunded the total amount of questioned costs to the Federal Department of Health and Human Services. The Department refunded $21,271.31, which included $1,844.71 of ARRA funds, on January 25, 2011. In addition, the Department refunded $4,536.69 on February 15, 2011, which included $394.29 of ARRA funds.

To support compliance with federal Title IV-E Adoption Assistance eligibility requirements, the State of Tennessee has also developed and deployed a new SACWIS (Statewide Automated Child Welfare Information System). Built within Tennessee's SACWIS (TFACTS – Tennessee Family and Child Tracking System) is functionality to support the automated determination of Title IV-E and State Funded Adoption Assistance eligibility. The majority of the information to determine eligibility for Adoption Assistance will be derived from TFACTS. This information is entered throughout the system through the natural progress of the family's case from the initial contact the family has with Tennessee's Department of Children's Services, through adoption finalization and thereafter. Tennessee's Permanency Specialist staff verifies that all Adoption Assistance eligibility criteria has been collected and documented within TFACTS. TFACTS then instantaneously returns and automated determination of eligibility. Within these screens the Permanency Specialist enters both the requested and negotiated amounts of assistance and submits the completed determination to Tennessee's Central Office Adoption staff for review and approval. Upon approval, DCS Central Office Adoption staff confirms the existence of the eligibility factors the child met, the approved per diem amount and the date of

approval. In addition to the eligibility information captured within TFACTS, the system also provides the capability to upload and link verification and documentation that supports the automated determination of Adoption Assistance eligibility. This added feature will support future audit activity as all information related to the determination of Adoption Assistance eligibility and continued eligibility will be stored within the child's automated eligibility record.

Finding Number	10-DFA-01
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-0905TN5028, 05-1005TN5028, 05-0905TNARRA 05-1005TNARRA
Finding Type	Significant Deficiency and Noncompliance
Compliance Requirement	Eligibility
Questioned Costs	$17,753

As reported in the previous audit, TennCare did not redetermine eligibility for some enrollees, or have controls in place to appropriately terminate ineligible enrollees; in addition, certain TennCare Standard enrollees are not listed in ACCENT, and an undocumented alien was improperly enrolled during the audit period, all of which resulted in total questioned costs of $22,615

Finding

In the prior audit, we reported that TennCare did not redetermine eligibility for some TennCare Standard enrollees and did not terminate some ineligible enrollees' benefits. The same problems reported in the prior audit existed during the year ended June 30, 2010, as well. TennCare's management did not receive the prior audit finding until July 2010, after the end of the current audit period of July 1, 2009, through June 30, 2010. TennCare's management has initiated changes to correct these deficiencies; however, TennCare's management was unable to implement the prior audit finding's recommendations during fiscal year 2010.

The Department of Human Services (DHS) is responsible for eligibility determinations for TennCare Medicaid and TennCare Standard. TennCare's Medicaid management information system, interChange, receives eligibility data files daily from the DHS eligibility system, the Automated Client Certification and Eligibility Network (ACCENT). All enrollees for TennCare Medicaid and TennCare Standard must also update information with DHS and have their TennCare coverage redetermined on an annual basis since individual circumstances change over time. When an enrollee's circumstances change and the enrollee is no longer eligible, the DHS eligibility counselor terminates the enrollee's benefits in ACCENT, or if the enrollee is eligible in another category, the eligibility counselor opens the new category and closes the previous category in ACCENT. DHS then notifies TennCare so that the appropriate changes can be made in TennCare's interChange system.

This finding outlines four deficiencies we discovered during the audit:

- enrollees' benefits were not terminated properly;
- enrollees were not redetermined on an annual basis;

- certain TennCare Standard enrollees were not listed in ACCENT, leading to benefits not being terminated properly; and
- an undocumented alien was improperly enrolled.

Enrollees' Benefits Not Terminated Properly

For each enrollee, TennCare pays a monthly fee (called a capitation payment) to a managed care organization to provide medical services. We tested a sample of 60 TennCare enrollees who had a capitation payment during the audit period to determine if the enrollees were eligible for TennCare coverage. For 2010, we only tested TennCare Medicaid enrollees for redetermination because TennCare did not redetermine eligibility for TennCare Standard enrollees in fiscal year 2010. Of the 60 enrollees tested for eligibility and redetermination, TennCare did not terminate 7 enrollees' eligibility (12%), completely or in an affected category, when DHS terminated the enrollees' TennCare coverage in ACCENT or terminated benefits in one category when they became eligible for another category. When DHS terminates an enrollee's TennCare coverage, ACCENT automatically triggers interChange to mail the enrollee a Request for Information (RFI) packet in order to gather updated information to determine if the enrollee is still eligible to receive TennCare coverage or if the enrollee is eligible for a different category of TennCare coverage.

If DHS determines that the enrollee is no longer eligible for benefits based upon the updated information or if the enrollee fails to respond to the RFI, TennCare mails the enrollee a 20-day advance Termination Notice. If the enrollee submits the requested information to DHS prior to the termination date (20th day from the date of the Termination Notice) specified and DHS determines that the enrollee meets all eligibility requirements, the enrollee will continue to be eligible for the applicable Medicaid category. According to the *Rules of the Tennessee Department of Finance and Administration, Bureau of TennCare*, Chapter 1200-13-13-.02(6)(b)(6), if DHS makes a determination that the enrollee is eligible for a different category, the previous Medicaid category should be terminated and the enrollee opened in the appropriate category.

If the enrollee files an appeal to dispute the termination of his or her benefits within 40 days of the Termination Notice, the enrollee will continue to receive TennCare benefits while the appeal is being resolved. If DHS determines that the enrollee is no longer eligible for benefits based upon the updated information or if the enrollee fails to respond to the Termination Notice, TennCare is to close the enrollee's benefits.

Based on the 60 enrollees' files examined for eligibility and redetermination, we found the following discrepancies relating to 7 enrollees' TennCare benefits (12%).

- TennCare did not mail a Termination Notice to one enrollee and close the enrollee's benefits when DHS terminated the enrollee's benefits effective November 30, 2009. TennCare properly mailed the RFI to the enrollee; however, TennCare did not mail the enrollee a Termination Notice or close the enrollee's benefits. TennCare mailed

the enrollee a Termination Notice on December 23, 2010, and closed the enrollee's benefits on January 12, 2011. Questioned costs were noted for this enrollee below.

- TennCare did not end benefits for six enrollees. For one enrollee who filed an appeal, the appeal resolution concluded that the enrollee was no longer eligible. The appeal hearing concluded that the enrollee was no longer eligible on April 16, 2010; however, TennCare did not close the enrollee's benefits until December 14, 2010. TennCare did not close another enrollee's benefits in TennCare Standard when she became eligible for TennCare Medicaid. For this enrollee, the Medicaid category later closed, but TennCare Standard remained open. As a result, TennCare began making capitation payments to the managed care organization at the TennCare Standard rate. Questioned costs were noted for both of these enrollees below.

- For four other enrollees, TennCare did not close their benefits in one category when another opened; however, in these situations, TennCare did not incur any questioned costs. In two situations, TennCare did not close TennCare Standard benefits when the enrollees became eligible for TennCare Medicaid. However, after the audit period, the TennCare Standard categories were eventually closed. Because both enrollees were properly enrolled in Medicaid, TennCare properly paid the managed care organization at the correct capitation rate. For the remaining two situations, TennCare did not close one TennCare Medicaid category once the enrollees became eligible for another Medicaid category. One of the two enrollees became eligible for the most recent Medicaid category on November 1, 2007; however, the previous Medicaid category was not closed until December 17, 2010. The other enrollee became eligible for the most recent Medicaid category on October 1, 2008; however, the previous Medicaid category was not closed until June 1, 2010. Because the enrollees remained in Medicaid, TennCare properly paid the enrollee's capitation payments to the managed care organization at the correct rates.

In addition to the six discrepancies discussed above, we found one discrepancy where TennCare opened more than one benefit category simultaneously. DHS determined that an enrollee was eligible for TennCare Medicaid benefits on March 21, 2010, and TennCare opened two Medicaid categories simultaneously. TennCare closed one of the Medicaid categories on April 30, 2010, and the other Medicaid category remained open. TennCare properly paid the enrollee's capitation payments to the managed care organization at the correct rates.

In response to this portion of the previous audit finding, at TennCare's request, DHS sent a Corrective Action Plan to TennCare on September 10, 2010. DHS's plan outlined the controls in place to prevent an error of this nature from occurring and stated, "DHS is confident that these controls meet a standard needed to assure that errors are addressed accurately and timely."

The total questioned costs for enrollees' benefits not properly terminated in the samples were $3,214. Federal questioned costs in the samples totaled $2,413. The remaining $801 was state matching funds. The total capitation amounts we tested in our sample were $127,492 from a population of $3,526,131,560.

Although the capitation payments were not affected for all of the discrepancies noted, when eligibility is not properly terminated, the risk of making improper payments increases.

Enrollees Not Redetermined on an Annual Basis

Of the 60 enrollees tested for redetermination in the previous audit, TennCare did not redetermine eligibility during the audit period July 1, 2008, through June 30, 2009, for 4 TennCare Standard enrollees (7%). According to 42 CFR 435.916, "The agency must redetermine the eligibility of Medicaid recipients, with respect to circumstances that may change, at least every 12 months. . . ." According to TennCare's waiver, "All requirements of the Medicaid program expressed in law, regulation, and policy statement, not expressly waived or specified as not applicable in the [the waiver], shall apply to all TennCare II populations . . ." These requirements apply to TennCare Standard.

In TennCare's risk assessment for fiscal years ended June 30, 2009, and 2010, TennCare identified a risk that enrollees' eligibility may not be redetermined on an annual basis. TennCare stated the following internal control was in place to prevent or mitigate this risk: "Systematic monthly notice process triggers reverification of the Medicaid population and Standard enrollees as they turn age 19." When an enrollee reaches age 19, the enrollee is no longer eligible for TennCare Standard. If the enrollee is eligible for TennCare Medicaid, eligibility is redetermined on an annual basis. While TennCare's control over the annual redetermination of TennCare Medicaid enrollees complies with federal regulations and TennCare's policies, its control for redetermining TennCare Standard enrollees' eligibility in the risk assessment conflicts with federal regulations and the redetermination requirements in TennCare's policies. According to TennCare's policies, TennCare Standard enrollees, like TennCare Medicaid enrollees, should be redetermined at least every 12 months, not just when enrollees reach the age of 19. Based on the *Rules of Tennessee Department of Finance and Administration, Bureau of TennCare*, Chapter 1200-13-14-.02(8)(a), "All [TennCare Standard] enrollees must reapply and have their TennCare coverage redetermined based on the approved policies and procedures in effect at the time of their next scheduled redetermination/reapplication process." According to the *TennCare Medicaid and TennCare Standard Policy Manual*, "Renewal is the process of determining continuing eligibility for children under age 19 who receive TennCare Standard benefits. As of April 29, 2005, the only individuals who will remain eligible for TennCare Standard are children under age 19. These individuals will be selected for annual review/renewal of eligibility."

Based on discussions with TennCare management, TennCare was not consistently redetermining eligibility for TennCare Standard enrollees in accordance with its policies and federal regulations during fiscal year 2010. By not redetermining all enrollees' eligibility every 12 months, TennCare cannot ensure that the enrollees continue to be eligible for TennCare. Based on management's comments from the previous audit, TennCare identified the issue and initiated corrections to interChange via system change request to ensure that all TennCare Standard recipients are reverified annually. Based on our review during the fiscal year 2010 audit, TennCare management submitted the system modification on July 2, 2010, and on November 15, 2010, they implemented the first part of the redetermination process, an *ex parte* review, an initial case review to determine if the enrollee's file has enough current information to

make an eligibility determination. TennCare is redetermining its entire population of approximately 39,000 TennCare Standard enrollees' eligibility to ensure compliance with the TennCare waiver and Federal law.

As of November 30, 2010, the system modification appears to remain a priority based on our review of TennCare's system change requests, but implementation is not complete. According to the Director of Eligibility Services, TennCare is also working to ensure the required redetermination process is applied consistently in accordance with federal law and TennCare's waiver to mirror the TennCare Medicaid RFI process. In addition, TennCare revised its 2010 risk assessment to include annual reverification of TennCare Standard enrollees. Because of the lack of controls over the redetermination process for TennCare Standard that still existed for the fiscal year ended June 30, 2010, we did not test this population for compliance. Instead, we limited our testing of redetermination to the TennCare Medicaid population.

When the proper eligibility redeterminations are not made, the risk of making payments to ineligible enrollees increases.

Certain TennCare Standard Enrollees Not Listed in ACCENT and Benefits Not Terminated Properly

In addition to the 60 items tested for eligibility and redetermination, we tested a sample of 25 TennCare Standard enrollees who were enrolled in the prewaiver category, indentified as "PREW" in interChange, during the year ended June 30, 2010, to determine if these enrollees were listed in ACCENT. Prewaiver children are uninsured children under 19 who became eligible prior to July 1, 2002, when DHS assumed the responsibility of determining eligibility for TennCare Standard.

Based on the testwork performed, ACCENT did not contain any information concerning any of the 25 enrollees' eligibility (100%) during the audit period. While examining these 25 enrollees, we also discovered that TennCare did not close 21 enrollees' Prewaiver benefit categories properly (84%).

- TennCare did not close the TennCare Standard Prewaiver category for 11 enrollees when a new TennCare Medicaid category opened. Each of the enrollees' TennCare Medicaid categories eventually closed while the TennCare Standard Prewaiver category remained open. TennCare made capitation payments to the managed care organization at the TennCare Medicaid rate; however, when the Medicaid category closed, TennCare reverted to paying the managed care organization at the TennCare Standard rate, resulting in questioned costs noted below. TennCare did not make a determination if the enrollee was eligible for TennCare Standard once the Medicaid category closed.

- TennCare did not close the TennCare Standard Prewaiver category for one enrollee when the enrollee reached the age of 19 in August 2008. TennCare properly mailed the RFI to the enrollee on September 1, 2008. The enrollee's benefits remained open

until TennCare mailed the enrollee a Termination Notice on November 12, 2009, and closed the enrollee's benefits on December 2, 2009, more than a year later. TennCare made capitation payments to the managed care organization until the benefits were closed on December 2, 2009. As a result, questioned costs were noted below.

- TennCare did not close the TennCare Standard Prewaiver category for nine enrollees when a new TennCare Medicaid category opened. Each enrollee's TennCare Medicaid categories and the TennCare Standard Prewaiver category remained open simultaneously. TennCare properly paid the enrollees' capitation payments to the managed care organization at the correct rates. However, the potential risk exists if the Medicaid categories close, the enrollee will revert to TennCare Standard without the opportunity to redetermine eligibility.

The total questioned costs for enrollees' Prewaiver benefits not properly terminated in the samples were $16,985. Federal questioned costs in the samples totaled $12,725. The remaining $4,260 was state matching funds. It was not practical to determine the capitation payments for the population of the Prewaiver enrollees.

Based on discussions with the Director of Eligibility Services, the enrollees with an open TennCare Standard Prewaiver category were included in the system change request submitted on July 2, 2010, and in the *ex parte* review submitted to DHS on November 15, 2010, which is discussed previously in this finding. Also, according to the Director of Member Services, on January 21, 2011, the contractor responsible for maintaining interChange under its contract with TennCare will begin testing the system change request at the beginning of February 2011. For the *ex parte* review described above, the Director of Member Services explained that DHS should complete the review on January 24, 2011. She continued to explain that if the DHS eligibility counselor was able to obtain enough current information about the TennCare Standard (including Prewaiver category) enrollees from information in ACCENT and the Social Security Administration, then the counselor would make an eligibility determination. Individuals that would have enough information in ACCENT include those that are currently eligible in another aid program, such as Food Stamps or Families First. If the enrollees did not have enough information in ACCENT, then TennCare would send the enrollee an RFI to gather updated information. According to the director, if the enrollee had an open case in ACCENT, the *ex parte* review results would be documented in ACCENT; however, if the enrollee was not already in ACCENT, the results would be documented in another system, Ex Parte Database or Clean Up Database. Since DHS is responsible for determining eligibility for TennCare, it is critical that all TennCare Standard enrollees are listed in ACCENT to ensure that their eligibility is closed properly and/or redetermined on an annual basis.

<u>An Undocumented Alien Was Improperly Enrolled</u>

While testing a sample of undocumented aliens to determine if they received Medicaid only for emergency services, as required by Federal law, we found that an individual classified as an undocumented alien received Transitional Medicaid beginning on September 1, 2009. According to the *TennCare Medicaid and TennCare Standard Policy Manual*, "These aliens are

not eligible for full TennCare Medicaid benefits because of the temporary nature of their admission status. Undocumented aliens may be eligible only for emergency TennCare Medicaid services when all eligibility requirements other than citizenship and enumeration are met." Additionally, to be eligible for Transitional Medicaid, "the aid group must have been eligible for and received AFDC-MO [Aid to Families with Dependent Children/Medicaid Only, a category for individuals who meet basic requirements for the Families First program but do not qualify for certain technical requirements of the program] at least three out of six months immediately preceding the month of ineligibility," but this individual did not receive AFDC-MO prior to receiving Transitional Medicaid.

On December 20, 2010, we informed the Director of Eligibility Services that this individual should not be on TennCare. On December 22, 2010, the Director notified DHS to immediately research and close this case. On this same date, DHS set this enrollee's benefits to terminate as of January 31, 2011. Despite this individual being enrolled, he did not receive any services during his eligibility period.

As a result of capitation payments made, the total questioned costs for the undocumented alien in the sample were $2,416. Federal questioned costs in the samples totaled $1,814. The remaining $602 was state matching funds.

Recommendation

The Director of Member Services and the Director of Eligibility Services should ensure all TennCare enrollees' eligibility is redetermined at least once every 12 months. The Director of Member Services and the Director of Eligibility Services should also ensure that all TennCare enrollees with terminating benefits are properly terminated. The Deputy Commissioner should also continue working on the system modification to ensure all TennCare Standard enrollees are redetermined in a similar manner as the TennCare Medicaid enrollees. He should also evaluate whether the controls listed in TennCare's risk assessment reflect federal regulations and TennCare policy once the system modification is fully implemented. The Deputy Commissioner should also ensure that eligibility redeterminations are documented in ACCENT for all TennCare Standard Prewaiver enrollees.

The Deputy Commissioner should ensure DHS uses diligence when enrolling individuals to preclude undocumented aliens from receiving benefits in excess of the Federally required emergency services, in the appropriate TennCare category and ensuring individuals are not enrolled in a category for which they are not eligible. For all instances of questioned costs noted in this finding, the Deputy Commissioner should ensure that all capitation payments are recouped within the requirements of the contracts with the managed care organizations.

Management's Comment

Enrollees' Benefits Not Terminated Properly

We concur with this finding. The audit found seven cases where eligibility did not close in the TennCare system. The system control in place to address this type of situation is to write the error to a file that is sent to DHS daily. DHS is expected to correct the transaction and resend to TennCare. As a result of the previous audit finding, TennCare requested and received a Corrective Action Plan on this issue from DHS.

TennCare is creating a new report that would be generated to identify cases with overlapping Medicaid and Standard eligibility. The report is currently in testing and is expected to be available before the end of the fiscal year. TennCare is also testing a system modification as part of the reverification of Standard children which will close TennCare Standard eligibility for a child in a reverification status when new Medicaid eligibility is added to interChange.

As previously discussed with the auditor, one of the cases in this finding was handled correctly in interChange. On April 8, 2010 DHS sent two add transactions to interChange. The enrollee was approved in a MA C then a MA N. On April 13, 2010 DHS sent a transaction to close the MA C with an April 30, 2010 end date. If the enrollee had no other eligibility, an RFI would have been mailed in April. Because the enrollee had open MA N coverage, the RFI did not mail. The ACCENT system shows that three notices were mailed by DHS on April 8, 2010; a MA C approval, a MA N approval, then a termination notice on the MA C which included the following worker comments: "Your children are eligible for medicaid in another category. Johnny you are no longer eligible for medicaid through DHS but you will remain eligible for SSI Medicaid."

TennCare has also initiated a separate system correction to resolve cases with overlapping eligibility. SCR 7752 was written to terminate old TennCare Standard cases when Medicaid eligible children are going through reverification of their Medicaid case. This SCR is currently number 14 in the Eligibility Systems Workgroup's priority list.

Enrollees Not Redetermined on an Annual Basis

We concur with this finding. There are two ways to trigger the reverification process in the TennCare program. First, enrollees are required to report changes in their income, resources and family status to TennCare within 10 days of the change occurring. When a change is reported that results in the enrollee no longer being eligible in their current eligibility category, it will trigger the system to start the reverification process for the enrollee. No issues have been identified with this process. Second, when an enrollee has been eligible for 12 months with no changes, the system should trigger the start of the reverification process for the enrollee. The audit identified a problem with the second process that initiates reverification for TennCare Standard children which represents approximately 2% of the TennCare population. As stated in Management's Comments in the 2009 audit, TennCare is currently working to make system modifications to ensure that the reverification process for TennCare Standard children is

consistent with the process that was approved by CMS, the 6th Circuit Court of Appeals in the *Rosen* case, and as required by 42 CFR 435.916(a).

The first step in the reverification process is an ex parte review including a special data match with the Social Security Administration. On November 15, 2010, TennCare ran the process to produce a mass ex parte file of all Standard children eligible for reverification. That file was provided to DHS for matching with SSA data and the ex parte reviews were completed by January 24, 2011.

The system corrections are currently in testing and are expected to be implemented before the end of the current fiscal year. This compliance issue is the number one priority in the Eligibility Systems Workgroup.

The Bureau's risk assessments were updated on November 22, 2010. At that time, children under 19 were added to the risk that an enrollee's eligibility may not be redetermined on an annual basis.

Certain TennCare Standard Enrollees Not Listed in ACCENT and Benefits Not Terminated Properly

We concur with this finding. All enrollees identified in this item are enrollees with a "PREW" category of TennCare Standard in interChange. These enrollees are part of the reverification process for TennCare Standard children mentioned above that is currently in testing. All of the enrollee protections and overlap closure processes will apply to this population just like any other TennCare Standard child. All of these individuals should complete the reverification process in calendar year 2011.

An Undocumented Alien Was Improperly Enrolled

We concur with this finding. As required by 42 C.F.R. § 440.255(c), TennCare provides reimbursement to hospitals for emergency services provided to undocumented aliens. Undocumented aliens are not eligible for TennCare benefits and should not be enrolled in the TennCare program. The undocumented alien in this case had eligibility added to the ACCENT system based on a keying entry error by the DHS Caseworker.

TennCare has researched this case and determined that no claims were paid on behalf of this enrollee. TennCare Fiscal is in the process of recouping from the MCCs any capitation payments TennCare paid for this individual.

While system controls currently exist to prevent this type of error from occurring, TennCare has discovered an error in the DHS system that allowed this case to be approved. After bringing this issue to the attention of DHS, their system's staff is currently in the process of modifying the ACCENT system to prevent this error from occurring again. The system correction is expected to be in place before the end of the current fiscal year.

TennCare is also running a monthly report to identify individuals who may have been added in error and triggering the system to reverify the eligibility of those individuals. Any individual erroneously approved for TennCare will promptly be brought to the attention of DHS and corrective action will begin immediately.

Finding Number	10-DFA-02
CFDA Number	93.778
Program Name	Medicaid Cluster
Federal Agency	Department of Health and Human Services
State Agency	Department of Finance and Administration
Grant/Contract No.	05-0905TN5028, 05-1005TN5028, 05-0905TNARRA 05-1005TNARRA
Finding Type	Significant Deficiency
Compliance Requirement	Other
Questioned Costs	None

Management did not maintain proper controls over TennCare's management information system to mitigate the risks of unauthorized system access and data being compromised

Finding

TennCare's staff did not always follow the bureau's *Security Unit Procedure Guide for Provisioning (Granting Access)*. TennCare's management information system contains extensive recipient, provider, and payment data files; processes a high volume of transactions; and generates numerous types of reports. Our testwork revealed that the bureau's staff did not always follow the *Security Unit Procedure Guide for Provisioning (Granting Access)*, resulting in increased risks of unauthorized system access and data being compromised.

The wording of this finding does not identify specific vulnerabilities that could allow someone to exploit the bureau's systems. Disclosing those vulnerabilities could present a potential security risk by providing readers with information that might be confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the bureau with detailed information regarding the specific vulnerabilities we identified as well as our recommendations for improvement.

Recommendation

The Chief Information Officer (CIO) and Deputy Commissioner should ensure that the procedures in the bureau's *Security Unit Procedure Guide for Provisioning (Granting Access)* are effectively communicated throughout the bureau. The CIO should implement effective controls to ensure compliance with applicable requirements, assign staff to be responsible for ongoing monitoring of the risks and mitigating controls, and take action if deficiencies occur. In addition, the CIO should ensure that risks associated with this finding are adequately identified and assessed in the bureau's risk assessment.

Management's Comment

We concur in part. A few of the noted exceptions actually predate the implementation of the current TennCare management information system in 2004. Several of the noted exceptions predate the current *Security Unit Procedure Guide for Provisioning (Granting Access)* and predate substantial documentation, system and process changes that the Bureau has implemented over the last several years. The Bureau has implemented these changes to enforce compliance with documented policy and procedure and to reduce the risk of human error. The current documentation, systems and process are designed to prevent the noted historical deficiencies and so we do not believe that these exceptions represent a significant vulnerability in current system access management activities. The remainder of the noted exceptions relate to actions that were executed for multiple users as part of broader authorized activity. These actions were executed consistent with established practice for such actions and did not result in any unintended or inappropriate access. Notwithstanding these comments, and consistent with our ongoing focus on quality improvement, the Bureau will initiate additional actions to address historical deficiencies and will implement additional system and process changes and controls in response to this finding. We will initiate and complete several major activities within the current fiscal year. Other changes will begin in the current fiscal year but will continue into the following year. The Bureau risk assessment did identify risks and mitigating controls related to system security administration. We will revise and expand the risk assessment to capture additional detail.

Auditee's Section

Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Unclustered Programs				
Department of Agriculture				
Direct Programs				
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001		$ 1,651,330.88
Agriculture	Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 997,070.18	
Tennessee Wildlife Resources Agency	Plant and Animal Disease, Pest Control, and Animal Care	10.025	14,832.69	
University of Tennessee	Plant and Animal Disease, Pest Control, and Animal Care	10.025	141,701.82	1,153,604.69
Agriculture	Conservation Reserve Program	10.069		4,615.62
Agriculture	ARRA-Aquaculture Grants Program (AGP)	10.086		20,549.89
Agriculture	Market Protection and Promotion	10.163		32,202.68
Agriculture	Speciality Crop Block Grant Program - Farm Bill	10.170		31,412.55
University of Tennessee	Cooperative Forestry Research	10.202		544,993.60
University of Tennessee	Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		4,710,544.93
Tennessee State University	1890 Institution Capacity Building Grants	10.216		214,200.75
University of Tennessee	Higher Education Challenge Grants	10.217		48,496.36
Agriculture	Homeland Security_Agricultural	10.304		58,747.72
University of Tennessee	International Science and Education Grants	10.305		49,252.80
University of Tennessee	Beginning Farmer and Rancher Development Program	10.311		16,432.71
Tennessee State University	Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443		86,494.68
Tennessee State University	Cooperative Extension Service	10.500	$ 1,974,932.09	
University of Tennessee	Cooperative Extension Service	10.500	8,574,009.63	10,548,941.72
Health	Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		114,782,433.81
Human Services	Child and Adult Care Food Program	10.558		53,111,054.89
Agriculture	State Administrative Expenses for Child Nutrition	10.560	$ 153,752.94	
Education	State Administrative Expenses for Child Nutrition	10.560	1,654,408.15	
Human Services	State Administrative Expenses for Child Nutrition	10.560	1,445,859.14	3,254,020.23
Health	Commodity Supplemental Food Program	10.565	$ 918,163.81	
Health	Commodity Supplemental Food Program (Noncash Award)	10.565	3,179,945.00	4,098,108.81
Health	WIC Farmers' Market Nutrition Program (FMNP)	10.572		59,903.03
Health	Senior Farmers Market Nutrition Program	10.576		562,879.75
Health	ARRA-WIC Grants To States (WGS)	10.578		1,755.50
Education	ARRA-Child Nutrition Discretionary Grants Limited Availability	10.579		2,094,678.78
Education	Fresh Fruit and Vegetable Program	10.582		1,381,524.89
Agriculture	Forestry Research	10.652		241,159.11
Agriculture	Cooperative Forestry Assistance	10.664		1,642,251.54
Agriculture	Urban and Community Forestry Program	10.675		361,054.58

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Agriculture	Forest Legacy Program	10.676		47,588.37
Agriculture	Forest Stewardship Program	10.678		512,332.63
Agriculture	Forest Health Protection	10.680		350,805.99
Columbia State Community College	Rural Business Enterprise Grants	10.769	$ 1,892.67	
Economic and Community Development	Rural Business Enterprise Grants	10.769	83,816.49	
Middle Tennessee State University	Rural Business Enterprise Grants	10.769	22,512.54	
Tennessee State University	Rural Business Enterprise Grants	10.769	23,999.55	
University of Tennessee	Rural Business Enterprise Grants	10.769	193,787.08	326,008.33
University of Tennessee	Rural Business Opportunity Grants	10.773		31,156.79
Economic and Community Development	ARRA-Rural Business Enterprise Grants - ARRA	10.783		10,000.00
Columbia State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	$ 118,492.74	
Roane State Community College	Distance Learning and Telemedicine Loans and Grants	10.855	259,935.66	378,428.40
Tennessee State University	1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856		28,845.34
University of Tennessee	Public Television Station Digital Transition Grant Program	10.861		271,000.55
Tennessee State University	Soil and Water Conservation	10.902		2,402.74
Agriculture	Agricultural Statistics Reports	10.950		51,400.58
Tennessee State University	Technical Agricultural Assistance	10.960		106,272.38
Tennessee State University	Cochran Fellowship Program-International Training-Foreign Participant	10.962		10,984.40
Agriculture	Cooperative Forestry Position to Implement Forestry Provisions of Farm Bill	N.A. / 68-4741-9-796	$ 20,346.60	
Agriculture	Cooperative Forestry Position to Implement Forestry Provisions of Farm Bill	N.A. / 68-4741-0-932	7,813.28	28,159.88
University of Tennessee	NRCS 6874829537 Mgt Oak Sys-Keyser	N.A. / 6874829537		1,087.75
University of Tennessee	USDA ARS Honey Bee Health-Skinner	N.A. / 58-1275-8-391 AMD 2		25,060.36
University of Tennessee	USDA FS 07CA11330134109 Stand-Mercker	N.A. / 07CA11330134109		720.46
University of Tennessee	USDA FS 07CA11331034100 Forest Mg-Harper	N.A. / 07CA11330134100 MOD2		16,805.47
University of Tennessee	USDA FS 09DG11420004078 Fuel Plts-Taylor	N.A. / 09DG11420004078		46,845.60
University of Tennessee	USDA FS AG3187C070032 Silvcltr-Clattbuck	N.A. / AG 3187C070032 YR3		163,455.91
University of Tennessee	USDA FS Wildlife Food Plots-Harper	N.A. / FSH 1509.11		0.06
University of Tennessee	USDA Rural Development Goat Meat-Holland	N.A. / GOAT MEAT 2011		20,235.49
Subtotal Direct Programs				$ 203,192,243.98
Passed Through University of Florida				
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1000019139	$ 1,331.84	
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / PO 1000061478	47.09	$ 1,378.93
University of Tennessee	Homeland Security_Agricultural	10.304 / UFIFAS00069564 AMD 2		39,000.00
Passed Through University of Georgia				
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / RC293502/3843598		30,333.10
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309097/4688128	$ 6,410.56	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309100/3843908	5,343.04	
University of Tennessee	Sustainable Agriculture Research and Education	10.215 / RD309101/4690578	8,130.90	19,884.50
University of Tennessee	Cooperative Extension Service	10.500 / RE675-149/3504578	$ 5,125.22	
University of Tennessee	Cooperative Extension Service	10.500 / RE675-153/3842608	18,453.86	23,579.08
Passed Through North Carolina State University				
University of Tennessee	Integrated Programs	10.303 / 2007-1634-11		34,328.16
University of Tennessee	Cooperative Extension Service	10.500 / 2008-0590-19	$ 8,409.64	
University of Tennessee	Cooperative Extension Service	10.500 / 2008-1004-17	4,691.52	13,101.16
University of Tennessee	NCSU 2009276301 Career Pathways-Hill	N.A. / 2009-2763-01		1,180.53
Passed Through Texas Agriculture Extension Services				
University of Tennessee	Integrated Programs	10.303 / 450008		6,055.66
University of Tennessee	Cooperative Extension Service	10.500 / 622232	$ 43,853.09	
University of Tennessee	Cooperative Extension Service	10.500 / 622239	2,741.97	
University of Tennessee	Cooperative Extension Service	10.500 / TX EXT SUB 622237	14,500.00	61,095.06
Passed Through Auburn University				
University of Tennessee	Cooperative Extension Service	10.500 / 08-HHP-374648-0025	$ 3,995.77	
University of Tennessee	Cooperative Extension Service	10.500 / 10-ACES-378562-UT	3,572.00	7,567.77
University of Tennessee	Environmental Quality Incentives Program	10.912 / 10-AGR-361124-UTQ		6,734.59
Passed Through Kansas State University				
University of Tennessee	Cooperative Extension Service	10.500 / S09126	$ 32,923.44	
University of Tennessee	Cooperative Extension Service	10.500 / S09126.01	53,090.43	
University of Tennessee	Cooperative Extension Service	10.500 / S10079	1,973.47	
University of Tennessee	Cooperative Extension Service	10.500 / S10177	13,828.64	101,815.98
Passed Through Mississippi State University				
University of Tennessee	Cooperative Extension Service	10.500 / 1800034036205		2,016.35
Passed Through National 4-H Council				
University of Tennessee	Cooperative Extension Service	10.500 / Health Rocks '08		32,901.23
Passed Through Oklahoma State University				
University of Tennessee	Cooperative Extension Service	10.500 / AC523730		6,385.00
Passed Through Texas Agricultural and Mechanical University				
Tennessee State University	Cooperative Extension Service	10.500 / 2007-49200-03891		5,018.16
Passed Through Volunteer State Community College Foundation				
Volunteer State Community College	Rural Business Enterprise Grants	10.769 / N.A.		4,947.48
Passed Through University of Arizona				
University of Tennessee	Scientific Cooperation and Research	10.961 / CYFAR 2010		106.72
Passed Through South Dakota State University				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	SDSU SNAP-ED Programs-Vineyard	N.A. / SNAP-ED Programs		22,758.51
Subtotal Pass-Through Programs				$ 420,187.97
Subtotal Department of Agriculture				$ 203,612,431.95
Department of Commerce				
Direct Programs				
University of Tennessee	Census Geography	11.003		$ 9,765.70
University of Tennessee	Economic Development_Technical Assistance	11.303		101,556.21
Military	Applied Meteorological Research	11.468		250,000.00
University of Tennessee	Manufacturing Extension Partnership	11.611		1,314,692.32
Tennessee State University	Minority Serving Institutions Technical Assistance and Capacity Building Conference	N.A. / 76151		9,982.21
Subtotal Department of Commerce				$ 1,685,996.44
Department of Defense				
Direct Programs				
University of Tennessee	Procurement Technical Assistance For Business Firms	12.002		$ 53,367.86
Revenue	Payment to States in Lieu of Real Estate Taxes	12.112		725,525.61
Military	Military Construction, National Guard	12.400		8,812,258.93
Military	National Guard Military Operations and Maintenance (O&M) Projects	12.401		21,931,906.62
Tennessee State University	Basic, Applied, and Advanced Research in Science and Engineering	12.630		260,937.46
University of Tennessee	Information Security Grant Program	12.902		42,574.11
Education	Troops to Teachers Memorandum of Agreement	N.A. / N.A.		73,447.06
Tennessee State University	AFROTC - Uniform Commutation	N.A. / DET-790		98.51
Tennessee State University	Center for Academic Excellence in Intelligence Studies (CAEIS) Regional IC Spring Colloquium	N.A. / 37000		23,736.56
University of Tennessee	Army CABC Family Advocacy Prg 09	N.A. / MIPR9AO12UT002		8,082.30
University of Tennessee	Army Cnsmr Affairs/Fin Planning 2009	N.A. / MIPR9AO12UT005	$ 52,504.02	
University of Tennessee	Army Cnsmr Affairs/Fin Planning 2010	N.A. / MIPR0A012UT005	81,370.34	133,874.36
University of Tennessee	Army Family Advocacy 2010	N.A. / MIPR0A012UT003		21,237.11
University of Tennessee	Army Family Readiness Ctr 2009	N.A. / MIPR9AO12UT007		11,363.39
University of Tennessee	Army Mobilization Deployment 2010	N.A. / MIPR0AO12UT011		21,828.37
University of Tennessee	Army Relocation Office 2009	N.A. / MIPR9AO12UT002	$ 29,727.24	
University of Tennessee	Army Relocation Office 2010	N.A. / MIPR0AO12UT002	69,474.76	99,202.00
University of Tennessee	Army Soldier Mblztn/Deployment 2009	N.A. / MIPR9AO12UT008		10,048.40
University of Tennessee	Army Soldier Readiness Office 2009	N.A. / MIPR9AO12UT011	$ 9,135.05	
University of Tennessee	Army Soldier Readiness Office 2010	N.A. / MIPR0AO12UT010	21,652.27	30,787.32
University of Tennessee	Peace Corps-PC-08-8-139 - Wood	N.A. / PC-08-8-139		(7,122.00)
University of Tennessee	Peace Corps-PC-09-8-102 - Wood	N.A. / PC-09-8-102		13,650.00
Subtotal Direct Programs				$ 32,266,803.97
Passed Through Academy of Applied Sciences				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Basic Scientific Research	12.431 / JUN SCI & HUM SYMP09	$ 2,226.03	
University of Tennessee	Basic Scientific Research	12.431 / W911NF-04-001	21,380.42	$ 23,606.45
Passed Through Defense Equal Opportunity Management Institute				
Austin Peay State University	Defense Equal Opportunity Climate Survey	N.A. / FA2521-06-P-0292		3,628.52
Subtotal Pass-Through Programs				$ 27,234.97
Subtotal Department of Defense				$ 32,294,038.94
Department of Housing and Urban Development				
Direct Programs				
Middle Tennessee State University	College Housing Debt Service	14.100		$ 72,134.00
Tennessee Housing Development Agency	Supportive Housing for Persons with Disabilities	14.181		143,479.00
Tennessee Housing Development Agency	Emergency Shelter Grants Program	14.231		1,603,989.91
University of Tennessee	Supportive Housing Program	14.235		116,897.24
Tennessee Housing Development Agency	Home Investment Partnerships Program	14.239		16,789,700.86
Health	Housing Opportunities for Persons with AIDS	14.241		796,639.06
Tennessee Housing Development Agency	ARRA-Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded)	14.257		3,337,153.32
Tennessee Housing Development Agency	ARRA-Tax Credit Assistance Program (Recovery Act Funded)	14.258		7,470,948.68
Human Rights Commission	Fair Housing Assistance Program_ State and Local	14.401		286,814.00
Tennessee State University	Historically Black Colleges and Universities Program	14.520		221,519.75
Middle Tennessee State University	Operation Lead Elimination Action Program	14.903		919,983.12
East Tennessee State University	Interest Subsidies	N.A. / CH-TENN-144D		49,526.00
Tennessee Technological University	Interest Subsidies	N.A. / TN-139-D		34,586.00
Subtotal Direct Programs				$ 31,843,370.94
Passed Through City of Johnson City				
East Tennessee State University	Home Investment Partnerships Program	14.239 / 09-185		$ 9,119.25
Passed Through City of Knoxville				
Pellissippi State Community College	Renewal Community and Empowerment Zone Programs	14.244 / C-09-0047		122,447.16
Subtotal Pass-Through Programs				$ 131,566.41
Subtotal Department of Housing and Urban Development				$ 31,974,937.35
Department of the Interior				
Direct Programs				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Environment and Conservation	Abandoned Mine Land Reclamation (AMLR) Program	15.252		$ 464,742.06
Environment and Conservation	Cooperative Endangered Species Conservation Fund	15.615	$ 15,847.75	
Tennessee Wildlife Resources Agency	Cooperative Endangered Species Conservation Fund	15.615	629,974.15	645,821.90
Tennessee Wildlife Resources Agency	Clean Vessel Act	15.616		434,081.89
Tennessee Wildlife Resources Agency	Firearm and Bow Hunter Education and Safety Program	15.626		1,771,652.60
Tennessee Wildlife Resources Agency	Multistate Conservation Grant Program	15.628		120,209.00
Tennessee Wildlife Resources Agency	Landowner Incentive Program	15.633		292,562.68
Tennessee Wildlife Resources Agency	State Wildlife Grants	15.634		671,714.50
Agriculture	ARRA-Recovery Act Funds - Habitat Enhancement, Restoration and Improvement	15.656		3,140.97
University of Memphis	Earthquake Hazards Reduction Program	15.807		14,048.25
Environment and Conservation	U.S. Geological Survey_Research and Data Collection	15.808	$ 74,174.90	
Finance and Administration	U.S. Geological Survey_Research and Data Collection	15.808	49,999.74	124,174.64
University of Tennessee	Cooperative Research Units Program	15.812		190,344.60
Environment and Conservation	Historic Preservation Fund Grants-In-Aid	15.904	$ 191,802.68	
Middle Tennessee State University	Historic Preservation Fund Grants-In-Aid	15.904	322,990.34	514,793.02
Environment and Conservation	Outdoor Recreation_Acquisition, Development and Planning	15.916		141,273.59
Tennessee State Museum	Save America's Treasures	15.929		36,500.26
Middle Tennessee State University	Tennessee Civil War National Heritage Area	N.A. / H5041 02 A301		16,925.79
Tennessee Wildlife Resources Agency	Gallatin Hatchery Agreement	N.A. / 401813J007		1,700.88
University of Memphis	CERI Annual Support of USGS Personnel	N.A. / G09PX01478		49,765.70
Subtotal Department of the Interior				$ 5,493,452.33
	Department of Justice			
Direct Programs				
Finance and Administration	Sexual Assault Services Formula Program	16.017		$ 5,273.00
Correction	Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		167,409.65
Commission on Children and Youth	Juvenile Accountability Block Grants	16.523		784,470.17
University of Tennessee	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		54,252.88
Commission on Children and Youth	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	$ 1,397,222.56	
Mental Health and Developmental Disabilities	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	3,032.94	1,400,255.50
Commission on Children and Youth	Title V_Delinquency Prevention Program	16.548		110,010.44
Tennessee Bureau of Investigation	State Justice Statistics Program for Statistical Analysis Centers	16.550		42,653.94

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Finance and Administration	National Criminal History Improvement Program (NCHIP)	16.554		95,390.78
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		121,386.89
Finance and Administration	Crime Victim Assistance	16.575		6,614,288.86
Treasury	Crime Victim Compensation	16.576		5,181,000.00
Finance and Administration	Edward Byrne Memorial Formula Grant Program	16.579		(0.64)
Tennessee Bureau of Investigation	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	$ 2,041,407.99	
University of Tennessee	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	1,333,479.24	3,374,887.23
Finance and Administration	Drug Court Discretionary Grant Program	16.585		37,378.04
Finance and Administration	Violence Against Women Formula Grants	16.588	$ 2,055,031.25	
Finance and Administration	ARRA-Violence Against Women Formula Grants	16.588	1,216,647.33	3,271,678.58
Finance and Administration	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		433,491.36
Finance and Administration	Residential Substance Abuse Treatment for State Prisoners	16.593		169,217.50
University of Tennessee	Motor Vehicle Theft Protection Act Program	16.597		(12,007.41)
TRICOR	Corrections_Training and Staff Development	16.601		15,551.85
Correction	State Criminal Alien Assistance Program	16.606		427,768.00
University of Memphis	Project Safe Neighborhoods	16.609		24,717.16
Tennessee Bureau of Investigation	Regional Information Sharing Systems	16.610		6,007,093.00
Tennessee Bureau of Investigation	Public Safety Partnership and Community Policing Grants	16.710	$ 529,268.63	
Tennessee Technological University	Public Safety Partnership and Community Policing Grants	16.710	115,037.31	644,305.94
Commission on Children and Youth	Enforcing Underage Drinking Laws Program	16.727		439,533.16
Correction	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735		189,894.56
Finance and Administration	Edward Byrne Memorial Justice Assistance Grant Program	16.738		3,545,461.29
Tennessee Bureau of Investigation	Forensic DNA Backlog Reduction Program	16.741		453,084.44
Finance and Administration	Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		274,034.12
Tennessee Bureau of Investigation	Support for Adam Walsh Act Implementation Grant Program	16.750		113,088.41
Middle Tennessee State University	Congressionally Recommended Awards	16.753	$ 55,840.70	
University of Tennessee	Congressionally Recommended Awards	16.753	931.52	56,772.22
Finance and Administration	ARRA-Recovery Act - State Victim Assistance Formula Grant Program	16.801		391,967.49
Finance and Administration	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803		14,803,600.26

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	ARRA-Recovery Act - Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	16.810		183,994.82
Tennessee Bureau of Investigation	Governor's Task Force On Marijuana Eradication	N.A. / 2009-13	$ 600,140.52	
Tennessee Bureau of Investigation	Governor's Task Force On Marijuana Eradication	N.A. / 2010-110	209,422.43	809,562.95
Subtotal Direct Programs				$ 50,231,466.44
Passed Through University of Illinois at Chicago				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560 / 2007CKWXK029		$ (201.28)
Passed Through Shelby County Government				
University of Memphis	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580 / CA086339		6,523.36
Passed Through Knoxville Police Department				
University of Tennessee	Project Safe Neighborhoods	16.609 / 2007GPCX0044		38,757.45
Passed Through City of Knoxville				
University of Tennessee	Anti-Gang Initiative	16.744 / 2006-PG-BX-0089		118,072.65
Passed Through City of Memphis Police Department				
University of Tennessee	ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803 / 26577		11,542.80
Subtotal Pass-Through Programs				$ 174,694.98
Subtotal Department of Justice				$ 50,406,161.42
Department of Labor				
Direct Programs				
Labor and Workforce Development	Labor Force Statistics	17.002		$ 1,207,568.02
Labor and Workforce Development	Compensation and Working Conditions	17.005		83,750.92
Labor and Workforce Development	Unemployment Insurance	17.225	$ 1,986,530,009.19	
Labor and Workforce Development	ARRA-Unemployment Insurance	17.225	217,016,993.24	2,203,547,002.43
Labor and Workforce Development	Senior Community Service Employment Program	17.235	$ 2,239,937.94	
Labor and Workforce Development	ARRA-Senior Community Service Employment Program	17.235	380,357.30	2,620,295.24
Labor and Workforce Development	Trade Adjustment Assistance	17.245		7,380,005.82
Walters State Community College	WIA Pilots, Demonstrations, and Research Projects	17.261		210,113.17
Labor and Workforce Development	Work Incentive Grants	17.266		300,146.29
Labor and Workforce Development	Incentive Grants - WIA Section 503	17.267		(2,525.95)
Cleveland State Community College	Community Based Job Training Grants	17.269	$ 51,315.91	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Jackson State Community College	Community Based Job Training Grants	17.269	611,017.02	
Northeast State Community College	Community Based Job Training Grants	17.269	988,859.25	
Southwest Tennessee Community College	Community Based Job Training Grants	17.269	216,767.37	1,867,959.55
Correction	Reintegration of Ex-Offenders	17.270		37,329.15
Labor and Workforce Development	Work Opportunity Tax Credit Program (WOTC)	17.271		792,899.64
Labor and Workforce Development	Temporary Labor Certification for Foreign Workers	17.273		98,003.06
Labor and Workforce Development	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275		66,700.90
Labor and Workforce Development	Occupational Safety and Health_State Program	17.503	$ 3,202,579.41	
Labor and Workforce Development	ARRA-Occupational Safety and Health_State Program	17.503	10,364.36	3,212,943.77
Labor and Workforce Development	Consultation Agreements	17.504		795,068.86
Labor and Workforce Development	OSHA Data Initiative	17.505		47,112.71
Labor and Workforce Development	Mine Health and Safety Grants	17.600		156,352.60
Subtotal Direct Programs				$ 2,222,420,726.18
Passed Through John C. Calhoun Community College				
Middle Tennessee State University	WIA Pilots, Demonstrations, and Research Projects	17.261 / 5B118201 (WIRED)		$ 134,324.00
Middle Tennessee State University	H-1B Job Training Grants	17.268 / WR155340-06-60	$ 168,000.00	
Motlow State Community College	H-1B Job Training Grants	17.268 / 031086	9,002.89	
Motlow State Community College	H-1B Job Training Grants	17.268 / 090810	47,131.00	224,133.89
Passed Through Knox County Community Action				
University of Tennessee	Community Based Job Training Grants	17.269 / KNOX CAC WIA YOUTH		127,497.32
Passed Through Southeast Tennessee Development District				
Chattanooga State Community College	Community Based Job Training Grants	17.269 / CB-18208-09-60-A-47		197,034.75
Passed Through Workforce Solutions				
Chattanooga State Community College	WIA Dislocated Worker Formula Grants	17.278 / DW		1,531.25
Subtotal Pass-Through Programs				$ 684,521.21
Subtotal Department of Labor				$ 2,223,105,247.39
Department of State				
Direct Programs				
Tennessee Technological University	IREX Cultural Program	N.A. / Ugrad-Tennessee Tech		$ 1,924.85
Subtotal Direct Programs				$ 1,924.85
Passed Through Institute for Training and Development				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Academic Exchange Programs - Undergraduate Programs	19.009 / 2009 STUDY OF THE US	$ 133,784.81	
University of Tennessee	Academic Exchange Programs - Undergraduate Programs	19.009 / 2010 STUDY OF THE US	150,571.07	$ 284,355.88
Subtotal Pass-Through Programs				$ 284,355.88
Subtotal Department of State				$ 286,280.73
Department of Transportation				
Direct Programs				
Transportation	Airport Improvement Program	20.106	$ 10,792,992.57	
Transportation	ARRA-Airport Improvement Program	20.106	723,097.44	$ 11,516,090.01
Tennessee State University	Highway Training and Education	20.215		19,699.14
Safety	National Motor Carrier Safety	20.218		5,397,658.15
Transportation	Metropolitan Transportation Planning	20.505		781,055.99
Transportation	Formula Grants for Other Than Urbanized Areas	20.509	$ 15,201,093.37	
Transportation	ARRA-Formula Grants for Other Than Urbanized Areas	20.509	11,268,969.24	26,470,062.61
Transportation	Alcohol Open Container Requirements	20.607		13,539,860.40
Tennessee Regulatory Authority	Pipeline Safety Program Base Grants	20.700		477,669.10
Military	Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		336,903.96
Tennessee Regulatory Authority	State Damage Prevention Program Grants	20.720		46,901.27
University of Tennessee	FHWA-DTFH61-03-D-00111- Everett	N.A. / DTFH61-03-D-00111		878.15
University of Tennessee	FHWA-DTFH61-06-D-00026/Task 2a-Everett	N.A. / DTFH61-06-D-00026/7-		45,132.33
University of Tennessee	USDT-FHA-Eisenhower Grad Fellow-Han	N.A. / DDEGRD-06-X-00410		3,674.19
University of Tennessee	USDT-FHWA-DDEGRD-09-X-00407-Fellow - Han	N.A. / DDEGRD-09-X-00407		31,698.33
Subtotal Department of Transportation				$ 58,667,283.63
Department of the Treasury				
Direct Programs				
Tennessee Housing Development Agency	ARRA-Section 1602 Grants to States for Low-Income Housing in Lieu of Low-Income Housing Credits for 2009	N.A. / TDP2009GRTN13		$ 31,223,557.76
Subtotal Direct Programs				$ 31,223,557.76
Passed Through NeighborWorks America				
Tennessee Housing Development Agency	National Foreclosure Mitigation Counseling (NFMC) Program	N.A. / PL 111-117:95X1350		$ 676,475.05
Subtotal Pass-Through Programs				$ 676,475.05
Subtotal Department of the Treasury				$ 31,900,032.81
Appalachian Regional Commission				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
Cleveland State Community College	Appalachian Regional Development	23.001		$ 6,691.19
East Tennessee State University	Appalachian Area Development	23.002		56,007.19
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration	23.011	$ 86,650.87	
Economic and Community Development	Appalachian Research, Technical Assistance, and Demonstration	23.011	154,930.04	
Pellissippi State Community College	Appalachian Research, Technical Assistance, and Demonstration	23.011	29,648.10	271,229.01
Subtotal Direct Programs				$ 333,927.39
Passed Through Coalition for Appalachian Substance Abuse Policy				
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration	23.011 / 08-0029		$ 13,641.67
Subtotal Pass-Through Programs				$ 13,641.67
Subtotal Appalachian Regional Commission				$ 347,569.06
Equal Employment Opportunity Commission				
Direct Programs				
Human Rights Commission	Employment Discrimination_Title VII of the Civil Rights Act of 1964	30.001		$ 255,359.92
Subtotal Equal Employment Opportunity Commission				$ 255,359.92
General Services Administration				
Direct Programs				
General Services	Donation of Federal Surplus Personal Property (Noncash Award)	39.003		$ 2,028,656.00
State	Election Reform Payments	39.011		377,631.81
Subtotal General Services Administration				$ 2,406,287.81
Library of Congress				
Direct Programs				
Middle Tennessee State University	Teaching with Primary Sources	N.A. / GA08C0077		$ 105,389.35
Subtotal Library of Congress				$ 105,389.35
National Aeronautics and Space Administration				
Direct Programs				
Tennessee Technological University	Science	43.001		$ 1,244,654.47
Middle Tennessee State University	K-12 Science Education Enhancement Phase 3	N.A. / NNX08AP08G		54,408.20
Tennessee State University	NASA Science Engineering Mathematics Aerospace Academy (SEMAA)	N.A. / NAS3-02123-STSU		82,862.71
University of Tennessee	NASA NNX08AT42H Moersch	N.A. / NNX08AT42H		31,180.61

State of Tennessee
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For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	NASA SSC/JSC NNX10TT44P	N.A. / NNX10TT44P		1,110.98
Subtotal Direct Programs				$ 1,414,216.97
Passed Through National Space Grant Foundation				
University of Tennessee	Science	43.001 / 2008-AESP14	$ 14,219.11	
University of Tennessee	Science	43.001 / 2009-AESP11	363.93	$ 14,583.04
Passed Through Vanderbilt University				
Tennessee State University	Aeronautics	43.002 / NNG05GE95H		61,840.87
Subtotal Pass-Through Programs				$ 76,423.91
Subtotal National Aeronautics and Space Administration				$ 1,490,640.88
National Endowment for the Arts				
Direct Programs				
University of Memphis	Promotion of the Arts_Grants to Organizations and Individuals	45.024		$ 6,819.86
Tennessee Arts Commission	Promotion of the Arts_Partnership Agreements	45.025	$ 893,964.72	
Tennessee Arts Commission	ARRA-Promotion of the Arts_Partnership Agreements	45.025	294,134.70	1,188,099.42
Subtotal National Endowment for the Arts				$ 1,194,919.28
National Endowment for the Humanities				
Direct Programs				
Austin Peay State University	Promotion of the Humanities_ Division of Preservation and Access	45.149		$ 5,500.00
Middle Tennessee State University	Promotion of the Humanities_ Professional Development	45.163	$ 61,286.37	
University of Tennessee	Promotion of the Humanities_ Professional Development	45.163	156,369.82	217,656.19
University of Memphis	Promotion of the Humanities_ Public Programs	45.164		2,022.89
Columbia State Community College	Promotion of the Humanities_We the People	45.168		534.96
Subtotal National Endowment for the Humanities				$ 225,714.04
Institute of Museum and Library Services				
Direct Programs				
University of Memphis	Museums for America	45.301		$ 20,556.51
State	Grants to States	45.310		3,063,200.12
State	National Leadership Grants	45.312	$ 17,328.56	
Tennessee State University	National Leadership Grants	45.312	174,253.19	191,581.75
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313		140,239.02
Subtotal Institute of Museum and Library Services				$ 3,415,577.40

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
National Science Foundation				
Direct Programs				
University of Tennessee	Engineering Grants	47.041		$ 36,886.68
University of Tennessee	Mathematical and Physical Sciences	47.049		209,711.24
University of Tennessee	Computer and Information Science and Engineering	47.070		40,234.27
Austin Peay State University	Biological Sciences	47.074	$ 79,400.00	
University of Memphis	Biological Sciences	47.074	21,381.82	100,781.82
Austin Peay State University	Education and Human Resources	47.076	$ 119,737.29	
Cleveland State Community College	Education and Human Resources	47.076	13,203.03	
East Tennessee State University	Education and Human Resources	47.076	12,995.50	
Middle Tennessee State University	Education and Human Resources	47.076	845,634.84	
Nashville State Community College	Education and Human Resources	47.076	309,947.22	
Pellissippi State Community College	Education and Human Resources	47.076	126,998.66	
Tennessee State University	Education and Human Resources	47.076	797,503.30	
University of Memphis	Education and Human Resources	47.076	126,028.60	
University of Tennessee	Education and Human Resources	47.076	1,558,114.86	3,910,163.30
Middle Tennessee State University	International Science and Engineering (OISE)	47.079		7,013.82
University of Tennessee	Office of Cyberinfrastructure	47.080		152,515.46
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	$ 16,193.26	
University of Memphis	ARRA-Trans-NSF Recovery Act Research Support	47.082	69,885.32	86,078.58
Tennessee State University	Minority Serving Institutions Technical Assistance & Capacity Building Conference	N.A. / NSFDACS09P1615		30,000.00
University of Tennessee	NSF-IPA - Garrison	N.A. / IPA ARLENE GARRISON		146,220.95
Subtotal Direct Programs				$ 4,719,606.12
Passed Through Georgia Institute of Technology				
University of Tennessee	Education and Human Resources	47.076 / CK 752212		$ 294.00
Passed Through Kentucky Community and Technical College System				
Pellissippi State Community College	Education and Human Resources	47.076 / DUE-0603327		4,556.18
Passed Through Lorain County Community College				
Chattanooga State Community College	Education and Human Resources	47.076 / 0703018		36,379.24
Passed Through National Center for Science and Civic Engagement				
Middle Tennessee State University	Education and Human Resources	47.076 / DUE-0717407		1,257.04
Passed Through Puget Sound Center				
Middle Tennessee State University	Education and Human Resources	47.076 / HRD-0631789		309.43
Passed Through University of Oklahoma				
Columbia State Community College	Education and Human Resources	47.076 / DUE-0355246		24,333.83
Passed Through University of Tulsa				

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Jackson State Community College	Education and Human Resources	47.076 / DUE-0355246		46,519.74
Subtotal Pass-Through Programs				$ 113,649.46
Subtotal National Science Foundation				$ 4,833,255.58
Small Business Administration				
Direct Programs				
Tennessee Board of Regents	Small Business Development Centers	59.037		$ 1,931,374.60
Subtotal Direct Programs				$ 1,931,374.60
Passed Through University of Kentucky				
University of Tennessee	UKRF-SBAHQ-08-0081-Willey	N.A. / SBAHQ-08-0081		$ 134,912.86
Subtotal Pass-Through Programs				$ 134,912.86
Subtotal Small Business Administration				$ 2,066,287.46
Department of Veterans Affairs				
Direct Programs				
Tennessee State Veterans Homes Board	Grants to States for Construction of State Home Facilities	64.005		$ 1,180.92
Tennessee State Veterans Homes Board	Veterans State Nursing Home Care	64.015		8,423,258.91
East Tennessee State University	Veterans Home Based Primary Care	64.022		222,268.31
Veterans Affairs	Burial Expenses Allowance for Veterans	64.101		445,200.00
Tennessee Higher Education Commission	Veterans Education Commission	N.A. / V101(223B)	$ 18,766.43	
Tennessee Higher Education Commission	Veterans Education Commission	N.A. / V101(223B)P3156	55,102.24	
Tennessee Higher Education Commission	Veterans Education Commission	N.A. / V101(223C)P5056	256,647.28	330,515.95
University of Memphis	Support of Veteran's Services Office	N.A. / 113165		3,795.00
Subtotal Department of Veterans Affairs				$ 9,426,219.09
Environmental Protection Agency				
Direct Programs				
Environment and Conservation	Air Pollution Control Program Support	66.001		$ 1,275,984.52
Environment and Conservation	State Indoor Radon Grants	66.032		208,991.50
Environment and Conservation	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		282,665.94
Environment and Conservation	Clean School Bus USA	66.036		134,414.21
Environment and Conservation	State Clean Diesel Grant Program	66.040	$ 48,000.00	
Environment and Conservation	ARRA-State Clean Diesel Grant Program	66.040	15,375.63	63,375.63
Environment and Conservation	Water Pollution Control State, Interstate, and Tribal Program Support	66.419		2,904,289.00

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Environment and Conservation	State Public Water System Supervision	66.432		468,425.18
Environment and Conservation	Water Quality Management Planning	66.454	$ 115,916.57	
Environment and Conservation	ARRA-Water Quality Management Planning	66.454	117,953.57	233,870.14
Environment and Conservation	Capitalization Grants for Clean Water State Revolving Funds	66.458	$ 13,702,201.10	
Environment and Conservation	ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	6,999,211.97	20,701,413.07
Agriculture	Nonpoint Source Implementation Grants	66.460		2,876,359.04
Environment and Conservation	Water Quality Cooperative Agreements	66.463		62,263.27
Environment and Conservation	Wastewater Operator Training Grant Program	66.467		757.54
Environment and Conservation	Capitalization Grants for Drinking Water State Revolving Funds	66.468	$ 6,406,859.07	
Environment and Conservation	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	66.468	6,707,110.75	13,113,969.82
Environment and Conservation	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471		188,807.63
University of Tennessee	Office of Research and Development Consolidated Research/Training/ Fellowships	66.511		97,516.58
Agriculture	Performance Partnership Grants	66.605		588,030.20
University of Tennessee	Training and Fellowships for the Environmental Protection Agency	66.607		(18,667.94)
Environment and Conservation	Environmental Information Exchange Network Grant Program and Related Assistance	66.608		97,291.77
Environment and Conservation	Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		167,935.68
Environment and Conservation	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		327,476.25
Environment and Conservation	Pollution Prevention Grants Program	66.708		55,129.42
Environment and Conservation	Multi-Media Capacity Building Grants for States and Tribes	66.709		62,589.61
Environment and Conservation	Hazardous Waste Management State Program Support	66.801		3,015,926.46
Environment and Conservation	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802		2,086,932.45
Environment and Conservation	Underground Storage Tank Prevention, Detection and Compliance Program	66.804		606,825.14
Environment and Conservation	Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	$ 945,189.18	
Environment and Conservation	ARRA-Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	1,589,516.74	2,534,705.92
Environment and Conservation	Solid Waste Management Assistance Grants	66.808		7,877.17
Environment and Conservation	Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		332,576.07
Middle Tennessee State University	Environmental Education Grants	66.951		204.00
Subtotal Direct Programs				$ 52,477,935.27

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Knox County				
University of Tennessee	Knox County Adopt-A-Watershed-Gangaware08	N.A. / 07-590 MOD. # 2		$ 35,247.65
University of Tennessee	Knox County Grad Intern Prog-Gangaware08	N.A. / GRAD INTERN PROGRAM		2,341.12
Subtotal Pass-Through Programs				$ 37,588.77
Subtotal Environmental Protection Agency				$ 52,515,524.04
Department of Energy				
Direct Programs				
Economic and Community Development	State Energy Program	81.041	$ 439,237.07	
Economic and Community Development	ARRA-State Energy Program	81.041	889,758.01	$ 1,328,995.08
Human Services	Weatherization Assistance for Low-Income Persons	81.042	$ (577,399.74)	
Human Services	ARRA-Weatherization Assistance for Low-Income Persons	81.042	42,769,342.74	42,191,943.00
Pellissippi State Community College	Office of Science Financial Assistance Program	81.049	$ 1,278.34	
University of Tennessee	Office of Science Financial Assistance Program	81.049	529,093.82	530,372.16
Military	Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106		25,416.21
Environment and Conservation	State Energy Program Special Projects	81.119		4,445,450.79
Economic and Community Development	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	$ 34.02	
Tennessee Regulatory Authority	ARRA-Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	68,394.44	68,428.46
Economic and Community Development	ARRA-Energy Efficient Appliance Rebate Program (EEARP)	81.127		261.45
Economic and Community Development	ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		75,346.80
Economic and Community Development	Local Government Energy Loan Program	N.A. / LocGov Energy Loans		(1,371,818.78)
Economic and Community Development	Petroleum Violation Escrow-Amoco	N.A. / Legal Settlement		29.60
Economic and Community Development	Petroleum Violation Escrow-Diamond Shamrock	N.A. / Legal Settlement		36,641.02
Economic and Community Development	Petroleum Violation Escrow-Stripper	N.A. / Legal Settlement		3,959,364.51
Economic and Community Development	Small Business Energy Loan Program	N.A. / SM BUS Energy Loans		(412,240.76)
Military	Department of Energy Emergency Preparedness	N.A. / DOE FFY 2010 AWARD		519,956.61
Military	Department of Energy Emergency Preparedness	N.A. / DOE2008		196,802.48
Military	Department of Energy Emergency Preparedness	N.A. / DOE2009		129,265.63
Tennessee State University	Department of Energy Chair of Excellence Professorship	N.A. / DE-FG02-94EW11428		505,086.67

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Wildlife Resources Agency	Oak Ridge Wildlife Management Area	N.A. / REORDOER-3-97-0702		164,272.19
University of Tennessee	National Renewable Energy Lab C/S Stach	N.A. / SOLAR DECATHLON		656.67
University of Tennessee	Secretariat Lab Energy R&D Group 2006	N.A. / 35584		13,424.80
Subtotal Direct Programs				$ 52,407,654.59
Passed Through Florida Agricultural and Mechanical University				
Tennessee State University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123 / DE-FG02-94EW11431		$ 94,759.69
Passed Through Argonne National Laboratory				
University of Tennessee	Argonne Natl Lab-Workshops-IESP-Dongarra	N.A. / WORKSHOPS-IESP		178,843.38
Subtotal Pass-Through Programs				$ 273,603.07
Subtotal Department of Energy				$ 52,681,257.66
Federal Emergency Management Agency				
Direct Programs				
University of Memphis	Degrees at a Distance Fire Service Program	N.A. / FEMA EMW-2008-CA-1025		$ 3,523.06
Subtotal Direct Programs				$ 3,523.06
Passed Through Kentucky Division of Emergency Management				
Military	Disaster - EMACKY	N.A. / PTDISASTER		$ 22,823.07
Subtotal Pass-Through Programs				$ 22,823.07
Subtotal Federal Emergency Management Agency				$ 26,346.13
Department of Education				
Direct Programs				
Labor and Workforce Development	Adult Education - Basic Grants to States	84.002		$ 10,777,315.94
Education	Migrant Education_State Grant Program	84.011		694,441.97
Education	Title I State Agency Program for Neglected and Delinquent Children	84.013		487,004.21
East Tennessee State University	Undergraduate International Studies and Foreign Language Programs	84.016	$ 29,799.29	
Middle Tennessee State University	Undergraduate International Studies and Foreign Language Programs	84.016	1,982.87	31,782.16
Austin Peay State University	Higher Education_Institutional Aid	84.031	$ 419,067.12	
Columbia State Community College	Higher Education_Institutional Aid	84.031	244,000.36	
Dyersburg State Community College	Higher Education_Institutional Aid	84.031	191,381.00	
Nashville State Community College	Higher Education_Institutional Aid	84.031	248,961.29	
Northeast State Community College	Higher Education_Institutional Aid	84.031	545.00	
Tennessee State University	Higher Education_Institutional Aid	84.031	10,814,259.50	11,918,214.27

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Student Assistance Corporation	Federal Family Education Loans	84.032		154,945,720.55
Education	Career and Technical Education -- Basic Grants to States	84.048		21,032,622.92
Tennessee Student Assistance Corporation	Leveraging Educational Assistance Partnership	84.069		1,157,161.00
Austin Peay State University	Fund for the Improvement of Postsecondary Education	84.116	$ 208,037.44	
Cleveland State Community College	Fund for the Improvement of Postsecondary Education	84.116	83,346.91	
East Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116	43,459.57	
Middle Tennessee State University	Fund for the Improvement of Postsecondary Education	84.116	410,923.97	
Roane State Community College	Fund for the Improvement of Postsecondary Education	84.116	74,398.34	
Tennessee Board of Regents	Fund for the Improvement of Postsecondary Education	84.116	140,999.18	
University of Tennessee	Fund for the Improvement of Postsecondary Education	84.116	958,003.14	1,919,168.55
University of Memphis	Rehabilitation Long-Term Training	84.129	$ 154,934.01	
University of Tennessee	Rehabilitation Long-Term Training	84.129	210,951.37	365,885.38
University of Tennessee	Migrant Education_High School Equivalency Program	84.141		58,545.98
Education	Migrant Education_Coordination Program	84.144		106,439.54
East Tennessee State University	Business and International Education Projects	84.153	$ 2,700.00	
University of Tennessee	Business and International Education Projects	84.153	68,204.67	70,904.67
Education	Byrd Honors Scholarships	84.185		795,000.00
Education	Safe and Drug-Free Schools and Communities_State Grants	84.186		5,008,312.55
Education	Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	$ (8,424.57)	
Human Services	Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	503,079.00	494,654.43
Education	Even Start_State Educational Agencies	84.213		1,021,732.48
Human Services	Assistive Technology	84.224		474,152.50
Education	Tech-Prep Education	84.243		3,737,539.72
University of Tennessee	National Institute for Literacy	84.257		671,295.34
Human Services	Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265		(2,159,230.77)
Education	Charter Schools	84.282		3,320,447.18
Education	Twenty-First Century Community Learning Centers	84.287		16,276,632.85
Education	State Grants for Innovative Programs	84.298		234,506.82
Education	Special Education - State Personnel Development	84.323		705,490.17
University of Tennessee	Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		876,337.41
Education	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		200,000.00

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Correction	Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		282,717.69
East Tennessee State University	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	$ 487,860.50	
Tennessee Higher Education Commission	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3,328,879.82	
University of Tennessee	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	529,367.43	4,346,107.75
East Tennessee State University	Child Care Access Means Parents in School	84.335	$ 125,638.88	
Southwest Tennessee Community College	Child Care Access Means Parents in School	84.335	170,169.82	295,808.70
University of Tennessee	Early Childhood Educator Professional Development	84.349		19,708.23
Austin Peay State University	Transition to Teaching	84.350	$ 63,500.00	
Education	Transition to Teaching	84.350	1,393,070.52	1,456,570.52
Tennessee Arts Commission	Arts in Education	84.351		147,100.09
Education	Reading First State Grants	84.357		8,261,481.46
Education	Rural Education	84.358		4,348,336.16
Education	English Language Acquisition Grants	84.365		6,617,030.11
Education	Mathematics and Science Partnerships	84.366		7,136,172.53
Education	Improving Teacher Quality State Grants	84.367	$ 52,254,301.74	
Tennessee Higher Education Commission	Improving Teacher Quality State Grants	84.367	1,920,691.95	54,174,993.69
Education	Grants for State Assessments and Related Activities	84.369		11,994,713.00
Tennessee Higher Education Commission	College Access Challenge Grant Program	84.378		1,465,729.98
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395		142,047.05
Education	National Cooperative Education Statistic System-Basic Participation	N.A. / ED-08-CO-0064		2,287.08
Education	NCES Task Order Contract: National Assessment of Educational Progress	N.A. / ED-03-CO-0091		107,750.13
Education	State Data Task Order	N.A. / ED-08-CO-0064		68,802.15
Education	State Data Task Order	N.A. / N.A.		25,410.00
Subtotal Direct Programs				$ 336,114,844.14
Passed Through State of Oregon				
University of Tennessee	Adult Education - Basic Grants to States	84.002 / IGA0148	$ 353.47	
University of Tennessee	Adult Education - Basic Grants to States	84.002 / IGA0236	92,039.42	$ 92,392.89
Passed Through Tennessee Opportunity Programs, Incorporated				
East Tennessee State University	Migrant Education_State Grant Program	84.011 / 09-248		15,211.86
East Tennessee State University	Migrant Education_Coordination Program	84.144 / 09-248		15,211.86
Passed Through Memphis City Schools				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Memphis	Fund for the Improvement of Education	84.215 / P11514		(30,930.33)
University of Memphis	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334 / 05 00434 Z 03		114,993.45
Passed Through Warren County Board of Education				
Middle Tennessee State University	Fund for the Improvement of Education	84.215 / S215X020283		(2,521.03)
Passed Through Wilson County School System				
Volunteer State Community College	Fund for the Improvement of Education	84.215 / N.A.		(20,386.23)
Passed Through Kent State University				
University of Tennessee	National Institute for Literacy	84.257 / 444849-P071037		10,161.56
Passed Through Pennsylvania State University				
University of Tennessee	National Institute for Literacy	84.257 / 4041-UTK-USDOE-0004		27,696.54
Passed Through Edvantia				
University of Tennessee	Parental Information and Resource Centers	84.310 / S-31000-07-004		34,667.00
Passed Through Vanderbilt University				
Tennessee State University	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325 / H325K060403-09		18,882.50
Middle Tennessee State University	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334 / 15564-S2		(3,070.87)
Passed Through Alliance for Business and Training, Incorporated				
Northeast State Community College	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334 / GR-09-27367-00		102,029.24
Passed Through Signal Centers, Incorporated				
University of Tennessee	Child Care Access Means Parents in School	84.335 / EAST SOUTH CCR&R		4,328.72
University of Tennessee	Early Childhood Educator Professional Development	84.349 / EAST CCR&R		992,828.92
Passed Through Drexel University				
University of Tennessee	Transition to Teaching	84.350 / 213015-04	$ 14,925.98	
University of Tennessee	Transition to Teaching	84.350 / 213025	26,593.59	41,519.57
Passed Through Sallie B. Howard School				
University of Tennessee	Arts in Education	84.351 / U351C090008		77,458.81
Passed Through National Writing Project Corporation				
Middle Tennessee State University	National Writing Project	84.928 / 05-TN03	$ 50,257.57	
Tennessee Technological University	National Writing Project	84.928 / 08-TN04 AMEND #2	54,999.71	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	National Writing Project	84.928 / 94-TN02 AMEND #18	1,036.69	
University of Tennessee	National Writing Project	84.928 / 94-TN02 AMEND #19	43,986.09	
University of Tennessee	National Writing Project	84.928 / 94-TN02 AMEND #20	8,779.40	159,059.46
Passed Through National Commission on Teaching and America's Future				
University of Memphis	Teachers Learning in Networked Communities	N.A. / P116B070236		26,263.73
Passed Through United Negro College Fund Special Programs Corporation				
University of Memphis	Computational Design of Organometallic Molecular Switches	N.A. / JPFP		5,000.00
Subtotal Pass-Through Programs				$ 1,680,797.65
Subtotal Department of Education				$ 337,795,641.79
National Archives and Records Administration				
Direct Programs				
State	National Historical Publications and Records Grants	89.003		$ 9,500.00
Subtotal National Archives and Records Administration				$ 9,500.00
Elections Assistance Commission				
Direct Programs				
State	Help America Vote Act Requirements Payments	90.401		$ (107,486.99)
Subtotal Elections Assistance Commission				$ (107,486.99)
Department of Health and Human Services				
Direct Programs				
Health	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006		$ 136,558.12
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		149,240.00
Commission on Aging and Disability	Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042		320,500.00
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043		503,900.00
Commission on Aging and Disability	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048		151,937.64
Commission on Aging and Disability	Alzheimer's Disease Demonstration Grants to States	93.051		213,040.09
Commission on Aging and Disability	National Family Caregiver Support, Title III, Part E	93.052		2,904,336.87

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Health	Public Health Emergency Preparedness	93.069	$ 9,580,375.67	
Health	Public Health Emergency Preparedness (Noncash Award)	93.069	20,667,085.00	30,247,460.67
Commission on Aging and Disability	Medicare Enrollment Assistance Program	93.071		181,243.00
Commission on Aging and Disability	Lifespan Respite Care Program	93.072		5,037.58
Mental Health and Developmental Disabilities	Enhance the Safety of Children Affected by Parental Methamphetamine or Other Substance Abuse	93.087		445,536.79
Health	Emergency System for Advance Registration of Volunteer Health Professionals	93.089		3,197.28
Children's Services	Guardianship Assistance	93.090	$ 594,257.90	
Children's Services	ARRA-Guardianship Assistance	93.090	52,657.84	646,915.74
Health	Food and Drug Administration_ Research	93.103		5,000.00
Mental Health and Developmental Disabilities	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		3,478,801.37
Health	Maternal and Child Health Federal Consolidated Programs	93.110	$ 84,337.83	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110	278,472.50	362,810.33
University of Tennessee	Environmental Health	93.113		74,594.79
Health	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		797,898.24
University of Tennessee	Oral Diseases and Disorders Research	93.121		18,401.50
University of Tennessee	Nurse Anesthetist Traineeships	93.124		48,620.90
Health	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		111,578.81
Health	Injury Prevention and Control Research and State and Community Based Programs	93.136		943,883.55
Mental Health and Developmental Disabilities	Projects for Assistance in Transition from Homelessness (PATH)	93.150		778,762.86
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173		24,392.70
University of Tennessee	Nursing Workforce Diversity	93.178		369,611.69
University of Tennessee	Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		21,760.44
Health	Surveillance of Hazardous Substance Emergency Events	93.204		13,845.88
Health	Family Planning_Services	93.217		6,633,425.01
East Tennessee State University	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	$ 1,218,906.27	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Health	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	1,556,118.10	2,775,024.37
Health	Traumatic Brain Injury State Demonstration Grant Program	93.234		175,089.61
Health	Abstinence Education Program	93.235		(851.90)
Health	State Capacity Building	93.240		150,169.26
Health	State Rural Hospital Flexibility Program	93.241		640,355.99
University of Memphis	Mental Health Research Grants	93.242		(29,799.01)
Finance and Administration	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	$ 24,770.00	
Mental Health and Developmental Disabilities	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	2,682,784.39	
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	41,862.01	
University of Tennessee	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	561,441.75	3,310,858.15
University of Tennessee	Advanced Nursing Education Grant Program	93.247		1,547,015.18
Health	Universal Newborn Hearing Screening	93.251		145,806.05
East Tennessee State University	Nurse Faculty Loan Program (NFLP)	93.264		62,374.80
University of Tennessee	Alcohol National Research Service Awards for Research Training	93.272		24,085.52
Mental Health and Developmental Disabilities	Substance Abuse and Mental Health Services-Access to Recovery	93.275		6,481,408.33
Health	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		15,026,814.08
Health	Small Rural Hospital Improvement Grant Program	93.301		215,643.49
East Tennessee State University	Advanced Nursing Education Traineeships	93.358	$ 39,274.64	
University of Tennessee	Advanced Nursing Education Traineeships	93.358	208,902.96	248,177.60
East Tennessee State University	Nurse Education, Practice and Retention Grants	93.359	$ 71,292.54	
University of Tennessee	Nurse Education, Practice and Retention Grants	93.359	295,106.75	366,399.29
University of Tennessee	National Center for Research Resources	93.389		648,625.70
University of Tennessee	Cancer Detection and Diagnosis Research	93.394		9,550.00
East Tennessee State University	Cancer Research Manpower	93.398	$ 229,497.37	
University of Tennessee	Cancer Research Manpower	93.398	16,201.54	245,698.91
Austin Peay State University	ARRA - Scholarships for Disadvantaged Students	93.407	$ 1,056.00	
Dyersburg State Community College	ARRA - Scholarships for Disadvantaged Students	93.407	10,328.00	
Tennessee State University	ARRA - Scholarships for Disadvantaged Students	93.407	86,065.90	
University of Tennessee	ARRA - Scholarships for Disadvantaged Students	93.407	128,430.00	225,879.90

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	ARRA-Nurse Faculty Loan Program	93.408		21,066.00
Health	ARRA-State Primary Care Offices	93.414		29,923.80
Children's Services	Promoting Safe and Stable Families	93.556		2,099,931.22
Human Services	Child Support Enforcement	93.563	$ 15,542,562.70	
Human Services	ARRA-Child Support Enforcement	93.563	20,245,406.00	35,787,968.70
Human Services	Child Support Enforcement Research	93.564		97,395.06
Human Services	Low-Income Home Energy Assistance	93.568		55,966,887.05
Court System	State Court Improvement Program	93.586		697,570.23
Human Services	Grants to States for Access and Visitation Programs	93.597		191,350.68
Children's Services	Chafee Education and Training Vouchers Program (ETV)	93.599		584,673.00
University of Tennessee	Mentoring Children of Prisoners	93.616		34,125.50
State	Voting Access for Individuals with Disabilities_Grants to States	93.617		20,916.63
Finance and Administration	Developmental Disabilities Basic Support and Advocacy Grants	93.630		1,915,114.27
University of Tennessee	University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		543,637.54
Children's Services	Children's Justice Grants to States	93.643		328,056.46
Children's Services	Child Welfare Services_State Grants	93.645		3,557,566.07
University of Tennessee	Child Welfare Research Training or Demonstration	93.648		999,501.13
Children's Services	Foster Care_Title IV-E	93.658	$ 43,503,790.61	
Children's Services	ARRA-Foster Care_Title IV-E	93.658	1,748,579.55	45,252,370.16
Children's Services	Adoption Assistance	93.659	$ 33,816,857.40	
Children's Services	ARRA-Adoption Assistance	93.659	3,062,864.87	36,879,722.27
Human Services	Social Services Block Grant	93.667		31,101,878.76
Children's Services	Child Abuse and Neglect State Grants	93.669		482,690.25
Finance and Administration	Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671		1,723,050.29
Children's Services	Chafee Foster Care Independence Program	93.674		675,308.65
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701		146,237.89
East Tennessee State University	ARRA - Grants to Health Center Programs	93.703	$ 62,050.77	
Health	ARRA - Grants to Health Center Programs	93.703	1,864,429.81	1,926,480.58
Health	ARRA - Preventing Healthcare-Associated Infections	93.717		175,654.34
Finance and Administration	ARRA - State Grants to Promote Health Information Technology	93.719		70,539.72
Health	ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723		15,010.00
Finance and Administration	Children's Health Insurance Program	93.767		129,012,220.72
Commission on Aging and Disability	Centers for Medicare and Medicaid Services (CMS) Research, Demonstration and Evaluations	93.779	$ 1,024,543.48	
Mental Health and Developmental Disabilities	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evalutions	93.779	133,346.95	1,157,890.43
Finance and Administration	Alternate Non-Emergency Service Providers or Networks	93.790		2,619,604.00
Finance and Administration	Medicaid Transformation Grants	93.793		(29.00)
University of Tennessee	Cardiovascular Diseases Research	93.837		77,527.01
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		138,340.00

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855		46,795.31
University of Tennessee	Microbiology and Infectious Diseases Research	93.856		127,623.96
Tennessee State University	Biomedical Research and Research Training	93.859	$ 265,358.43	
University of Tennessee	Biomedical Research and Research Training	93.859	391,672.59	657,031.02
University of Tennessee	Vision Research	93.867		36,210.57
East Tennessee State University	Grants for Training in Primary Care Medicine and Dentistry	93.884		384,028.72
Middle Tennessee State University	Health Care and Other Facilities	93.887	$ 204,310.04	
Tennessee Technological University	Health Care and Other Facilities	93.887	471,240.00	
University of Memphis	Health Care and Other Facilities	93.887	303,484.00	979,034.04
University of Tennessee	Specially Selected Health Projects	93.888		(18.00)
Health	National Bioterrorism Hospital Preparedness Program	93.889		9,289,100.50
Tennessee State University	Family and Community Violence Prevention Program	93.910		32,438.92
Health	Grants to States for Operation of Offices of Rural Health	93.913		159,538.95
Health	HIV Care Formula Grants	93.917		19,928,777.12
Education	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		282,214.24
Health	HIV Prevention Activities_Health Department Based	93.940		4,897,978.35
Health	HIV Demonstration, Research, Public and Professional Education Projects	93.941		741,400.42
Health	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		121,527.01
Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services	93.958		7,805,676.97
Mental Health and Developmental Disabilities	Block Grants for Prevention and Treatment of Substance Abuse	93.959		26,551,034.08
Health	Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977		2,230,808.21
Health	Preventive Health and Health Services Block Grant	93.991		1,822,166.67
Health	Maternal and Child Health Services Block Grant to the States	93.994		8,113,437.95
Subtotal Direct Programs				$ 520,397,601.59
Passed Through Vanderbilt University				
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / 2T83MC00008-53	$ (956.48)	
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / T83MC00008-54	33,768.00	
Tennessee State University	Maternal and Child Health Federal Consolidated Programs	93.110 / 5T73MC00050-09-00	8,908.00	
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / VUMC CA 6915	10,111.41	$ 51,830.93
Tennessee State University	Biomedical Research and Research Training	93.859 / 5R25GM060190-07		8,748.00
Passed Through University of Cincinnati				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 008989001		271,019.13
Passed Through Howard University				
Tennessee State University	AIDS Education and Training Centers	93.145 / 5H4AH00066-05-00		(378.83)
Passed Through Community Health Network				
East Tennessee State University	Telehealth Programs	93.211 / 6H2AIT16623		9,717.96
Passed Through Morehouse School of Medicine				
Tennessee State University	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243 / TI-020447		4,320.00
Passed Through Pacific Institute for Research and Evaluation				
University of Tennessee	Substance Abuse and Mental Health Services-Access to Recovery	93.275 / TN TRI-REGIONAL COAL		227.00
Passed Through Research Triangle Institute International				
Mental Health and Developmental Disabilities	Substance Abuse and Mental Health Services-Access to Recovery	93.275 / 44-312-0209818		(17,740.00)
Passed Through Alliance for Business and Training, Incorporated				
East Tennessee State University	ARRA-Drug Abuse and Addiction Research Programs	93.279 / 06-12032-ISYOUTH 1		126,810.09
Passed Through Methodist LeBonheur Healthcare				
University of Memphis	Nurse Education, Practice and Rentention Grants	93.359 / PO 91530		5,999.56
Passed Through National Collegiate Athletic Association				
Tennessee State University	Community Services Block Grant_ Discretionary Awards	93.570 / 93-150		6,748.17
Passed Through Carnegie Mellon University				
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM008789-07	$ 38,762.85	
Tennessee State University	Biomedical Research and Research Training	93.859 / 5T36GM008789-08	70,402.10	109,164.95
Passed Through United Way of the Mid South				
University of Memphis	HIV Care Formula Grants	93.917 / UWROYHIV		13,192.63
University of Memphis	HIV Prevention Activities_Health Department Based	93.940 / UWROYHIV		5,194.04
Passed Through Meharry Medical College				
Tennessee State University	Geriatric Education Centers	93.969 / 1D31HP08823-02-01		4,452.39
Passed Through University of Kentucky Research Foundation				
East Tennessee State University	Geriatric Education Centers	93.969 / 3048106651-10-161		102,982.18
Passed Through Slippery Rock University				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Technological University	Slippery Rock University I Can Do It, You Can Do It! Upper Cumberland Expansion	N.A. / HHSP233200844EC		16,950.12
Passed Through University of Illinois				
University of Tennessee	Univ Illinois - 2006-05371-03 - Campbell	N.A. / 2006-05371-03		2,219.43
University of Tennessee	Univ of Illinois - Campbell	N.A. / SUBSIDIZED		(104.35)
Subtotal Pass-Through Programs				$ 721,353.40
Subtotal Department of Health and Human Services				$ 521,118,954.99
Corporation for National and Community Service				
Direct Programs				
Finance and Administration	State Commissions	94.003		$ 232,421.00
Education	Learn and Serve America_School and Community Based Programs	94.004	$ 54,627.27	
Finance and Administration	Learn and Serve America_School and Community Based Programs	94.004	264,568.28	319,195.55
Dyersburg State Community College	AmeriCorps	94.006	$ 4,668.00	
Finance and Administration	AmeriCorps	94.006	2,767,039.01	
Finance and Administration	ARRA-AmeriCorps	94.006	738,151.54	3,509,858.55
Finance and Administration	Program Development and Innovation Grants	94.007		54,347.16
Finance and Administration	Training and Technical Assistance	94.009		86,090.17
Subtotal Corporation for National and Community Service				$ 4,201,912.43
Department of Homeland Security				
Direct Programs				
Tennessee Wildlife Resources Agency	Boating Safety Financial Assistance	97.012		$ 1,705,205.74
Economic and Community Development	Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		139,595.86
Military	Flood Mitigation Assistance	97.029		149,690.00
Labor and Workforce Development	Disaster Unemployment Assistance	97.034		190,502.63
Military	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		20,414,380.28
Military	Hazard Mitigation Grant	97.039		2,786,225.94
Environment and Conservation	National Dam Safety Program	97.041		97,033.86
Military	Emergency Management Performance Grants	97.042		4,223,479.67
Commerce and Insurance	State Fire Training Systems Grants	97.043		24,333.00
Military	Pre-Disaster Mitigation	97.047		575,516.78
University of Memphis	Competitive Training Grant	97.068	$ 610,101.30	
University of Tennessee	Competitive Training Grant	97.068	6,825.76	616,927.06
Economic and Community Development	Map Modernization Management Support	97.070		77,629.37
Military	Buffer Zone Protection Program (BZPP)	97.078		13,612,703.18
Safety	Driver's License Security Grant Program	97.089		82,679.75

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Memphis	Degrees at a Distance Program	97.103		5,340.99
Tennessee Housing Development Agency	Disaster Housing Assistance Grant	97.109		85,266.94
Military	Interoperable Communications and Training Project	97.124		4,696,107.33
University of Tennessee	HLS 08GTT8K017 Nat'l Training-Thompson	N.A. / 08GTT8K017		400,100.99
University of Tennessee	HLS 08GTT8K021 Food-CVM/ Burden	N.A. / 2008GTT8K021		476,619.88
University of Tennessee	HLS 08GTT8K026 Animal-CVM/ Burden	N.A. / 2008GTT8K026		416,355.39
University of Tennessee	HLS 09DMT9K012 Assessment Trng-Thompson	N.A. / 2009DMTO25012		213,433.03
Subtotal Direct Programs				$ 50,989,127.67
Passed Through New Mexico State University				
University of Tennessee	Homeland Security Grant Program	97.004 / Q-01237		$ (838.93)
Passed Through Eastern Kentucky University				
East Tennessee State University	State and Local Homeland Security National Training Program	97.005 / EKU 07-317	$ 5,754.68	
East Tennessee State University	State and Local Homeland Security National Training Program	97.005 / P0017654	262,650.65	268,405.33
Passed Through Louisiana State University				
University of Tennessee	State and Local Homeland Security National Training Program	97.005 / 2006-GN-T6-K001	$ (34,080.84)	
University of Tennessee	State and Local Homeland Security National Training Program	97.005 / 2007-GN-T7-K001	(371.45)	
University of Tennessee	State and Local Homeland Security National Training Program	97.005 / 2008-GN-T8-K009	45,188.76	10,736.47
Subtotal Pass-Through Programs				$ 278,302.87
Subtotal Department of Homeland Security				$ 51,267,430.54
Other Federal Assistance				
Office of National Drug Control Policy				
Passed Through Laurel County Fiscal Court				
Safety	Appalachia High Intensity Drug Trafficking Area	N.A. / G09AP0001A	$ 47,367.46	
Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	N.A. / I9-PAPP501	218,121.11	
Tennessee Bureau of Investigation	Appalachia High Intensity Drug Trafficking Area	N.A. / I10-PAPP501	182,614.28	$ 448,102.85
Subtotal Office of National Drug Control Policy				$ 448,102.85
Tennessee Valley Authority				
Direct Programs				
Pellissippi State Community College	Tennessee Valley Region_ Economic Development	62.004		$ 118,070.73
Environment and Conservation	TVA Ocoee Trust Fund	N.A. / TV-63501		3,278.12

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Military	Tennessee Valley Authority Emergency Preparedness	N.A. / TVA 2008		199,258.99
Military	Tennessee Valley Authority Emergency Preparedness	N.A. / TVA 2009		267,290.02
Military	Tennessee Valley Authority Emergency Preparedness	N.A. / TVA FFY 2010 AWARD		700,444.95
Military	Tennessee Valley Authority Emergency Preparedness	N.A. / TVA 2010-2014 AWARD		1,936.84
University of Tennessee	TVA NO98 Stormwater Mgt-Vandergriff	N.A. / RELEASE 80		301.00
University of Tennessee	TVA Flue Gas-Buggeln	N.A. / CBRC SOCIAL MARKETIN		20,000.00
University of Tennessee	TVA Release No. 25 - Gangaware	N.A. / PO # 81093		17,910.70
University of Tennessee	TVA Release No. 55 - Gangaware	N.A. / PO # 92321		23,147.63
University of Tennessee	TVA Release No. 107 - Gangaware	N.A. / RELEASE # 107 REV #1		17,441.17
University of Tennessee	TVA Ridley-Women Minority Bus	N.A. / 2454		4,040.83
Subtotal Tennessee Valley Authority				$ 1,373,120.98
Nuclear Regulatory Commission				
Direct Programs				
University of Tennessee	U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006		$ 100,943.52
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008		323,632.03
Tennessee State University	Minority Serving Institutions Technical Assistance & Capacity Building Conference	N.A. / NRC-DR-09-0245		25,000.00
Subtotal Nuclear Regulatory Commission				$ 449,575.55
Subtotal Other Federal Assistance				$ 2,270,799.38
Total Unclustered Programs				$ 3,686,972,962.83
Research and Development Cluster				
Department of Agriculture				
Agricultural Research Service				
Direct Programs				
Tennessee State University	Agricultural Research_Basic and Applied Research	10.001	$ 510,070.83	
University of Memphis	Agricultural Research_Basic and Applied Research	10.001	13,436.25	
University of Tennessee	Agricultural Research_Basic and Applied Research	10.001	1,146,979.24	$ 1,670,486.32
Subtotal Agricultural Research Service				$ 1,670,486.32
Animal and Plant Health Inspection Service				
Direct Programs				
Tennessee State University	Plant and Animal Disease, Pest Control, and Animal Care	10.025		$ 26,722.48

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Animal and Plant Health Inspection Service				$ 26,722.48
Foreign Agricultural Service				
Direct Programs				
University of Tennessee	Cochran Fellowship Program-International Training-Foreign Participant	10.962		$ 11,087.51
Subtotal Foreign Agricultural Service				$ 11,087.51
Forest Service				
Direct Programs				
University of Tennessee	Forestry Research	10.652		$ 208,509.78
University of Memphis	Cooperative Forestry Assistance	10.664	$ 6,012.30	
University of Tennessee	Cooperative Forestry Assistance	10.664	31,102.67	37,114.97
University of Tennessee	Forest Health Protection	10.680		211,115.80
Subtotal Direct Programs				$ 456,740.55
Passed Through National Fish and Wildlife Foundation				
University of Tennessee	National Fish and Wildlife Foundation	10.683 / 2010-0005-000		$ 7,955.49
Subtotal Pass-Through Programs				$ 7,955.49
Subtotal Forest Service				$ 464,696.04
National Institute of Food and Agriculture				
Direct Programs				
Middle Tennessee State University	Grants for Agricultural Research, Special Research Grants	10.200	$ 78,298.89	
Tennessee State University	Grants for Agricultural Research, Special Research Grants	10.200	12,641.62	
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200	866,726.59	$ 957,667.10
Tennessee State University	Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205		1,765,881.20
East Tennessee State University	Grants for Agricultural Research_ Competitive Research Grants	10.206	$ 56,512.41	
Tennessee State University	Grants for Agricultural Research_ Competitive Research Grants	10.206	48,346.72	
Tennessee Technological University	Grants for Agricultural Research_ Competitive Research Grants	10.206	308,363.92	
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206	1,266,744.13	1,679,967.18
University of Tennessee	Animal Health and Disease Research	10.207		7,373.21
Tennessee State University	1890 Institution Capacity Building Grants	10.216		446,381.39
University of Tennessee	Higher Education Challenge Grants	10.217		72,988.56
University of Tennessee	Biotechnology Risk Assessment Research	10.219		269,914.98
Tennessee State University	Integrated Programs	10.303	$ 377,906.21	
University of Tennessee	Integrated Programs	10.303	200,361.19	578,267.40
University of Tennessee	Agriculture and Food Research Initiative (AFRI)	10.310		128,278.70

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Subtotal Direct Programs			$ 5,906,719.72
Passed Through South Dakota State University			
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 3TF050	$ 51,927.92
Passed Through University of Georgia			
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / RD309-061/9039907	(9,519.38)
Passed Through University of Kentucky			
University of Tennessee	Grants for Agricultural Research, Special Research Grants	10.200 / 304810659010143	4,642.28
University of Tennessee	Biotechnology Risk Assessment Research	10.219 / 304803920007119	51,293.18
Passed Through Cornell University			
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 48718-8060	25,139.22
University of Tennessee	Integrated Programs	10.303 / 459377665	(2,300.58)
Passed Through Kansas State University			
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / S09032	49,891.52
Passed Through University of Kentucky Research Foundation			
University of Memphis	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 3048105000-09-275	28,110.25
Passed Through University of Nebraska			
University of Tennessee	Grants for Agricultural Research_ Competitive Research Grants	10.206 / 2562420086004	28,249.15
Passed Through North Carolina Agricultural and Technical State University			
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2006-38814-17429	59,114.19
Passed Through Tuskegee University			
Tennessee State University	1890 Institution Capacity Building Grants	10.216 / 2007-38820-18523	50,797.05
Passed Through University of Hawaii			
University of Tennessee	Biotechnology Risk Assessment Research	10.219 / 2889453	14,690.12
Passed Through North Carolina State University			
University of Tennessee	Integrated Programs	10.303 / ADVANCED ACCOUNT	9,788.22
Passed Through Texas Agricultural and Mechanical University			
Tennessee State University	Integrated Programs	10.303 / 2008-51130-19537	20,183.45

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through University of Arkansas-Pine Bluff				
Tennessee State University	Integrated Programs	10.303 / 2008-51110-19303		15,587.77
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Integrated Programs	10.303 / CR19121428209		16,175.49
Passed Through Washington State University				
University of Tennessee	Specialty Crop Research Initiative	10.309 / 111341G002428	$ 4,694.35	
University of Tennessee	Specialty Crop Research Initiative	10.309 / 112674G002611	126,336.23	131,030.58
Subtotal Pass-Through Programs				$ 544,800.43
Subtotal National Institute of Food and Agriculture				$ 6,451,520.15
Natural Resources Conservation Service				
Direct Programs				
University of Tennessee	Soil and Water Conservation	10.902		$ 56,005.34
Subtotal Natural Resources Conservation Service				$ 56,005.34
Other Programs				
Direct Programs				
Tennessee State University	Agricultural and Rural Economic Research	10.250	$ 3,981.50	
University of Tennessee	Agricultural and Rural Economic Research	10.250	63,714.05	$ 67,695.55
Austin Peay State University	USDA Forest Service, Land Between the Lakes	N.A. / 10-PA-11086000-004		1,326.23
University of Tennessee	CRC USDA FS 09CA11330131043 Swtgum-Labbe	N.A. / 09CA11330131043		4,897.56
University of Tennessee	NRCS 683A754153 Oak Ecosystem Mgt-Keyser	N.A. / 68-7482-8-398		3,209.41
University of Tennessee	NRCS 683A754153#7 Prescribed Burn Harper	N.A. / 683A754153 MOD 7		738.11
University of Tennessee	NRCS 693A759133 Grazing-Keyser	N.A. / 693A759133		101,293.76
University of Tennessee	TAES Hatch McIntire Stennis	N.A. / Hatch		82.04
University of Tennessee	USDA 085521518799 After School-Moussa	N.A. / 20085521518799		173,671.23
University of Tennessee	USDA APHIS Improving TN Hemlock Grant	N.A. / 10-8247-0723-CA		3,427.29
University of Tennessee	USDA ARS 5864357194 Cotton Prop-Vogt	N.A. / 58-6435-7-194-AMEND3		20,520.74
University of Tennessee	USDA ARS Ag Support FY09-Arelli	N.A. / 58-6402-9-111		16,604.42
University of Tennessee	USDA ARS Ag Support FY2010-Arelli	N.A. / 58-6402-0-111		51,963.65
University of Tennessee	USDA CSREES Classroom Safety-Richards	N.A. / 20085111004354		201,292.73
University of Tennessee	USDA FS 05CR11330128204 Trends-Franzreb	N.A. / SRS05CR11330128204		4,468.92
University of Tennessee	USDA FS 05PA11083150070 Imdclprd-Grant	N.A. / 05PA11083150070		2,134.96
University of Tennessee	USDA FS 06JV11242300076 Lg Cage-Grant	N.A. / 06JV11242300076		41,725.17
University of Tennessee	USDA FS 07CA11330134088 Light-Schlarbaum	N.A. / 07A11330134088 SRS		8,437.27

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University of Tennessee	USDA FS 07CR11330134108 Neotrpcl-Franzre	N.A. / 07CR11330134108	6,511.22
University of Tennessee	USDA FS 08CA11330134091 Shdhs-Schlarbaum	N.A. / 08CA113301034091	16,699.19
University of Tennessee	USDA FS 08CS11083130001 Gntic-Schlarbaum	N.A. / 08CS11083130001	2.15
University of Tennessee	USDA FS 09CR11330109144 SRS GA Fly	N.A. / 09CR11330109144	19,728.05
University of Tennessee	USDA FS 09CR11330145029 FIA 2009-Belli	N.A. / 09CR11330145029	71,379.39
University of Tennessee	USDA FS 09CS11080400025 Citico-Ayers	N.A. / 09CS11080400025	9,564.95
University of Tennessee	USDA FS 09CS11080400029 Sngbd-Buehler	N.A. / 09CS11080400029	15,288.08
University of Tennessee	USDA FS 09CS1108040024 Whigg Harper	N.A. / 09CS1108040024	4,289.80
University of Tennessee	USDA FS 09CS11083133 Genetic-Schlarbaum	N.A. / 09CS11083133-001	17,000.00
University of Tennessee	USDA FS 09JV11242311106 Pln-Schlarbaum	N.A. / 09JV11242311-106	329.86
University of Tennessee	USDA FS 09PA11080216004 Oak Ecosy-Keyser	N.A. / 09PA11080216004	7,200.12
University of Tennessee	USDA FS 10CR11330134023 Data-Belli	N.A. / 10CR11330134023	1,361.64
University of Tennessee	USDA FS Genetic Specialist - Schlarbaum	N.A. / 10-CS-1108-3133-001	2,635.95
University of Tennessee	USDA FS Moisture Wood Cell Walls-Wang	N.A. / 09JV11111124-071	10,000.00
University of Tennessee	USDA FS National Survey-Fly	N.A. / 08CR11330109079	39,864.50
University of Tennessee	USDA FS Pretreatment Woody Biomass-Zhong	N.A. / 09JV11111124-028	57,613.04
University of Tennessee	USDA FS Sasajiscymnus-Grant	N.A. / 10-CA-11330129-054	8,237.70
University of Tennessee	USDA FS Songbird Community-Buehler	N.A. / SRS09CA-11330134-028	29,798.02
University of Tennessee	USDA Household Food Demand-Yen	N.A. / 58-4000-7-0029	251.62
University of Tennessee	USDA NCRS 685C168019 Soil Survey-Ammons	N.A. / 685C168019	3,656.11
University of Tennessee	USDA NRCS 685C169174 Soil Lab-Ammons	N.A. / 685C169174	7,441.68
University of Tennessee	USDA UT Soil Characterization-Ammons	N.A. / Soil	2,134.07
University of Tennessee	USDA-05-PA-11081209-040-Anderson	N.A. / 05-PA-11081209-040	2,494.00
University of Tennessee	USDA-09-PA-11080600-017-Anderson	N.A. / 09-PA-11080600-017	10,207.07
Subtotal Direct Programs			$ 1,047,177.25
Passed Through Pennsylvania State University			
University of Tennessee	Penn State On-Site Diagnostic-Eda	N.A. / 3620-UT-USDA-8710	$ 14,008.25
Passed Through Texas Agriculture Extension Services			
University of Tennessee	TX Coop Ext Water Resource Prjct-Hawkins	N.A. / NO. 451004	24,165.11
Passed Through University of Florida			
University of Tennessee	UN of FL Food Use -Thompson/Hitch (002)	N.A. / 60150000000962	16,098.07
University of Tennessee	UN of FL IR-4 Biopesticide-Wszelaki	N.A. / PO 1000019158	1,823.17

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Pass-Through Programs				$ 56,094.60
Subtotal Other Programs				$ 1,103,271.85
Subtotal Department of Agriculture				$ 9,783,789.69
Department of Commerce				
Other Programs				
Direct Programs				
University of Memphis	Economic Development_Technical Assistance	11.303		$ (25,744.89)
University of Tennessee	Special Oceanic and Atmospheric Projects	11.460		234,686.55
University of Tennessee	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478		119,657.95
Tennessee Technological University	Measurement and Engineering Research and Standards	11.609	$ 300.00	
University of Memphis	Measurement and Engineering Research and Standards	11.609	32,785.65	
University of Tennessee	Measurement and Engineering Research and Standards	11.609	21,743.66	54,829.31
Subtotal Direct Programs				$ 383,428.92
Passed Through Bowling Green State University				
University of Tennessee	Sea Grant Support	11.417 / NOAA 60013421-02		$ 936.95
Passed Through Clarkson University				
University of Tennessee	Sea Grant Support	11.417 / 375-34406-1-CLKSN-67		3,834.34
Passed Through State University of New York				
University of Tennessee	Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478 / 1050638/37516		17,345.55
Subtotal Pass-Through Programs				$ 22,116.84
Subtotal Department of Commerce				$ 405,545.76
Department of Defense				
Office of the Secretary of Defense				
Direct Programs				
Tennessee State University	Basic, Applied, and Advanced Research in Science and Engineering	12.630		$ 638,337.36
Subtotal Office of the Secretary of Defense				$ 638,337.36
U.S. Army Materiel Command				
Direct Programs				
Tennessee State University	Basic Scientific Research	12.431	$ 518,436.77	

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Technological University	Basic Scientific Research	12.431	168,221.19	
University of Memphis	Basic Scientific Research	12.431	113,879.82	
University of Tennessee	Basic Scientific Research	12.431	422,294.96	$ 1,222,832.74
Subtotal Direct Programs				$ 1,222,832.74
Passed Through State University of New York				
Tennessee State University	Basic Scientific Research	12.431 / W911NF-09-1-0392		$ 83,453.15
Passed Through University of California at Berkeley				
University of Memphis	Basic Scientific Research	12.431 / SA5213-11807		71,496.11
Passed Through University of Massachusetts				
University of Tennessee	Basic Scientific Research	12.431 / 05-002827 A00		(180.59)
Passed Through University of Virginia				
University of Tennessee	Basic Scientific Research	12.431 / GG10829-126149		(2,671.43)
Subtotal Pass-Through Programs				$ 152,097.24
Subtotal U.S. Army Materiel Command				$ 1,374,929.98
Other Programs				
Direct Programs				
University of Tennessee	Collaborative Research and Development	12.114		$ 145,484.45
Tennessee State University	Basic and Applied Scientific Research	12.300	$ (9.00)	
Tennessee Technological University	Basic and Applied Scientific Research	12.300	253,852.50	
University of Memphis	Basic and Applied Scientific Research	12.300	104,389.93	
University of Tennessee	Basic and Applied Scientific Research	12.300	2,240,717.60	2,598,951.03
University of Tennessee	Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		181,665.55
University of Memphis	Military Medical Research and Development	12.420	$ 486,735.23	
University of Tennessee	Military Medical Research and Development	12.420	1,222,143.99	1,708,879.22
Tennessee State University	Air Force Defense Research Sciences Program	12.800	$ 21,975.83	
University of Tennessee	Air Force Defense Research Sciences Program	12.800	123,208.23	145,184.06
Middle Tennessee State University	Mathematical Sciences Grants Program	12.901	$ 2,092.16	
University of Tennessee	Mathematical Sciences Grants Program	12.901	2,455.92	4,548.08
University of Memphis	Information Security Grant Program	12.902		24,591.94
Tennessee Technological University	Ecological Assessment of Wetland Inventory at Fort Campbell, KY	N.A. / W912DY-07-2-0045 MOD. P00002		90,915.86
Tennessee Technological University	Life Modeling of Li-on Cells- Phase II	N.A. / NRO-000-09-C-0056		342,719.83
Tennessee Technological University	Advanced Portable Power Institute - Phase 3	N.A. / W909MY-08-C-0033 AMEND #P00002		838,970.38
Tennessee Technological University	Army CECOM Power Institute Phase 4	N.A. / W909MY-09-C-0058		485,371.17
Tennessee Technological University	ARMY CECOM Power Institute	N.A. / W15P7T-07-C-P218		2,056.70
University of Memphis	Integration of SCORM and ITS - JADL Co-Operative Agreement	N.A. / N61339-07-2-0001		(298.29)

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	AF AF9101-06-D-0001/0005 Sedrick	N.A. / FA9101-06-D-00010005	186,415.69
University of Tennessee	AF AF9101-06-D-0001/0006 Moeller	N.A. / FA9101-06-D-00010006	51,603.05
University of Tennessee	AF F40600-00-D-0001/0026 Schulz	N.A. / F40600-00-D-00010026	(8,101.19)
University of Tennessee	AF FA7014-06-D-0019-T10 Clin 3	N.A. / FA7014-06-D-0019-T10	11,919,245.01
University of Tennessee	AF FA8650-09-C-7916 - Dongarra	N.A. / FA8650-09-C-7916	483,858.75
University of Tennessee	AF FA9101-06-0001-0010 Moeller	N.A. / FA9101-06D-0001-0010	48,582.79
University of Tennessee	AF FA9101-06-D-0001/0001 Moeller	N.A. / FA9101-06-D-0001/001	57,094.70
University of Tennessee	AF FA9101-06-D-0001/0002 Bomar	N.A. / FA9101-06-D0001/0002	72,640.40
University of Tennessee	AF FA9101-06-D-0001/0004 Davenport	N.A. / FA9101-06-D-00010004	38,854.24
University of Tennessee	AF FA9101-06-D-0001/0007 Muratore	N.A. / FA9101-06D-0001/0007	65,708.64
University of Tennessee	AF FA9101-06-D-0001/0008 Moeller	N.A. / FA9101-06D-0001-0008	28,660.66
University of Tennessee	AF FA9550-08-1-0450 - Djouadi	N.A. / FA9550-08-1-0450-P02	62,611.83
University of Tennessee	AF FA9550-09-1-0570 Steinhoff	N.A. / FA9550-09-1-0570	95,895.42
University of Tennessee	AF IPA - Balven	N.A. / IPA -AF-BALVEN	223,350.45
University of Tennessee	AF-FA8750-09-1-0185 - Peterson	N.A. / FA8750-09-1-0185-P04	13,192.61
University of Tennessee	AF-FA9101-06-D-0001-DT&E (UTSI) - Miller	N.A. / FA9101-06-D-0001-012	10,648.27
University of Tennessee	Army Bimolecular Architectures-Stewart	N.A. / W911NF0810107	39,902.75
University of Tennessee	Army CERL Underwater GPS-Ayers	N.A. / W9132T0920003	25,420.60
University of Tennessee	Army CERL/CESU Vehicle Dynamics-Ayers	N.A. / W9132T-08-2-0004	146,863.83
University of Tennessee	Army Grant W81XHW-05-1-0227	N.A. / W81XHW-05-1-0227	175,747.99
University of Tennessee	Army Military Installations-Ayers	N.A. / W9132T-10-2-0002	9,115.39
University of Tennessee	ARMY Space & Missile Def Com-Birdwell	N.A. / W9113M-09-C-0188	516,697.65
University of Tennessee	Army W81XWH0610471 Sand Flies-Moulton	N.A. / W81XWH0610471	1,915.43
University of Tennessee	Army W912HQ-08-C-0009 - Parker	N.A. / W912HQ-08-C-0009	440,303.46
University of Tennessee	FA9101-06-D-0001/0003 Corda	N.A. / FA9101-06-D-0001/003	26,288.34
University of Tennessee	ONR SP010302D0014 Applesauce-Zivanovic	N.A. / SP010302D0014	97,045.66
University of Tennessee	ONR SP010302D0014 Wet Pack-Mount	N.A. / SP010302D0014	59,782.77
University of Tennessee	ONR SP470108D0014 CORANET Trvl-Zivanovic	N.A. / SP470108D0014	6,226.39
University of Tennessee	ONR SP470108D0014 MRE Pckg Sawhney	N.A. / SP470108D0014 ORDER3	1,345.89
University of Tennessee	ONR SP470108D001402 Vitamins-Zivanovic	N.A. / SP470108D0014-0002	131,127.80
University of Tennessee	SERDP W912HQ10C0006 Sb Lead-Essington	N.A. / W912HQ-10-C-0006	38,230.72
University of Tennessee	US Army Corps-Sparrow Habitat-Buehler	N.A. / W912DY-05-2-0041	26,625.17
University of Tennessee	US Army Evaluate Bacterial Spore-Ye	N.A. / W911QY-09-0184	16,218.71
University of Tennessee	US Army Microbial Inactivation-Ye	N.A. / W911QY07-P-0452	(2,531.98)
University of Tennessee	US ARMY SMDC W9113M-09-C-0038 Whitfield	N.A. / W9113M-09-C0038	915,040.73
University of Tennessee	USArmyCorpsEngr-W912P5-10-P-0012 Bray	N.A. / W912P5-10-P-0012	65,128.42
Subtotal Direct Programs			$ 22,655,797.02
Passed Through Marshall University Research Corporation			
University of Tennessee	Aquatic Plant Control	12.100 / P O # RC-P0901045	$ 66,320.80
University of Tennessee	Marshall Univ Research Corp 210232 Bray	N.A. / 210232PO#RC-P1100146	12,173.53
Passed Through Battelle Memorial Institute			

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Memphis	Basic and Applied Scientific Research	12.300 / TCN 07192	(199.98)
University of Memphis	Analysis of Large-scale Time-series Data Streams Using Random Matrix Theory-based Correlation Techniques	N.A. / 4000081241	11,602.00
University of Memphis	The Role of Individual Characteristics in Determining Team Performance	N.A. / TCN 08172 MOD 4	9,225.63
University of Memphis	Class-Based Sailor Assignment Problem	N.A. / TCN 08179	71,902.03
Passed Through Florida Atlantic University			
University of Tennessee	Basic and Applied Scientific Research	12.300 / TRH20 PO# P0909901	40,554.13
Passed Through University of California at Berkeley			
University of Tennessee	Basic and Applied Scientific Research	12.300 / SA5506-11398	5,318.72
Passed Through Children's Research Institute			
University of Tennessee	Military Medical Research and Development	12.420 / W81XWH-09-1-0592	27,091.16
Passed Through Regents of the University of Michigan			
East Tennessee State University	Military Medical Research and Development	12.420 / W81XWH-06-2-0044	254,214.04
Passed Through University of Houston			
University of Tennessee	Air Force Defense Research Sciences Program	12.800 / SUB NO R-09-0127	118,373.37
Passed Through Academy of Applied Science			
Tennessee State University	Research and Engineering Apprentice Program	N.A. / DAAH04-93-G-0163	9,044.54
Passed Through ARES Systems Group, Limited Liability Company			
University of Memphis	IED Exploitation Target Set Test	N.A. / ARES	136,787.49
Passed Through Duke University			
University of Tennessee	Duke University-09-BLADE-1100-Ekici	N.A. / 09-BLADE-1100	29,266.18
Passed Through EnSafe			
University of Memphis	Intergrated Natural Resources Management Plan	N.A. / P09001	17,351.00
Passed Through Georgia Institute of Technology			
University of Tennessee	Ga Tech - G8429-G1 - Lee	N.A. / R8429-G1	35,044.08
Passed Through Mississippi State University			
University of Tennessee	MSU - PET2 Core Year 8 - Dongarra	N.A. / 302180-060808-021000	100,731.72
Passed Through Pennsylvania State University			

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee State University	Hybrid Social and Sensor Networks Modeling and Simulation; Heterogeneous Sensor Networks	N.A. / DTRA01-03-D-0010		20,857.46
Passed Through Sandia National Laboratories				
University of Tennessee	SANDIA NATL LAB PO# 939079 PARIGGER	N.A. / PO# 939079		44,945.00
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Virginia Polytech-CR-19121-430344-Parker	N.A. / CR-19121-430344		54,005.24
Subtotal Pass-Through Programs				$ 1,064,608.14
Subtotal Other Programs				$ 23,720,405.16
Subtotal Department of Defense				$ 25,733,672.50
Department of Housing and Urban Development				
Office of Policy Development and Research				
Direct Programs				
University of Tennessee	General Research and Technology Activity	14.506		$ 12,331.64
Subtotal Office of Policy Development and Research				$ 12,331.64
Subtotal Department of Housing and Urban Development				$ 12,331.64
Department of the Interior				
Fish and Wildlife Service				
Passed Through Cornell University				
University of Tennessee	Fish and Wildlife Management Assistance	15.608 / 575968852	$ 24,000.00	
University of Tennessee	Fish and Wildlife Management Assistance	15.608 / 573519054	16,072.85	$ 40,072.85
Passed Through National Fish and Wildlife Foundation				
University of Memphis	Fish and Wildlife Management Assistance	15.608 / 2006-0094-006		15.48
Passed Through The Nature Conservancy				
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-070109-3830-01	$ 343,727.92	
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-03/01/07-01	(669.39)	
Tennessee Technological University	Cooperative Endangered Species Conservation Fund	15.615 / TNFO-07/01/08-01 amendment #2	231.17	343,289.70
Subtotal Fish and Wildlife Service				$ 383,378.03
Office of Surface Mining				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
University of Tennessee	Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation	15.255		$ 161,122.56
Subtotal Direct Programs				$ 161,122.56
Passed Through American Chestnut Foundation				
University of Tennessee	Applied Science Program Cooperative Agreements Related to Coal Mining and Reclamation	15.255 / 2008-OSM-UTK		$ 4,929.24
Subtotal Pass-Through Programs				$ 4,929.24
Subtotal Office of Surface Mining				$ 166,051.80
U.S. Geological Survey				
Direct Programs				
University of Tennessee	Assistance to State Water Resources Research Institutes	15.805		$ 112,674.44
University of Memphis	Earthquake Hazards Reduction Program	15.807	$ 1,027,059.74	
University of Memphis	ARRA-Earthquake Hazards Reduction Program	15.807	134,106.41	1,161,166.15
Tennessee Technological University	U.S. Geological Survey_Research and Data Collection	15.808	$ 17,689.00	
University of Memphis	U.S. Geological Survey_Research and Data Collection	15.808	56,852.47	
University of Tennessee	U.S. Geological Survey_Research and Data Collection	15.808	366,839.21	441,380.68
University of Tennessee	National Spatial Data Infrastructure Cooperative Agreements Program	15.809		(2,007.48)
University of Memphis	National Cooperative Geologic Mapping Program	15.810	$ 2,268.10	
University of Tennessee	National Cooperative Geologic Mapping Program	15.810	21,830.75	24,098.85
Tennessee Technological University	Cooperative Research Units Program	15.812		129,284.78
Subtotal U.S. Geological Survey				$ 1,866,597.42
Other Programs				
Direct Programs				
University of Tennessee	Fish, Wildlife, and Parks Programs on Indian Lands	15.039		$ 15,536.61
Tennessee Technological University	Conservation Grants Private Stewardship for Imperiled Species	15.632		28,688.67
Tennessee Technological University	Research Grants (Generic)	15.650		27,199.29
University of Tennessee	Endangered Species - Candidate Conservation Action Funds	15.660		3,223.93
Tennessee Technological University	Outdoor Recreation_Acquisition, Development and Planning	15.916	$ 63,717.10	
University of Tennessee	Outdoor Recreation_Acquisition, Development and Planning	15.916	50,774.73	114,491.83

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	National Center for Preservation Technology and Training	15.923	$ 172.40	
Middle Tennessee State University	National Center for Preservation Technology and Training	15.923	11,491.18	11,663.58
Middle Tennessee State University	Ethnographic Oral History Interviews	N.A. / H5000095041		13,401.33
Middle Tennessee State University	Museum Collection Processing and Cataloging	N.A. / H5000095041		14,134.70
Middle Tennessee State University	Restoration of Cedar Glades and Barrens Designated State Natural Area	N.A. / H5000030300		11,479.31
Tennessee Technological University	Threatened or Endangered Aquatic Insect Survey	N.A. / H5000050330 / J5640060001		8,980.84
Tennessee Technological University	Protocol Development for Long-Term Monitoring of Rare Fish at Big South Fork National River and Recreation Area and Obed Wild and Scenic River	N.A. / H5000050330 / J513060010		2,680.60
University of Memphis	Long Term Monitoring of Aquatic Resources at Shiloh National Miltary Park	N.A. / P5570010025		(715.10)
University of Tennessee	Natl Park Serv Great Smoky Mtn - DeCorse	N.A. / SITE 31 SW 393 SMOKE		3,166.87
University of Tennessee	Natl Park Serv Great Smoky Mtn - DeCorse	N.A. / OCUNALUFTEE FARM FIE		1,504.48
University of Tennessee	NIFC-NPS-Grissino-Mayer	N.A. / J5460 06 0108		17,187.59
University of Tennessee	NPS CESU J2340060005 Advisor-Schlarbaum	N.A. / J2340060005 CESU		9,271.23
University of Tennessee	NPS Collembola Survey GWMP-Bernard	N.A. / P3300090100		5,457.54
University of Tennessee	NPS Fraser Fir Health in GSMNP-Franklin	N.A. / ADVANCED ACCOUNT		1,684.35
University of Tennessee	NPS H5530040057 Restoration-Schlarbaum	N.A. / H5530040057		10,626.10
University of Tennessee	NPS J2380083534 Mapping 08/09-Ayers	N.A. / J2380083534		(5,977.63)
University of Tennessee	NPS J5130090018 Soil Materials-Ammons	N.A. / J5130090018		12,556.77
University of Tennessee	NPS River Habitat Mapping #3-Ayers	N.A. / H5000055040 MOD 2		26,944.57
University of Tennessee	NPS-CESU Asssessing Fuel-Grissino-Mayer	N.A. / T.A. J7191090004		34,767.92
University of Tennessee	NPS-CESU GSMNP H5000095041 DeCorse	N.A. / T.A. J5460090020		13,738.27
University of Tennessee	NPS-CESU H5000095041 Freeman	N.A. / T.A. J2265090012		71,803.04
University of Tennessee	NPS-CESU TA J5471100003 DeCorse	N.A. / CESU TA J5471100003		13,865.37
University of Tennessee	NPS-H5000 09 5041/J5471 09 0010-Schwartz	N.A. / H5000 09 5041/J5471		105,490.26
University of Tennessee	USDI OSM Order S09PX00415 Schwartz	N.A. / S09PX00415		20,474.47
University of Tennessee	USF&W 401817M388 Gold Warbler-Buehler	N.A. / 401817M388		2,407.83
University of Tennessee	USF&W 401819G527 King Rails-Gray	N.A. / 401819G527		22,246.09
University of Tennessee	USF&W 501817M924 Cerulean Wrblrs-Buehler	N.A. / 501817M927		3,679.79
University of Tennessee	USF&W Atlas Project-Buehler	N.A. / 301818G066		19,753.28
University of Tennessee	USF&W Waterbird/Food Rspns KY Rsrvr-Gray	N.A. / 401816G059		1,311.86
University of Tennessee	USGS Habitat Restoration-Belli	N.A. / 08ERAG0013		5,608.28
University of Tennessee	USGS Louisiana Black Bear-Belli	N.A. / ADVANCED ACCOUNT		15,224.76
Subtotal Direct Programs				$ 663,558.68

Passed Through Knoxville / Knox County

State of Tennessee
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For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Knox County MPC Seven Islands Sullivan	N.A. / SEVEN ISLANDS REFUGE		$ 1,107.92
Passed Through Organization of American Historians				
Middle Tennessee State University	Women's Rights National Historical Park Administrative History	N.A. / H0400000014		14,699.81
Subtotal Pass-Through Programs				$ 15,807.73
Subtotal Other Programs				$ 679,366.41
Subtotal Department of the Interior				$ 3,095,393.66
Department of Justice				
Bureau of Justice Assistance				
Direct Programs				
University of Memphis	Congressionally Recommended Awards	16.753		$ 161,030.06
Subtotal Bureau of Justice Assistance				$ 161,030.06
National Institute of Justice				
Direct Programs				
University of Tennessee	National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		$ 454,112.56
Subtotal National Institute of Justice				$ 454,112.56
Office of Community Oriented Policing Services				
Direct Programs				
Tennessee Technological University	Public Safety Partnership and Community Policing Grants	16.710		$ 7,933.83
Subtotal Office of Community Oriented Policing Services				$ 7,933.83
Office of Juvenile Justice and Delinquency Prevention				
Passed Through Memphis City Schools				
University of Memphis	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540 / SHAPE	$ 1,111.13	
University of Memphis	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540 / TN COMM ON CHILD & YOUTH-->MCS	15,003.71	$ 16,114.84
Passed Through Shelby County District Attorney General's Office				
University of Memphis	Juvenile Justice and Delinquency Prevention_Allocation to States	16.540 / S001978		2,473.08
Subtotal Office of Juvenile Justice and Delinquency Prevention				$ 18,587.92

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Office of Victims of Crime				
Passed Through Research Triangle Institute				
University of Tennessee	ARRA-Recovery Act - VOCA Crime Victim Assistance Discretionary Grant Program	16.807 / 2009-SZ-B9-K002		$ 29,700.61
Subtotal Office of Victims of Crime				$ 29,700.61
Other Programs				
Direct Programs				
University of Tennessee	Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		$ 98,766.99
University of Memphis	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		1,002,478.34
University of Tennessee	FBI J-FBI-06-150 Jantz	N.A. / J-FBI-06-150		14,549.03
Subtotal Direct Programs				$ 1,115,794.36
Passed Through Chattanooga Endeavors				
University of Tennessee	Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202 / 2008-RE-CX-0011		$ 4,976.09
Passed Through Crime and Justice Institute				
University of Memphis	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580 / 2007-MU-BX-K001		1,011.94
Subtotal Pass-Through Programs				$ 5,988.03
Subtotal Other Programs				$ 1,121,782.39
Subtotal Department of Justice				$ 1,793,147.37
Department of Labor				
Wage and Hour Division				
Direct Programs				
University of Tennessee	Wage and Hour Standards	17.303	$ 1,270,624.34	
University of Tennessee	ARRA-Wage and Hour Standards	17.303	316,911.09	$ 1,587,535.43
Subtotal Wage and Hour Division				$ 1,587,535.43
Other Programs				
Direct Programs				
University of Tennessee	US DOL-DOLJ089627656 - Schriver	N.A. / DOLJ089627656-0004		$ 180,316.66
University of Tennessee	US DOL-DOLJ089F26523-Li	N.A. / J089F26523		256,465.33
Subtotal Direct Programs				$ 436,781.99

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	VA TECH Production Sys Africa-Eash	N.A. / 425966-19121		$ 79,833.75
Subtotal Pass-Through Programs				$ 79,833.75
Subtotal Other Programs				$ 516,615.74
Subtotal Department of Labor				$ 2,104,151.17
Department of Transportation				
Federal Highway Administration				
Direct Programs				
University of Tennessee	Highway Research and Development Program	20.200		$ 92,179.91
Tennessee Technological University	Highway Training and Education	20.215		13,454.42
Subtotal Direct Programs				$ 105,634.33
Passed Through Knox County Schools				
University of Tennessee	Highway Research and Development Program	20.200 / DTFH61-08-G-00020		$ 67,474.63
Passed Through The National Academies				
University of Memphis	Highway Research and Development Program	20.200 / HR24-11(02)		45,088.00
Subtotal Pass-Through Programs				$ 112,562.63
Subtotal Federal Highway Administration				$ 218,196.96
Federal Transit Administration				
Direct Programs				
University of Tennessee	Public Transportation Research	20.514		$ 464,504.20
Subtotal Federal Transit Administration				$ 464,504.20
Research and Innovative Technology Administration				
Direct Programs				
University of Memphis	University Transportation Centers Program	20.701	$ 372,744.18	
University of Tennessee	University Transportation Centers Program	20.701	1,245,216.20	$ 1,617,960.38
University of Tennessee	Biobased Transportation Research	20.761		1,042,286.14
Subtotal Research and Innovative Technology Administration				$ 2,660,246.52
Other Programs				
Direct Programs				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	FTA TN-26-7029 Vakili	N.A. / TN-26-7029	$ 174,528.52
University of Tennessee	National Academy of Sciences - Urbanik	N.A. / HR 3-66	117,161.81
Subtotal Direct Programs			$ 291,690.33
Passed Through Battelle Memorial Institute			
University of Tennessee	Battelle Memorial-TO 600183-3 - Clarke	N.A. / TASK ORDER 600183-3	$ 6,062.91
Passed Through Georgia Department of Transportation			
University of Tennessee	Georgia Dept of Transpor-SRS-08-06-Huang	N.A. / SRS-08-06	60,126.71
Passed Through National Transportation Research Center, Incorporated			
University of Tennessee	NTRC Task Order No. 013 Urbanik	N.A. / TASK ORDER NO. 013	8,721.93
University of Tennessee	NTRC-DTRT06-G-0043 Task 14-Bennett	N.A. / UT-NTRCI TASK 14	2,708.97
University of Tennessee	NTRC-DTRT-06-G-0043-01-U09-06-01-T15-Han	N.A. / DTRT-06-G-0043-1-T15	76,607.18
University of Tennessee	NTRCI-DTRT-06-G-0043-03-U26-06-Simunovic	N.A. / DTRT-06-G-0043-3-T19	41,556.62
University of Tennessee	NTRCI-Task -Order No. 016 - Urbanik	N.A. / TASK ORDER NO. 016	56,762.87
University of Tennessee	NTRCI-Task -Order No. 017 - Urbanik	N.A. / TASK ORDER NO. 017	18,881.12
University of Tennessee	NTRCI-Task -Order No. 018 - Urbanik	N.A. / TASK ORDER NO. 018	75,588.53
Passed Through University of Minnesota			
University of Tennessee	Univ Minnesota - Cast-in Place - Ma	N.A. / L5206622101 AMEND 2	56,046.96
Passed Through University of Toledo			
University of Tennessee	Univ of Toledo-Eval Econ Impacts-Burton	N.A. / EVAL ECON IMPACTS	17,344.78
Subtotal Pass-Through Programs			$ 420,408.58
Subtotal Other Programs			$ 712,098.91
Subtotal Department of Transportation			$ 4,055,046.59
Department of the Treasury			
Other Programs			
Direct Programs			
University of Tennessee	IRS-BPA-TIRNO09-Z-00019-TO-0001 Vossler	N.A. / TIRNO09-Z-00019-TO-1	$ 95,035.24
Subtotal Other Programs			$ 95,035.24
Subtotal Department of the Treasury			$ 95,035.24
Appalachian Regional Commission			

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
East Tennessee State University	Appalachian Research, Technical Assistance, and Demonstration Projects	23.011		$ 192,712.52
University of Tennessee	ARC CO-16505-09 Ezzell	N.A. / CO-16505-09		59,705.09
Subtotal Appalachian Regional Commission				$ 252,417.61
Library of Congress				
Passed Through University of California				
University of Tennessee	Semiconductor Chip Protection Service	42.008 / KK8127		$ 79,005.65
Subtotal Library of Congress				$ 79,005.65
National Aeronautics and Space Administration				
Direct Programs				
East Tennessee State University	Science	43.001	$ 52,447.77	
Tennessee Technological University	Science	43.001	100,626.87	
University of Tennessee	Science	43.001	597,893.05	$ 750,967.69
Middle Tennessee State University	Research on Aviation Traning at Middle Tennessee State University	N.A. / NNX08AP03G		12,611.71
Middle Tennessee State University	Cost Modeling for Telescopes	N.A. / NNX09AG08G		6,100.70
Middle Tennessee State University	MTSU Center for Research on Aviation Training	N.A. / NNX09AU52G		94,441.42
Tennessee State University	Minority Institute Sabbatical Program	N.A. / NNA05CS99G		183,398.83
University of Tennessee	JPL Moersch	N.A. / 1242851		82,214.76
University of Tennessee	JPL-IRS Spectra of Basaltic Astero-Emery	N.A. / RSA NO. 1353476		9,975.90
University of Tennessee	JPL-NASA-RSA # 1367691-22.9%-Emery	N.A. / RSA # 1367691		32,335.88
University of Tennessee	NASA Glenn NNX07AD58A Ranaudo	N.A. / NNX07AD58A		101,847.84
University of Tennessee	NASA NNA06CN49A Berry	N.A. / NNA06CN49A		(1,606.80)
University of Tennessee	NASA NNG06GB44G Islam	N.A. / NNG06GB44G-004		94,025.45
University of Tennessee	NASA NNG06GG36G McSweer	N.A. / NNG06GG36G		82,729.04
University of Tennessee	NASA NNG06GH18G Moersch	N.A. / NNG06GH18G-000003		18,926.90
University of Tennessee	NASA NNM08AA13A Taylor	N.A. / NNM08AA13A		34,058.05
University of Tennessee	NASA NNX06AB33G Symes	N.A. / NNX06AB33G		17,848.94
University of Tennessee	NASA NNX06AC32G Townsend	N.A. / NNX06AC32G-02		86,749.80
University of Tennessee	NASA NNX07AC14G Townsend	N.A. / NNX07AC14G		72,724.55
University of Tennessee	NASA NNX08AG54G Taylor	N.A. / NNX08AG54G		117,027.33
University of Tennessee	NASA NNX08AT78G Townsend	N.A. / NNX08AT78G		73,064.91
University of Tennessee	NASA NNX09A157A Townsend	N.A. / NNX09A157A		106,607.72
University of Tennessee	NASA NNX09AG75G Fu	N.A. / NNX09AG75G-000001		15,452.84
University of Tennessee	NASA NNX09AM86G Fedo	N.A. / NNX09AM86G-000001		86,517.50
University of Tennessee	NASA NNX10AH48G McSween	N.A. / NNX10AH48G		25,521.28
University of Tennessee	NASA SHARED SC NNX08TU78P Muratore	N.A. / NNX08TU78P		6,419.27
University of Tennessee	NASA-MARSHALL NNM09AB71P Corda	N.A. / NNM09AB71P		22,999.62
University of Tennessee	NASA-NNX08AU47G Burr	N.A. / NNX08AU47G-00003		39,956.73
University of Tennessee	NASA-NNX08AV93G Emery	N.A. / NNX08AV93G-000002		66,768.11
University of Tennessee	NASA-NNX08BA24G Burr	N.A. / NNX08BA24G-000004		30,584.86
University of Tennessee	NASA-NNX08BA78G Emery	N.A. / NNX08BA78G		33,663.84
University of Tennessee	NASA-NNX08BA81G Burr	N.A. / NNX08BA81G		36,164.05
University of Tennessee	NASA-NNX09AE08G Emery	N.A. / NNX09AE08G		29,906.91
University of Tennessee	NASA-NNX09AH14G Taylor	N.A. / NNX09AH14G		44,763.04

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	NASA-NNX09AQ51G Burr	N.A. / NNX09AQ51G		25,474.29
University of Tennessee	NASA-NNX10AD18A Townsend	N.A. / NNX10AD18A		45,491.13
University of Tennessee	NASA-RSA # 1378475 Emery	N.A. / RSA # 1378475-02		12,310.33
Subtotal Direct Programs				$ 2,498,044.42
Passed Through California Institute of Technology Jet Propulsion Laboratory				
East Tennessee State University	Science	43.001 / 1353778		$ 9.23
Passed Through Eureka Scientific Corporation				
East Tennessee State University	Science	43.001 / 07-0280		3,139.37
Passed Through Smithsonian Astrophysical Observatory				
East Tennessee State University	Science	43.001 / AR9-0010A	$ 23,219.87	
East Tennessee State University	Science	43.001 / G08-9021A	6,488.33	29,708.20
University of Memphis	Solar-B X-ray Telescope Phase-E Mission Operations and Data Analysis Program	N.A. / SV7-77005		105,160.92
University of Memphis	Supportive Data Analysis for Solar B X-Ray Telescope	N.A. / SV7-77005 Amend 5		9,498.17
Passed Through Vanderbilt University				
Austin Peay State University	Science	43.001 / 18184-S1	$ 14,332.06	
East Tennessee State University	Science	43.001 / 18184-S2	3,585.02	17,917.08
Middle Tennessee State University	Tennessee Space Grant College and Fellowship Program	N.A. / 18184-S4		23,621.41
University of Memphis	Simulation and Prediction of Magnetic Positive Positioning of LOX in Reduced Gravity	N.A. / 18184 S8 AMEND 04		19,057.50
University of Memphis	Development and Automated Drinking Water Disinfection System	N.A. / 20343-S1		67,386.39
University of Tennessee	Vanderbilt - 18184-S10 - Taylor	N.A. / 18184-S10		133,213.74
University of Tennessee	Vanderbilt - 18184-S11 - Flandro	N.A. / 18184-S11		31,998.69
Passed Through Cornell University				
University of Tennessee	Aeronautics	43.002 / OSP39361-6446		9,656.90
Passed Through Regents of the University of California				
University of Tennessee	Aeronautics	43.002 / 2090-S-JB694 AMEND14		74,545.69
Passed Through Alabama Agricultural and Mechanical University				
University of Memphis	Weakly Ionized Gas Dynamics and Applications	N.A. / NAG8 1808		(25,783.61)
Passed Through Arizona State University				
University of Tennessee	Arizona State 01-082 McSween	N.A. / 01-082 MOD # 15		160,710.54
University of Tennessee	Arizona State Univ-Spectral Map-Moersch	N.A. / 10-254		46,453.36
Passed Through Boston University				
University of Tennessee	Boston Univ - Lunar Orbiter - Townsend	N.A. / GC 189769 NGA		53,439.42
Passed Through Brown University				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	Brown Univ - PO# 988930 - Taylor	N.A. / PO#988930-11	36,884.10
University of Tennessee	Brown Univ - PO# P258656 - Taylor	N.A. / PO258656/SUB00000242	29,994.98
Passed Through Georgia Institute of Technology			
University of Tennessee	GA Tech - R7183-S6 - Blalock	N.A. / R7183-S6	48,970.29
Passed Through Indiana University			
University of Tennessee	Indiana University - Pfiffner	N.A. / PO # 10411-0117-07	4,940.62
Passed Through National Space Biomedical Research Institute			
University of Tennessee	Natl Space Biomed Research Ins-Heilbronn	N.A. / NCC 9-58-152	47,693.17
Passed Through National Space Grant Foundation			
University of Tennessee	NATL SPACE GRAN F 2009-SYSENG01 MURATORE	N.A. / 2009-SYSENG01	24,299.64
Passed Through Pennsylvania State University			
University of Tennessee	Penn State Univ-3345-UTNASAC58A-DeSmidt	N.A. / 3345-UT-NASA-C58A-3	77,520.91
Passed Through San Francisco State University			
Tennessee State University	Search for Short Period Neptunes	N.A. / NNX08AF42G	20,030.00
Passed Through Search for Extraterrestrial Intelligence Institute			
University of Tennessee	SETI Institute-Thermal Behavior-Moersch	N.A. / NNX09AE80A-09-001	(12,391.57)
Passed Through University of Connecticut			
Tennessee Technological University	Defining Optimality Criteria for the Effective Use of Satellite Precipitation Datasets in Land Surface Hydrology	N.A. / NNX07AE31G	44,471.09
Passed Through Vanderbilt University Medical Center			
Tennessee Technological University	Tennessee Space Grant Consortium Award (Tennessee Space Grant College and Fellowship Program)	N.A. / 18184-S7 AMENDMENT NO. 8	44,110.89
Subtotal Pass-Through Programs			$ 1,126,257.12
Subtotal National Aeronautics and Space Administration			$ 3,624,301.54
National Endowment for the Arts			
Direct Programs			
University of Memphis	Promotion of the Arts_Grants to Organizations and Individuals	45.024	$ 18,056.67
Subtotal National Endowment for the Arts			$ 18,056.67
National Endowment for the Humanities			
Direct Programs			

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Technological University	Promotion of the Humanities_ Fellowships and Stipends	45.160	$ 1,764.17	
University of Tennessee	Promotion of the Humanities_ Fellowships and Stipends	45.160	98,799.96	$ 100,564.13
University of Tennessee	Promotion of the Humanities_ Research	45.161		58,885.54
University of Tennessee	Promotion of the Humanities_ Professional Development	45.163		121,365.95
Subtotal Direct Programs				$ 280,815.62
Passed Through Regents of the University of California				
University of Tennessee	Promotion of the Humanities_ Research	45.161 / 0033 G MA188		$ 50,397.92
Passed Through University of Maryland				
Middle Tennessee State University	Promotion of the Humanities_ Research	45.161 / Z916701		5,328.66
Subtotal Pass-Through Programs				$ 55,726.58
Subtotal National Endowment for the Humanities				$ 336,542.20
Institute of Museum and Library Services				
Direct Programs				
University of Tennessee	National Leadership Grants	45.312		$ 75,910.13
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313		47,521.57
Subtotal Direct Programs				$ 123,431.70
Passed Through Johns Hopkins University				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / RE-03-05-0020-05		$ 1,866.92
Passed Through University of Maryland				
University of Tennessee	Laura Bush 21st Century Librarian Program	45.313 / RES03S05-00200-05		4,342.56
Subtotal Pass-Through Programs				$ 6,209.48
Subtotal Institute of Museum and Library Services				$ 129,641.18
National Science Foundation				
Direct Programs				
East Tennessee State University	Engineering Grants	47.041	$ 14,323.87	
Middle Tennessee State University	Engineering Grants	47.041	46,006.11	
Tennessee Technological University	Engineering Grants	47.041	429,378.30	
University of Tennessee	Engineering Grants	47.041	2,437,714.03	2,927,422.31
East Tennessee State University	Mathematical and Physical Sciences	47.049	$ 129,224.30	
Tennessee Technological University	Mathematical and Physical Sciences	47.049	185,424.09	
University of Memphis	Mathematical and Physical Sciences	47.049	391,712.54	
University of Tennessee	Mathematical and Physical Sciences	47.049	3,606,496.47	4,312,857.40

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Geosciences	47.050	$ 108,222.02	
Tennessee State University	Geosciences	47.050	33,964.72	
University of Memphis	Geosciences	47.050	351,393.77	
University of Tennessee	Geosciences	47.050	1,278,385.82	1,771,966.33
Austin Peay State University	Computer and Information Science and Engineering	47.070	$ 17,094.02	
Middle Tennessee State University	Computer and Information Science and Engineering	47.070	82,833.44	
Tennessee Technological University	Computer and Information Science and Engineering	47.070	202,345.04	
University of Memphis	Computer and Information Science and Engineering	47.070	538,716.62	
University of Memphis	ARRA-Computer and Information Science and Engineering	47.070	50,741.07	
University of Tennessee	Computer and Information Science and Engineering	47.070	1,000,467.98	1,892,198.17
East Tennessee State University	Biological Sciences	47.074	$ 168,891.41	
Middle Tennessee State University	Biological Sciences	47.074	139,806.72	
Tennessee State University	Biological Sciences	47.074	49,163.29	
University of Memphis	Biological Sciences	47.074	196,742.63	
University of Tennessee	Biological Sciences	47.074	4,636,830.72	5,191,434.77
University of Memphis	Social, Behavioral, and Economic Sciences	47.075	$ 324,839.93	
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075	324,479.97	649,319.90
East Tennessee State University	Education and Human Resources	47.076	$ 765,025.35	
Middle Tennessee State University	Education and Human Resources	47.076	30,861.47	
Tennessee State University	Education and Human Resources	47.076	567,752.93	
Tennessee Technological University	Education and Human Resources	47.076	480,421.55	
University of Memphis	Education and Human Resources	47.076	743,814.47	
University of Tennessee	Education and Human Resources	47.076	658,851.17	3,246,726.94
University of Memphis	Polar Programs	47.078		7,358.89
Tennessee Technological University	International Science and Engineering (OISE)	47.079	$ 25,004.36	
University of Tennessee	International Science and Engineering (OISE)	47.079	11,065.05	36,069.41
University of Tennessee	Office of Cyberinfrastructure	47.080		1,978,518.61
East Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	$ 24,582.44	
Middle Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	794,071.27	
Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082	83,533.92	
Tennessee Technological University	ARRA-Trans-NSF Recovery Act Research Support	47.082	36,671.08	
University of Memphis	ARRA-Trans-NSF Recovery Act Research Support	47.082	345,391.74	
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082	3,510,963.84	4,795,214.29
University of Tennessee	NSF 9-MOR-1410-Boake	N.A. / 9-MOR-1410		20,858.23
University of Tennessee	NSF 0711134 XT5-Upgrade-Hrdw - Zacharia	N.A. / OCI-0711134		8,433,882.26
Subtotal Direct Programs				$ 35,263,827.51
Passed Through Northwestern University				
University of Tennessee	Engineering Grants	47.041 / PROJ0000075	$ 7.54	

State of Tennessee
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For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Engineering Grants	47.041 / PROJ0000147-02	50,267.14	$ 50,274.68
Passed Through University of Arizona				
University of Memphis	Engineering Grants	47.041 / Y551839		9,945.25
University of Tennessee	Biological Sciences	47.074 / PO Y553515		26,070.35
Passed Through University of Illinois				
University of Memphis	Engineering Grants	47.041 / 2003 01053 03 AMEND 20		(131.36)
University of Memphis	Geosciences	47.050 / 20030105303 AMEND 20		(3,337.99)
University of Tennessee	Office of Cyberinfrastructure	47.080 / 2009-06519-05-00		114,937.85
Passed Through University of Michigan				
Tennessee Technological University	Engineering Grants	47.041 / Subcontract No F013361		(884.10)
Passed Through West Virginia University				
University of Tennessee	Engineering Grants	47.041 / 01-589P-UTK	$ 6,287.56	
University of Tennessee	Engineering Grants	47.041 / PO #50054800	20,770.41	27,057.97
Passed Through California Institute of Technology				
University of Tennessee	Mathematical and Physical Sciences	47.049 / 7E-1082277-14		228,727.53
Passed Through Kansas State University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / SUBAWARD NO. S05029		(66.74)
Passed Through Murray State University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / MOA NO. OSP 2009-067		12,914.60
Passed Through University of Texas				
University of Tennessee	Mathematical and Physical Sciences	47.049 / UTA06-704	$ (2,398.07)	
University of Tennessee	Mathematical and Physical Sciences	47.049 / UTA09-000853	97,527.81	95,129.74
Passed Through Vanderbilt University				
Tennessee State University	Mathematical and Physical Sciences	47.049 / DMR-0907619	$ 14,811.02	
University of Tennessee	Mathematical and Physical Sciences	47.049 / 20726-S1	81,044.19	95,855.21
University of Tennessee	Vanderbilt Univ Sub 18890-S1 L Davis	N.A. / 18890-S1		19,080.95
Passed Through Virginia Polytechnic Institute and State University				
University of Tennessee	Mathematical and Physical Sciences	47.049 / CR-19121-477512		140.99
Passed Through Incorporated Research Institutions for Seismology				
University of Memphis	Geosciences	47.050 / 80-7		11,606.15
Passed Through Pennsylvania State University				
University of Tennessee	Geosciences	47.050 / 3687-UT-NSF-5019		228.05
Passed Through Rice University				
University of Tennessee	Computer and Information Science and Engineering	47.070 / R3871A-73900004		37,870.15

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through University of Chicago			
University of Tennessee	Computer and Information Science and Engineering	47.070 / SUBAWARD # 30085-S-2	434,369.71
Passed Through University of New Mexico			
University of Tennessee	Computer and Information Science and Engineering	47.070 / 063014-87H2	299,104.29
Passed Through University of North Carolina			
University of Tennessee	Computer and Information Science and Engineering	47.070 / 2975-07-0580-UTK-A03	10,498.40
Passed Through Appalachian State University			
University of Tennessee	Biological Sciences	47.074 / SERNEC #553464/06-02	3,688.17
Passed Through Carnegie Museum of Natural History			
University of Tennessee	Biological Sciences	47.074 / SUBGRANT #1	6,616.98
Passed Through University of California at Berkeley			
University of Tennessee	Biological Sciences	47.074 / S-0000336	45,617.03
Passed Through University of California at Davis			
University of Tennessee	Biological Sciences	47.074 / K014801-02	2,690.85
Passed Through University of Oklahoma			
University of Tennessee	Social, Behavioral, and Economic Sciences	47.075 / 2007-28	2,651.24
Passed Through Alignment Nashville			
Tennessee Technological University	Education and Human Resources	47.076 / DRL-0833643 AMEND1	43,067.57
Passed Through Louisiana State University			
University of Tennessee	Education and Human Resources	47.076 / 22714	69.29
Passed Through Purdue University			
University of Tennessee	Education and Human Resources	47.076 / 4101-25419	53,384.76
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / 4101-31975 AMEND # 1	1,061.15
Passed Through San Diego State University Foundation			
Tennessee Technological University	Education and Human Resources	47.076 / 55158A P1623 7804 211	11,072.10
Passed Through University of Kansas			
Tennessee State University	Education and Human Resources	47.076 / HRD-0624720	9,110.79
Passed Through University of Wisconsin			
University of Memphis	Education and Human Resources	47.076 / DRL-0918409	25,982.82
Passed Through U.S. Civilian Research and Development Foundation			

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	International Science and Engineering (OISE)	47.079 / RUPI-2892-MO-07	4,781.63
Passed Through Georgia Institute of Technology			
University of Tennessee	Office of Cyberinfrastructure	47.080 / RA241-G1	30,026.50
Passed Through University of Oregon			
University of Tennessee	Office of Cyberinfrastructure	47.080 / 207401C-03	261,153.43
Passed Through Clemson University			
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / 13292062087448 ARRA	26,126.45
Passed Through Rowan University			
Tennessee State University	ARRA-Trans-NSF Recovery Act Research Support	47.082 / NSF 0935089	8,523.75
Passed Through Washington University			
University of Tennessee	ARRA-Trans-NSF Recovery Act Research Support	47.082 / WU-HT-10-51	10,805.75
Passed Through Fort Valley State University			
University of Tennessee	Fort Valley Summer Internship 09-Stewart	N.A. / INTERNSHIP 09	6,161.02
Passed Through Imagecat, Incorporated			
University of Memphis	Methods for Measuring, Monitoring, and Evaluating Post-Disaster Recovery	N.A. / 08-01-2204	21,181.72
Passed Through Johns Hopkins University			
University of Tennessee	JOHNS HOPKINS APL 946966 MURRAY	N.A. / 946966	86,324.58
Subtotal Pass-Through Programs			$ 2,129,489.26
Subtotal National Science Foundation			$ 37,393,316.77
Small Business Administration			
Direct Programs			
University of Tennessee	SBA HQ-06-I-0026 07-09 Whitfield	N.A. / SBAHQ-06-I-0026	$ 97,508.64
Subtotal Small Business Administration			$ 97,508.64
Department of Veterans Affairs			
Direct Programs			
East Tennessee State University	Veterans Home Based Primary Care	64.022	$ 6,702.58
Subtotal Department of Veterans Affairs			$ 6,702.58

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Environmental Protection Agency				
Potomac Highlands Implementation Grants				
Passed Through Water Environment Research Foundation				
University of Tennessee	Potomac Highlands Implementation Grants	66.050 / X-83085101-0		$ 144,001.96
Subtotal Potomac Highlands Implementation Grants				$ 144,001.96
Office of Air and Radiation				
Direct Programs				
University of Tennessee	Air Pollution Control Program Support	66.001		$ 158,907.70
Subtotal Direct Programs				$ 158,907.70
Passed Through Harvard University				
University of Tennessee	Air Pollution Control Program Support	66.001 / 123233-02		$ (4,093.37)
Passed Through University of Houston				
University of Tennessee	Air Pollution Control Program Support	66.001 / R03-0219		(1,214.42)
Subtotal Pass-Through Programs				$ (5,307.79)
Subtotal Office of Air and Radiation				$ 153,599.91
Office of Pollution Prevention and Toxic Substances				
Direct Programs				
University of Tennessee	Source Reduction Assistance	66.717		$ 238,055.21
Subtotal Office of Pollution Prevention and Toxic Substances				$ 238,055.21
Office of Research and Development				
Direct Programs				
University of Tennessee	Science To Achieve Results (STAR) Research Program	66.509		$ 282,762.94
University of Memphis	Greater Research Opportunities (GRO) Fellowships For Undergraduate Environmental Study	66.513		15,173.51
Austin Peay State University	P3 Award: National Student Design Competition for Sustainability	66.516	$ 58.48	
University of Tennessee	P3 Award: National Student Design Competition for Sustainability	66.516	15,587.97	15,646.45
Subtotal Direct Programs				$ 313,582.90
Passed Through Harvard University				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Science To Achieve Results (STAR) Research Program	66.509 / SUB # 123392 AMEND#3		$ 19,897.81
Subtotal Pass-Through Programs				$ 19,897.81
Subtotal Office of Research and Development				$ 333,480.71
Office of the Chief Financial Officer				
Direct Programs				
Middle Tennessee State University	Congressionally Mandated Projects	66.202	$ 31,802.44	
University of Memphis	Congressionally Mandated Projects	66.202	24,723.70	$ 56,526.14
Subtotal Direct Programs				$ 56,526.14
Passed Through Consortium for Plant Biotechnology Research				
University of Tennessee	Congressionally Mandated Projects	66.202 / EPA83438801-303		$ 65,879.96
Passed Through University of New Hampshire				
University of Tennessee	Congressionally Mandated Projects	66.202 / AGREEMENT #10-049		851.40
Subtotal Pass-Through Programs				$ 66,731.36
Subtotal Office of the Chief Financial Officer				$ 123,257.50
Office of Water				
Direct Programs				
Middle Tennessee State University	Regional Wetland Program Development Grants	66.461		$ 6,494.68
Subtotal Direct Programs				$ 6,494.68
Passed Through Blount County Soil Conservation District				
University of Tennessee	Targeted Watersheds Grants	66.439 / Field Monitoring		$ 3,390.82
Subtotal Pass-Through Programs				$ 3,390.82
Subtotal Office of Water				$ 9,885.50
Other Programs				
Direct Programs				
University of Tennessee	EPA Nat'l Res Policy Ctr-Hodges/Clark	N.A. / EM-83298901-1		$ 197,857.64
University of Tennessee	EPA RD832849010 Lblng/Crwdng Out-Clark	N.A. / RD832849010		49,887.84
Subtotal Direct Programs				$ 247,745.48
Passed Through Research Triangle Institute				
University of Tennessee	RTI Intl - 1-321-0210288 - Fu	N.A. / 1-321-0210288-04		$ (5,008.44)
Subtotal Pass-Through Programs				$ (5,008.44)

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Other Programs				$ 242,737.04
Subtotal Environmental Protection Agency				$ 1,245,017.83
		Department of Energy		
Direct Programs				
University of Tennessee	ARRA-State Energy Program	81.041		$ 21,840.05
Tennessee Technological University	Office of Science Financial Assistance Program	81.049	$ 85,265.69	
University of Memphis	Office of Science Financial Assistance Program	81.049	87,913.29	
University of Tennessee	Office of Science Financial Assistance Program	81.049	5,710,908.32	5,884,087.30
Tennessee Technological University	University Coal Research	81.057	$ 57,220.65	
University of Tennessee	University Coal Research	81.057	(12,972.98)	44,247.67
Tennessee Technological University	Conservation Research and Development	81.086	$ 270,238.34	
University of Tennessee	Conservation Research and Development	81.086	3,485.84	273,724.18
Tennessee Technological University	ARRA-Renewable Energy Research and Development	81.087	$ 12,866.50	
University of Tennessee	Renewable Energy Research and Development	81.087	41,606.12	54,472.62
Tennessee State University	Fossil Energy Research and Development	81.089		84,927.12
University of Tennessee	Stewardship Science Grant Program	81.112		60,731.82
Tennessee Technological University	ARRA-Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	$ 36,534.52	
University of Tennessee	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	56,758.74	93,293.26
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121		618,243.19
Tennessee Technological University	National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123		39,093.92
Roane State Community College	Miscellaneous Federal Activities	81.502		13,776.00
University of Tennessee	DOE DE-FC02-06ER25778 Huang	N.A. / DE-FC02-06ER25778-04		99,223.43
University of Tennessee	DOE DE-FCO7-05ID14659 Bruns	N.A. / DE-FCO7-05ID14659-08		18,211.50
University of Tennessee	DOE DE-FG02-01ER45885 Musfeldt	N.A. / DE-FG02-01ER45885-09		89,713.56
University of Tennessee	DOE DE-FG02-03ER25584 Dongarra	N.A. / DE-FG02-03ER25584		251,485.12
University of Tennessee	DOE DE-FG02-05ER64076 Whitfield	N.A. / DE-FG02-05ER64076		4,851.10
University of Tennessee	DOE DE-FG02-06ER46266 C/S Keppens	N.A. / DE-FG02-06ER46266-2		52,153.08
University of Tennessee	DOE DE-FG02-06ER46338 Nieh	N.A. / DE-FG02-06ER46338-03		104,057.84
University of Tennessee	DOE DE-FG02-07ER46370 Eguiluz	N.A. / DE-FG02-07ER46370-02		29,901.37
University of Tennessee	DOE DE-FG05-88ER13859 Guiochon	N.A. / DE-FG05-88ER13859		25,974.20
University of Tennessee	DOE DE-FG05-91ER40627 Task T Siopsis	N.A. / DE-FG05-91ER40627		686,243.13
University of Tennessee	DOE DE-FG26-06NT42732 (C/S) Liaw	N.A. / DE-FG26-06NT42732		81,106.79
University of Tennessee	DOE DE-FG36-06GO16037 Mays	N.A. / DE-FG36-06GO16037-A8		46,702.61
University of Tennessee	DOE DE-FG52-03NA00083 Nazarewicz	N.A. / DE-FG52-03NA00083-09		34,501.03
University of Tennessee	DOE Energy Crop Operating-Labbe	N.A. / ADVANCED ACCOUNT		118,440.08

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	DOE Foxtail Millet Biomass Prod-Zale	N.A. / DE-FG02-08ER64667	67,402.03
University of Tennessee	DOE Grant DE-FG02-05ER64103	N.A. / DE-FG02-05ER64103	(5,976.26)
University of Tennessee	DOE-DE-FG02-08ER64678 Melcher	N.A. / DE-FG02-08ER64678	234,251.50
University of Tennessee	DOE-DE-FG05-08OR23333 Dongarra	N.A. / DE-FG05-08OR2333	98,854.94
University of Tennessee	DOE-DE-SC0000019 Murray 09	N.A. / DE-SC0000019	(2,973.62)
University of Tennessee	DOE-Minimize SystemNoise Effects-Dongarra	N.A. / DE-FG02-08ER25845	117,565.79
Subtotal Direct Programs			$ 9,340,126.35
Passed Through Louisiana State University			
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 44159-1	$ 28,721.87
Passed Through North Carolina State University			
University of Tennessee	Office of Science Financial Assistance Program	81.049 / 2007-0921-01	(4,694.00)
University of Tennessee	NCSU-2007-1694-03 - Sanders	N.A. / 2007-1694-03 MOD 2	24,104.96
Passed Through Oak Ridge National Laboratory			
University of Memphis	Office of Science Financial Assistance Program	81.049 / 4000056349	723.27
Passed Through Oregon State University			
University of Tennessee	Office of Science Financial Assistance Program	81.049 / NO. G0089A-B	(6,856.15)
Passed Through Purdue University			
University of Tennessee	ARRA-Office of Science Financial Assistance Program	81.049 / 4105-29625	63,238.52
Passed Through University of Massachusetts			
University of Tennessee	Office of Science Financial Assistance Program	81.049 / DOE-03001804D-00	122,157.61
Passed Through South Dakota State University			
University of Tennessee	Regional Biomass Energy Programs	81.079 / 3TA157	45,710.56
Passed Through Rutgers, The State University of New Jersey			
University of Tennessee	Stewardship Science Grant Program	81.112 / SUB#3538 PO#S1135633	232,571.93
Passed Through Southern Methodist University			
University of Tennessee	Defense Nuclear Nonproliferation Research	81.113 / Subcontract #20499-06	28,902.22
Passed Through University of Mississippi			
University of Tennessee	Defense Nuclear Nonproliferation Research	81.113 / SUB # 07-11-040	(3,879.70)
Passed Through University of Idaho			

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117 / PO # 0024282	49,190.93
Passed Through West Virginia University			
Tennessee Technological University	ARRA-State Energy Program Special Projects	81.119 / 09-223-TTU	31,087.37
Passed Through Virginia Polytechic Institute and State University			
University of Tennessee	Nuclear Energy Research, Development and Demonstration	81.121 / CR-19121-429226-03	1,935.07
Passed Through Washington State University			
Tennessee Technological University	Nuclear Energy Research, Development and Demonstration	81.121 / 108880_G002296 AMEND NO 001	29,422.98
Passed Through Alliance for Sustainable Energy, Limited Liability Company			
University of Tennessee	Alliance for Sustainable Energy - Boulet	N.A. / NEE-9-99407-01	13,452.78
Passed Through Ames Laboratory			
University of Tennessee	Ames Laboratory SC-09-323 Zhenyu Zhang	N.A. / SC-09-323 MOD #1	260,746.63
University of Tennessee	Ames Laboratory SC-10-331 Wu	N.A. / SC-10-331	28,583.36
Passed Through Argonne National Laboratory			
Middle Tennessee State University	Load-Balancing for Leadership Class Computers and Scalable System Software	N.A. / 9F-31861	31,892.04
Middle Tennessee State University	Research in Collaboration	N.A. / 7F-01661	1,159.77
Passed Through Battelle Energy Alliance			
University of Tennessee	Battelle Energy Alliance, LLC - Khomami	N.A. / 00091981	67,631.14
University of Tennessee	Battelle Energy 00098691 Upadhyaya	N.A. / 00098691	7,186.02
University of Tennessee	Battelle Energy Alliance 00098888 Hines	N.A. / 00098888	15,167.06
Passed Through Battelle Memorial Institute			
University of Tennessee	Battelle Memorial Inst PNNL 116034 Hines	N.A. / 116034	5,117.51
University of Tennessee	Battelle Memorial Institute-103164-Liaw	N.A. / 103164	1,894.59
Passed Through Brookhaven National Laboratory			
University of Tennessee	Brookhaven Natl Lab-Spacecraft-Heilbronn	N.A. / CONTRACT # 138826	(1,044.22)
Passed Through Fermi Research Alliance, Limited Liability Company			
University of Tennessee	Fermi Research Alliance, LLC - Spanier	N.A. / P. O. # 580849 REV#3	9,867.56

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through International Association of Scientific, Technical and Medical Publishers			
University of Tennessee	International Association of STM-Suttles	N.A. / Publishing Research	16,286.79
Passed Through Lawrence Berkeley National Laboratory			
University of Tennessee	Univ of California-LBNL-6898750-Liu	N.A. / 6898750	4,833.74
University of Tennessee	Univ of California-LBNL-6902163-Dongarra	N.A. / Subcontract #6902163	87,303.76
Passed Through Los Alamos National Laboratory			
University of Tennessee	Los Alamos Natl L-61500-001-08-Maldonado	N.A. / 61500-001-08	8,732.44
Passed Through Oak Ridge Associated Universities			
University of Tennessee	ORAU 10-22911 Radiation Injury-LaBlanc	N.A. / 10-22911	8,674.12
University of Tennessee	ORAU-Purchase Order # 8-18215-Bingham	N.A. / PO # 8-18215	33,773.20
Passed Through Rensselaer Polytechnic Institute			
University of Tennessee	Rensselaer Polytechni-A305260-Nazarewicz	N.A. / Subcontract #A30560	5,478.96
Passed Through Sandia National Laboratories			
University of Memphis	Robust Automated Knowledge Capture	N.A. / PO 870235	61,713.41
Passed Through SLAC National Accelerator Laboratory			
University of Tennessee	SLAC Natl Accelerator Lab 85437 Britton	N.A. / Subcontract #85437	25,703.69
Passed Through University of Texas			
University of Tennessee	Univ of Texas-Austin-UTA08-929 - Zhang	N.A. / UTA08-929 AMEND 1	21,156.53
Passed Through UT-Battelle, Limited Liability Company			
Middle Tennessee State University	Aerobic Decomposition Research	N.A. / 4000086311	107,303.92
Middle Tennessee State University	Bio-Sensor Detection Research	N.A. / 4000071940	114,176.15
Tennessee Technological University	Alumina Forming Coatings for Power Generation Applications	N.A. / 4000071336 MOD #2	49,822.76
Tennessee Technological University	ARRA-ORNL Stain Steel Alum Coat	N.A. / 4000087522	209.25
Tennessee Technological University	Comprehensive Analysis and Benchmarking of Virtual I/O for HPC	N.A. / 4000076140	6,360.00
Tennessee Technological University	Counter Gravity (Hitchiner) and Pressure Assisted Lost Foam Magnesium Casting	N.A. / 4000035322	466.87
Tennessee Technological University	Molecular Photoredox Chemistry of Mercury in Aquatic Systems: Kinetics, Mechanism and Environmental Implication	N.A. / 4000069118 MODIFICATION NO. 3	8,201.51

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Tennessee Technological University	Optimization of High Voltage Lines - Power System Application Development Using FNET Data	N.A. / 4000051155 MOD 3		190,242.57
Tennessee Technological University	ORNL Virtualization	N.A. / 4000059261		(424.74)
Tennessee Technological University	Separation Studies-Spent Fuel Processing	N.A. / 4000040881 Mod 7		4,512.41
Tennessee Technological University	UTB Smart Grid Research Phase II	N.A. / 4000085540 MOD 1		201,237.23
Tennessee Technological University	Ultra High-Speed Networking Workshop	N.A. / 4000045890		2,033.75
University of Memphis	Large Scale Data Transfer in Wide Area Dedicated Networks	N.A. / 40090164		3,789.82
University of Tennessee	ARRA-UT-B 4000093542 McKay	N.A. / 4000093542		1,960.21
University of Tennessee	UT-Battelle	N.A. / B0199BTL		20,054,910.19
Subtotal Pass-Through Programs				$ 22,102,450.22
Subtotal Department of Energy				$ 31,442,576.57
Department of Education				
Institute of Education Sciences				
Direct Programs				
University of Memphis	Education Research, Development and Dissemination	84.305		$ 1,586,503.67
Subtotal Direct Programs				$ 1,586,503.67
Passed Through Northern Illinois University				
University of Memphis	Education Research, Development and Dissemination	84.305 / PO 89595		$ 193,823.24
Passed Through Siskin Children's Institute				
Middle Tennessee State University	Research in Special Education	84.324 / R 324 B070003		34,033.11
Passed Through Vanderbilt University				
Middle Tennessee State University	Research in Special Education	84.324 / R 324 BO70266		7,107.10
Subtotal Pass-Through Programs				$ 234,963.45
Subtotal Institute of Education Sciences				$ 1,821,467.12
Office of Educational Research and Improvement				
Passed Through Virginia Department of Education				
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / 21CCLC2008	$ 49,699.68	
University of Memphis	Twenty-First Century Community Learning Centers	84.287 / E080104540048	(5,348.77)	$ 44,350.91
Subtotal Office of Educational Research and Improvement				$ 44,350.91
Office of Elementary and Secondary Education				
Passed Through Memphis City Schools				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Memphis	Striving Readers	84.371 / S371A060098		$ 507,447.72
Subtotal Office of Elementary and Secondary Education				$ 507,447.72
Office of Innovation and Improvement				
Passed Through Hawkins County Schools				
East Tennessee State University	Fund for the Improvement of Education	84.215 / 72120-399-961		$ 4,538.12
Subtotal Office of Innovation and Improvement				$ 4,538.12
Office of Postsecondary Education				
Direct Programs				
University of Tennessee	Fund for the Improvement of Postsecondary Education	84.116		$ 30,642.76
University of Memphis	Centers for International Business Education	84.220		351,273.06
Subtotal Direct Programs				$ 381,915.82
Passed Through University of Maryland				
University of Tennessee	Fund for the Improvement of Postsecondary Education	84.116 / Subaward #Z203501		$ 39,494.06
Subtotal Pass-Through Programs				$ 39,494.06
Subtotal Office of Postsecondary Education				$ 421,409.88
Office of Special Education and Rehabilitative Services				
Direct Programs				
University of Tennessee	Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325		$ 210,335.41
Subtotal Office of Special Education and Rehabilitative Services				$ 210,335.41
Other Programs				
Direct Programs				
University of Memphis	Bilingual Education Support Services	84.194		$ 281,512.26
Subtotal Direct Programs				$ 281,512.26
Passed Through CNA Corporation				
University of Memphis	Hybrid Algebra Study	N.A. / PO 0019496	$ 72,382.38	
University of Memphis	Hybrid Algebra Study	N.A. / PO 0019497	7,180.21	
University of Memphis	Hybrid Algebra Study	N.A. / PO 0019498	779.11	
University of Memphis	Hybrid Algebra Study	N.A. / PO 0019499	2,429.09	$ 82,770.79
Passed Through Hamilton County Department of Education				
University of Memphis	Early Reading First	N.A. / C008214		54,078.89

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Nevada Department of Education				
University of Memphis	Supplemental Education Services Evaluations	N.A. / Nevada SES Evaluation		19.66
Subtotal Pass-Through Programs				$ 136,869.34
Subtotal Other Programs				$ 418,381.60
Subtotal Department of Education				$ 3,427,930.76
National Archives and Records Administration				
Direct Programs				
University of Tennessee	National Historical Publications and Records Grants	89.003		$ 271,408.12
Subtotal National Archives and Records Administration				$ 271,408.12
Department of Health and Human Services				
Agency for Healthcare Research and Quality				
Direct Programs				
Finance and Administration	Research on Healthcare Costs, Quality and Outcomes	93.226	$ 1,857,378.35	
Tennessee State University	Research on Healthcare Costs, Quality and Outcomes	93.226	(266.06)	
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226	154,008.16	$ 2,011,120.45
Subtotal Direct Programs				$ 2,011,120.45
Passed Through Northwestern University				
University of Tennessee	Research on Healthcare Costs, Quality and Outcomes	93.226 / HS10040		$ (2,337.16)
Subtotal Pass-Through Programs				$ (2,337.16)
Subtotal Agency for Healthcare Research and Quality				$ 2,008,783.29
Centers for Disease Control and Prevention				
Direct Programs				
University of Tennessee	Research, Treatment and Education Programs on Lyme Disease in the United States	93.942		$ 1,370,886.31
Middle Tennessee State University	Assistance Programs for Chronic Disease Prevention and Control	93.945		220,938.17
Subtotal Direct Programs				$ 1,591,824.48
Passed Through Emory University				
University of Tennessee	Environmental Public Health and Emergency Response	93.070 / S334276		$ 45,438.15

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Passed Through Georgia Institute of Technology			
East Tennessee State University	Environmental Public Health and Emergency Response	93.070 / RA153-G1	4,156.74
Passed Through Meharry Medical College			
Tennessee State University	Injury Prevention and Control Research and State and Community Based Programs	93.136 / 5U49 CE001022-03	19,523.34
Passed Through St. Jude Children's Research Hospital			
University of Tennessee	Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects	93.185 / IP000302	165,974.29
Passed Through University of Alabama at Birmingham			
University of Tennessee	Occupational Safety and Health Program	93.262 / 286477-SUBCODE 004	11,819.52
Passed Through University of North Carolina			
University of Tennessee	Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283 / DD000199	83,355.75
Subtotal Pass-Through Programs			$ 330,267.79
Subtotal Centers for Disease Control and Prevention			$ 1,922,092.27
Centers for Medicare and Medicaid Services			
Direct Programs			
Tennessee State University	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	$ 92,752.62
Subtotal Centers for Medicare and Medicaid Services			$ 92,752.62
Food and Drug Administration			
Direct Programs			
University of Tennessee	Food and Drug Administration_ Research	93.103	$ 323,259.31
Subtotal Food and Drug Administration			$ 323,259.31
Health Resources and Services Administration			
Direct Programs			
Tennessee State University	Health Care and Other Facilities	93.887	$ 188,745.12
University of Tennessee	Specially Selected Health Projects	93.888	165,849.53
Subtotal Direct Programs			$ 354,594.65

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through Genetic Alliance, Incorporated				
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / MC06836		$ 3,704.54
Passed Through University of North Carolina				
University of Tennessee	Maternal and Child Health Federal Consolidated Programs	93.110 / MC05053		21,495.86
Passed Through Mountain States Health Alliance				
East Tennessee State University	Telehealth Programs	93.211 / 1H2AIT16637		32,849.04
Passed Through Delta Health Alliance				
University of Tennessee	Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912 / RH08555		71,403.98
Subtotal Pass-Through Programs				$ 129,453.42
Subtotal Health Resources and Services Administration				$ 484,048.07
Indian Health Service				
Passed Through United South and Eastern Tribes, Incorporated				
Middle Tennessee State University	Epidemiology Cooperative Agreements	93.231 / U1B9400009/07		$ 66,814.81
Subtotal Indian Health Service				$ 66,814.81
National Institutes of Health				
Direct Programs				
East Tennessee State University	Environmental Health	93.113	$ 44,133.15	
University of Memphis	Environmental Health	93.113	168,369.68	$ 212,502.83
University of Tennessee	Oral Diseases and Disorders Research	93.121		80,520.32
University of Tennessee	Human Genome Research	93.172		15,183.86
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173	$ 36,984.93	
University of Memphis	Research Related to Deafness and Communication Disorders	93.173	224,348.71	
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173	1,277,297.30	1,538,630.94
East Tennessee State University	Mental Health Research Grants	93.242	$ 510,322.74	
Tennessee State University	Mental Health Research Grants	93.242	3,105.99	
University of Memphis	Mental Health Research Grants	93.242	290,205.25	
University of Tennessee	Mental Health Research Grants	93.242	471,341.21	1,274,975.19
University of Memphis	Alcohol Research Programs	93.273	$ 183,977.04	
University of Tennessee	Alcohol Research Programs	93.273	1,649,239.13	1,833,216.17
East Tennessee State University	Drug Abuse and Addiction Research Programs	93.279	$ 111,060.41	
University of Memphis	Drug Abuse and Addiction Research Programs	93.279	850,232.46	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279	2,889,417.95	3,850,710.82
University of Tennessee	Mental Health Research Career/ Scientist Development Awards	93.281		21,179.25
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		754,936.96
East Tennessee State University	Minority Health and Health Disparities Research	93.307	$ 5,179.04	
Tennessee State University	Minority Health and Health Disparities Research	93.307	47,458.74	52,637.78
East Tennessee State University	Trans-NIH Research Support	93.310		144,939.81
University of Tennessee	Nursing Research	93.361	$ 560,839.60	
University of Tennessee	ARRA-Nursing Research	93.361	18,283.12	579,122.72
University of Tennessee	National Center for Research Resources	93.389		1,097,813.92
University of Tennessee	Cancer Cause and Prevention Research	93.393		593,484.93
University of Tennessee	Cancer Detection and Diagnosis Research	93.394		15,273.52
University of Memphis	Cancer Treatment Research	93.395	$ 1,668.42	
University of Tennessee	Cancer Treatment Research	93.395	1,506,847.43	1,508,515.85
University of Tennessee	Cancer Biology Research	93.396		1,185,484.18
East Tennessee State University	Cancer Research Manpower	93.398		53,354.00
University of Tennessee	Cancer Control	93.399		300,305.49
East Tennessee State University	ARRA-Trans-NIH Recovery Act Research Support	93.701	$ 602,206.06	
Middle Tennessee State University	ARRA-Trans-NIH Recovery Act Research Support	93.701	31,985.04	
University of Memphis	ARRA-Trans-NIH Recovery Act Research Support	93.701	353,047.08	
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701	6,625,277.61	7,612,515.79
East Tennessee State University	Cardiovascular Diseases Research	93.837	$ 1,176,337.24	
University of Memphis	Cardiovascular Diseases Research	93.837	726,692.35	
University of Tennessee	Cardiovascular Diseases Research	93.837	7,284,925.17	9,187,954.76
University of Tennessee	Lung Diseases Research	93.838		1,749,203.14
University of Tennessee	Blood Diseases and Resources Research	93.839		334,059.80
University of Memphis	Arthritis, Musculoskeletal and Skin Diseases Research	93.846	$ 12,236.12	
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846	1,556,272.52	1,568,508.64
East Tennessee State University	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	$ 415,558.14	
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	3,491,638.78	
University of Tennessee	ARRA-Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	71,380.00	3,978,576.92
East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	$ 105,853.39	
University of Memphis	Extramural Research Porgrams in the Neurosciences and Neurological Disorders	93.853	327,061.44	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	3,685,618.76	4,118,533.59

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Allergy, Immunology and Transplantation Research	93.855	$ 557,836.16	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855	3,475,472.83	
University of Tennessee	ARRA-Allergy, Immunology and Transplantation Research	93.855	160,918.57	4,194,227.56
University of Tennessee	Microbiology and Infectious Diseases Research	93.856		1,441,926.08
East Tennessee State University	Biomedical Research and Research Training	93.859	$ 502,184.21	
Tennessee State University	Biomedical Research and Research Training	93.859	352,200.09	
University of Tennessee	Biomedical Research and Research Training	93.859	1,843,714.77	
University of Tennessee	ARRA-Biomedical Research and Research Training	93.859	100,000.00	2,798,099.07
East Tennessee State University	Child Health and Human Development Extramural Research	93.865	$ 96,551.81	
University of Memphis	Child Health and Human Development Extramural Research	93.865	428,000.08	
University of Memphis	ARRA-Child Health and Human Development Extramural Research	93.865	9,028.44	
University of Tennessee	Child Health and Human Development Extramural Research	93.865	1,674,629.74	2,208,210.07
East Tennessee State University	Aging Research	93.866	$ 41,078.95	
University of Tennessee	Aging Research	93.866	463,109.10	504,188.05
University of Tennessee	Vision Research	93.867	$ 2,730,785.27	
University of Tennessee	ARRA-Vision Research	93.867	8,750.88	2,739,536.15
Middle Tennessee State University	Medical Library Assistance	93.879		55,843.79
University of Memphis	International Research and Research Training	93.989		26,799.64
Subtotal Direct Programs				$ 57,630,971.59
Passed Through University of Michigan				
University of Tennessee	Environmental Health	93.113 / ADVANCED ACCOUNT		$ 1,521.28
Passed Through Nova Southeastern University				
University of Tennessee	Oral Diseases and Disorders Research	93.121 / DE0187774		23,203.48
Passed Through Kirkwood Community College				
University of Tennessee	NIEHS Hazardous Waste Worker Health and Safety Training	93.142 / 2 U45 ES010658-10		144,810.11
Passed Through University of North Carolina				
University of Tennessee	Human Genome Research	93.172 / #5-34534		99,140.75
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI057157		85,400.17
Passed Through Cornell University				
University of Tennessee	Research Related to Deafness and Communication Disorders	93.173 / DC-008702		125,760.93
University of Tennessee	Cancer Treatment Research	93.395 / 54352-9027		57,137.09
Passed Through Duke University				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / 10-NIH-1037		35,596.90
University of Tennessee	Cancer Cause and Prevention Research	93.393 / SUBAWARD # 150508		26,391.68
Passed Through Massachusetts General Hospital				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / 206770		23,750.06
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / AT000613	$ 1,358.57	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS052592	9,271.41	10,629.98
Passed Through University of Iowa				
East Tennessee State University	Research Related to Deafness and Communication Disorders	93.173 / 1000603852		1,721.12
University of Tennessee	Microbiology and Infectious Diseases Research	93.856 / AI-30040		202,914.88
Passed Through Northwestern University				
University of Tennessee	Mental Health Research Grants	93.242 / MH-61915		3,196.79
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS047085		220,236.71
Passed Through University of Illinois at Chicago				
University of Tennessee	Mental Health Research Grants	93.242 / 1R01MH081049-01	$ 31,951.27	
University of Tennessee	Mental Health Research Grants	93.242 / 5P20MH078458-02	55,826.80	87,778.07
Passed Through Butler Hospital				
University of Tennessee	Alcohol Research Programs	93.273 / 9003-8324		43,414.56
Passed Through University of British Columbia				
University of Memphis	Alcohol Research Programs	93.273 / 20R48679	$ 27,008.11	
University of Tennessee	Alcohol Research Programs	93.273 / AA016666	69,901.89	96,910.00
University of Memphis	Drug Abuse and Addiction Research Programs	93.279 / 7R01DA0206077-03	$ (9,638.82)	
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279 / 20R 48661	9,965.06	
University of Tennessee	Drug Abuse and Addiction Research Programs	93.279 / DA020677	(12,083.25)	(11,757.01)
Passed Through Virginia Commonwealth University				
University of Tennessee	Alcohol Research Programs	93.273 / PT100580-SC100569		111,144.64
Passed Through Health Research, Incorporated				
East Tennessee State University	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 3687-01		48,680.29
Passed Through Louisiana State University				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 1R01EB006639-01A1		105,825.62
Passed Through Vanderbilt University				
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 18266-S2	$ 1,481.85	
University of Tennessee	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286 / 18266-S3	1,477.16	2,959.01
Passed Through Meharry Medical College				
Tennessee State University	Minority Health and Health Disparities Research	93.307 / 2P20MD000516-05A1	$ 105,403.92	
Tennessee State University	Minority Health and Health Disparities Research	93.307 / 5P20MD000516-06	27,848.39	133,252.31
Tennessee State University	Biomedical Research and Research Training	93.859 / 5U54CA091408-09	$ 6,680.43	
Tennessee State University	Biomedical Research and Research Training	93.859 / 5U54CA091408-10	132,824.20	139,504.63
Passed Through Clemson University				
University of Tennessee	National Center for Research Resources	93.389 / 1307-7558-2092007132		53,173.54
Passed Through University of California				
University of Tennessee	National Center for Research Resources	93.389 / RR-021760		214,634.64
University of Tennessee	Vision Research	93.867 / EY013198		19,959.73
Passed Through University of Massachusetts				
University of Tennessee	Cancer Cause and Prevention Research	93.393 / PO #0001287522		153,477.15
Passed Through University of Rochester				
East Tennessee State University	Cancer Cause and Prevention Research	93.393 / 414462-G		13,237.61
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS37167	$ 1,759.80	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS050095	17,836.20	19,596.00
Passed Through The Miriam Hospital				
University of Tennessee	Cancer Detection and Diagnosis Research	93.394 / 710-9801		8,551.84
Passed Through Duke University Medical Center				
University of Tennessee	Cancer Treatment Research	93.395 / CA 112519		22,100.97
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD057956		25,151.38

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Passed Through St. Jude Children's Research Hospital				
University of Tennessee	Cancer Treatment Research	93.395 / CA132901		16,263.89
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / AI062415	$ 111,343.65	
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / EY014867	108,514.21	219,857.86
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI069529	$ 134,278.16	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI070721	22,804.23	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI076816	52,475.76	
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI088729	10,804.65	220,362.80
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / HD052239		8,309.28
Passed Through CTRC Research Foundation				
East Tennessee State University	Cancer Control	93.399 / CA37429		7,586.26
Passed Through Johns Hopkins University				
University of Memphis	Cancer Control	93.399 / R01CA039416		(3,265.84)
University of Memphis	Microbiology and Infectious Diseases Research	93.856 / NIH VIA JOHNS HOPKINS		126,324.00
Passed Through Baylor College of Medicine				
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / HL056865		30,605.15
Passed Through Children's Mercy Hospital				
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / DK066143		1,506.76
Passed Through University of Kansas Medical Center				
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / DK057301		2,509.12
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846 / DP00187-QW817980		277,805.97
Passed Through University of Missouri				
University of Memphis	ARRA-Trans-NIH Recovery Act Research Support	93.701 / C000270681		26,461.08
Passed Through University of Pittsburgh				
University of Memphis	ARRA-Trans-NIH Recovery Act Research Support	93.701 / 0007082		46,984.71
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS052478		(1,988.14)
University of Tennessee	Aging Research	93.866 / AG028050		70,988.92
Passed Through University of Utah				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	ARRA-Trans-NIH Recovery Act Research Support	93.701 / NS069066	15,582.04
Passed Through Ithaca College			
East Tennessee State University	Cardiovascular Diseases Research	93.837 / 1R01HL098589	27,732.18
Passed Through University of Connecticut			
University of Tennessee	Cardiovascular Diseases Research	93.837 / PSA 524652	41,515.56
Passed Through University of Toledo			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL071556	961.28
Passed Through University of Washington			
University of Tennessee	Cardiovascular Diseases Research	93.837 / HL077863	28,623.93
Passed Through Columbus Children's Research Institute			
University of Tennessee	Lung Diseases Research	93.838 / HL075261	72,227.43
Passed Through University of Chicago			
University of Tennessee	Lung Diseases Research	93.838 / HL080417	71,998.51
Passed Through Wayne State University			
University of Tennessee	Arthritis, Musculoskeletal and Skin Diseases Research	93.846 / AR042541	307.97
Passed Through Ohio State University Research Foundation			
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK-59800	25,597.93
Passed Through State University of New York			
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / PO#R635210	6,784.65
Passed Through University of Alabama at Birmingham			
University of Tennessee	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847 / DK-082753	16,202.23
Passed Through Columbia University			
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS036630	769.46
University of Tennessee	International Research and Research Training	93.989 / 2 (ACCT.#5-28731)-01	110,792.08
Passed Through Cornell Medical Center			
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS50324	10,997.36
Passed Through Emory University			

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS065701	$ 13,463.70	
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS067201	122,067.00	135,530.70
Passed Through Howard University				
East Tennessee State University	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / 632362-H041544		2,873.43
Passed Through Medical University of South Carolina				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS058728		8,685.55
Passed Through Yale University				
University of Tennessee	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853 / NS053865		6,572.58
Passed Through Seattle Children's Hospital				
University of Tennessee	Allergy, Immunology and Transplantation Research	93.855 / AI071163		52,407.43
Passed Through University of Arkansas				
University of Memphis	Allergy, Immunology and Transplantation Research	93.855 / 30646 AMEND 3	$ 6,995.02	
University of Memphis	Allergy, Immunology and Transplantation Research	93.855 / 1 RO1 AI069087 01A1	8,996.71	15,991.73
Passed Through Colorado State University				
University of Tennessee	Microbiology and Infectious Diseases Research	93.856 / G-4666-1		15,432.99
Passed Through Iowa State University				
University of Memphis	Biomedical Research and Research Training	93.859 / 430 46 06A		30,947.91
Passed Through Jackson Laboratory				
University of Tennessee	Biomedical Research and Research Training	93.859 / 00000063		42,286.00
Passed Through Stanford University				
University of Tennessee	Biomedical Research and Research Training	93.859 / 24317750-30501-J		18,763.79
Passed Through University of Central Florida				
Tennessee Technological University	Biomedical Research and Research Training	93.859 / ENCUMBRANCE # 133662 MOD 1		25,589.30
Passed Through Case Western Reserve University				

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Child Health and Human Development Extramural Research	93.865 / RES421127		4,026.68
Passed Through Wake Forest University				
University of Tennessee	Aging Research	93.866 / AG033087		70,593.26
Passed Through University of California at Santa Barbara				
University of Tennessee	Vision Research	93.867 / EY-01087		12,805.65
Passed Through University of Louisville				
University of Tennessee	Medical Library Assistance	93.879 / LM-09315-01		705.00
Passed Through Michigan State University				
University of Tennessee	International Research and Research Training	93.989 / 610762UT		42,150.54
Subtotal Pass-Through Programs				$ 4,314,773.88
Subtotal National Institutes of Health				$ 61,945,745.47
Office of Disease Prevention and Health Promotion				
Direct Programs				
University of Tennessee	National Health Promotion	93.990		$ 421,924.43
Subtotal Office of Disease Prevention and Health Promotion				$ 421,924.43
Substance Abuse and Mental Health Services Administration				
Direct Programs				
East Tennessee State University	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		$ 13,616.57
Subtotal Direct Programs				$ 13,616.57
Passed Through Case Management, Incorporated				
University of Memphis	Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243 / BABYLOVEII		$ 52,799.47
Subtotal Pass-Through Programs				$ 52,799.47
Subtotal Substance Abuse and Mental Health Services Administration				$ 66,416.04
Other Programs				
Direct Programs				
East Tennessee State University	Academic Research Enhancement Award	93.390	$ 273,340.24	
University of Memphis	Academic Research Enhancement Award	93.390	101,792.88	$ 375,133.12

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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	Digestive Diseases and Nutrition Research	93.848	2,974,754.70
University of Tennessee	Kidney Diseases, Urology and Hematology Research	93.849	1,595.47
University of Tennessee	Bioterrorism Training and Curriculum Development Program	93.996	(3,201.55)
University of Tennessee	NCI COTC007a Topotecan Dogs-Phillips	N.A. / COTC007A	6,682.21
University of Tennessee	NIH 1R21EY018935-01A1 Chen, Yl	N.A. / 1R21EY018935-01A1	124,239.87
University of Tennessee	NIH 2R01AI01436725A2 Replication-Brian	N.A. / 2R01AI01436725A2	349,008.49
University of Tennessee	NIH Green Tea Precancer Prevention-Wang	N.A. / 1R21CA129772-01A2	73,787.03
University of Tennessee	ARRA-NIH 1R21EY018385-01A2 CHEN, YL	N.A. / 1R21EY018385-01A2	136,132.21
Subtotal Direct Programs			$ 4,038,131.55
Passed Through Buffalo Valley, Incorporated			
University of Memphis	Consolidated Knowledge Development and Application (KD&A) Program	93.230 / TI09006	$ 50,803.73
Passed Through Children's Mercy Hospital			
University of Tennessee	Kidney Diseases, Urology and Hematology Research	93.849 / DK066143	2,161.03
Passed Through University of North Carolina			
University of Tennessee	Kidney Diseases, Urology and Hematology Research	93.849 / DK63455	9,400.00
Passed Through National Cancer Institute of Canada			
University of Tennessee	Natl Cancer Institute-Canada-MAP3	N.A. / NCIC CTG MAP3	64,053.25
Passed Through University of Rochester			
University of Tennessee	Univ Rochester-Influenza Res-Sangster	N.A. / PO#413944-G	61,486.66
Passed Through University of Toledo			
University of Tennessee	Univ Toledo Sub HHSN261200433000C	N.A. / HHSN261200433000C	54,559.46
Passed Through Vanderbilt University Medical Center			
Tennessee Technological University	VEHI Subcontract w/Vanderbilt - Amendment #4	N.A. / VUMC31882-R - AMENDMENT NO 4	30,934.73
Subtotal Pass-Through Programs			$ 273,398.86
Subtotal Other Programs			$ 4,311,530.41
Subtotal Department of Health and Human Services			$ 71,643,366.72
Department of Homeland Security			
Direct Programs			

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Tennessee	Homeland Security Research Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Detection	97.077	$	346,406.49
Subtotal Direct Programs			$	346,406.49
Passed Through Washington State University				
Tennessee Technological University	Research Projects	97.002 / N66001-08-C-2030	$	58,550.51
Passed Through University of Minnesota				
University of Tennessee	Centers for Homeland Security	97.061 / P910602528		7,106.87
Passed Through University of Texas				
University of Memphis	Centers for Homeland Security	97.061 / UTAA08063		6,533.44
Passed Through University of Mississippi				
University of Memphis	Nano Coated Metal Oxides	N.A. / 10-07-011		42,563.71
Subtotal Pass-Through Programs			$	114,754.53
Subtotal Department of Homeland Security			$	461,161.02

Other Federal Assistance

Tennessee Valley Authority

Direct Programs

Tennessee Technological University	Collaborative Research Between TVA and TTU and Graduate Student Support	N.A. / RELEASE NO. 11	$	7,661.00
Tennessee Technological University	Robotic Inspection	N.A. / 00023309-6		(6,510.91)
Tennessee Technological University	TVA 12kW Photovotaic Solar Power	N.A. / 71645		3,305.62
Tennessee Technological University	TVA FNET Tools Development	N.A. / RELEASE NO. 15		29,873.90
University of Tennessee	RMC-Federal	N.A. / TVA MEMBERSHIP		59,906.46
University of Tennessee	TVA - 99998950 - PO No. 23272 Hollenbach	N.A. / P.O. NO. 23272		2,760.00
University of Tennessee	TVA 25928 Micropropagation-Trigiano	N.A. / PO 25928		700.00
University of Tennessee	TVA Elec Transp 09 Bailey	N.A. / PO 111475		77,961.65
University of Tennessee	TVA P O # 117755 DeCorse	N.A. / PO # 117755		6,810.04
University of Tennessee	TVA PO # 57476 Tran	N.A. / PO # 57476		85,930.45
University of Tennessee	TVA PO 25673 DeCorse	N.A. / PO 25673		25,416.93
University of Tennessee	TVA PO# 16389 Sedrick	N.A. / PO# 16389		5,000.00
University of Tennessee	TVA Rel #110 Fly Ash Exposure-Match	N.A. / RELEASE #110		2,204.73
University of Tennessee	TVA Release # 72-Rev # 3 - Ruggles	N.A. / RELEASE #72 REV. # 3		8,272.36
University of Tennessee	TVA Release #81 Tanasi Lagoon-Rogers	N.A. / RELEASE #81		1,180.26
University of Tennessee	TVA Release #88 Sedrick	N.A. / RELEASE NO: 88		11,945.67
University of Tennessee	TVA Release 71-Reservoirs Impact-Fly	N.A. / RELEASE #71		17,463.50
University of Tennessee	TVA- Release No. 106 - DeCorse	N.A. / RELEASE NO. 106		53.08
University of Tennessee	TVA XRD Analyses Mies	N.A. / RELEASE #17 REV. #1		4,496.34
University of Tennessee	TVA-99998950 Release No. 105 - Gage	N.A. / 99998950 RELEASE#105		13,588.27
University of Tennessee	TVA-99998950 Release No. 109 - Gage	N.A. / 99998950R109-PO73151		43,114.64

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
University of Tennessee	TVA-PO No. 70146 Driskell	N.A. / PO NUMBER 70146	186,104.11
University of Tennessee	TVA-PO No. 73063 DeCorse	N.A. / PO NUMBER 73063	2,570.28
Subtotal Direct Programs			$ 589,808.38
Passed Through Tennessee Advisory Commission on Intergovernmental Relations			
Middle Tennessee State University	Web Site of Economic Indicators for Tennessee's Economy	N.A. / 16721	$ 13,059.02
Subtotal Pass-Through Programs			$ 13,059.02
Subtotal Tennessee Valley Authority			$ 602,867.40
Nuclear Regulatory Commission			
Direct Programs			
University of Tennessee	U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	$ 54,813.13
University of Tennessee	U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	146,210.66
University of Tennessee	NRC 04-06-066 Stewart	N.A. / NRC-04-06-066	86,399.51
Subtotal Nuclear Regulatory Commission			$ 287,423.30
Subtotal Other Federal Assistance			$ 890,290.70
Total Research and Development Cluster			$ 198,397,358.18
Student Financial Assistance Cluster			
Department of Education			
Direct Programs			
Austin Peay State University	Federal Supplemental Educational Opportunity Grants	84.007	$ 304,054.00
Chattanooga State Community College	Federal Supplemental Educational Opportunity Grants	84.007	212,543.50
Cleveland State Community College	Federal Supplemental Educational Opportunity Grants	84.007	43,540.00
Columbia State Community College	Federal Supplemental Educational Opportunity Grants	84.007	94,115.00
Dyersburg State Community College	Federal Supplemental Educational Opportunity Grants	84.007	63,858.00
East Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	1,008,459.00
Jackson State Community College	Federal Supplemental Educational Opportunity Grants	84.007	183,429.33
Middle Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	813,499.00
Motlow State Community College	Federal Supplemental Educational Opportunity Grants	84.007	122,194.69
Nashville State Community College	Federal Supplemental Educational Opportunity Grants	84.007	191,468.00
Northeast State Community College	Federal Supplemental Educational Opportunity Grants	84.007	141,311.50
Pellissippi State Community College	Federal Supplemental Educational Opportunity Grants	84.007	236,417.95
Roane State Community College	Federal Supplemental Educational Opportunity Grants	84.007	158,919.00

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Southwest Tennessee Community College	Federal Supplemental Educational Opportunity Grants	84.007	377,249.70	
Tennessee State University	Federal Supplemental Educational Opportunity Grants	84.007	1,197,492.67	
Tennessee Technological University	Federal Supplemental Educational Opportunity Grants	84.007	250,881.00	
University of Tennessee	Federal Supplemental Educational Opportunity Grants	84.007	1,378,691.00	
Volunteer State Community College	Federal Supplemental Educational Opportunity Grants	84.007	136,015.20	
Walters State Community College	Federal Supplemental Educational Opportunity Grants	84.007	168,400.00	$ 7,082,538.54
Austin Peay State University	Federal Family Education Loans	84.032	$ 52,590,932.08	
Cleveland State Community College	Federal Family Education Loans	84.032	4,047,477.17	
Dyersburg State Community College	Federal Family Education Loans	84.032	4,664,114.99	
East Tennessee State University	Federal Family Education Loans	84.032	63,310,618.00	
Middle Tennessee State University	Federal Family Education Loans	84.032	76,352.82	
Northeast State Community College	Federal Family Education Loans	84.032	6,153,917.93	
Pellissippi State Community College	Federal Family Education Loans	84.032	14,869,945.85	
Roane State Community College	Federal Family Education Loans	84.032	6,512,619.47	
Tennessee Technological University	Federal Family Education Loans	84.032	1,264,777.10	
University of Tennessee	Federal Family Education Loans	84.032	240,822,300.02	
Volunteer State Community College	Federal Family Education Loans	84.032	6,789,301.32	
Walters State Community College	Federal Family Education Loans	84.032	3,147,569.53	404,249,926.28
Austin Peay State University	Federal Work-Study Program	84.033	$ 370,189.81	
Austin Peay State University	ARRA-Federal Work-Study Program	84.033	71,759.00	
Chattanooga State Community College	Federal Work-Study Program	84.033	192,881.77	
Chattanooga State Community College	ARRA-Federal Work-Study Program	84.033	59,000.00	
Cleveland State Community College	Federal Work-Study Program	84.033	45,324.00	
Cleveland State Community College	ARRA-Federal Work-Study Program	84.033	8,732.00	
Columbia State Community College	Federal Work-Study Program	84.033	118,318.45	
Dyersburg State Community College	Federal Work Study Program	84.033	99,740.81	
East Tennessee State University	Federal Work-Study Program	84.033	706,750.00	
East Tennessee State University	ARRA-Federal Work-Study Program	84.033	273,916.00	
Jackson State Community College	Federal Work-Study Program	84.033	192,783.93	
Middle Tennessee State University	Federal Work-Study Program	84.033	667,166.00	
Motlow State Community College	Federal Work-Study Program	84.033	100,011.08	
Nashville State Community College	Federal Work-Study Program	84.033	99,724.99	
Northeast State Community College	Federal Work-Study Program	84.033	211,196.97	
Northeast State Community College	ARRA-Federal Work-Study Program	84.033	36,357.00	
Pellissippi State Community College	Federal Work-Study Program	84.033	127,718.38	
Pellissippi State Community College	ARRA-Federal Work-Study Program	84.033	47,468.00	
Roane State Community College	Federal Work-Study Program	84.033	258,810.00	
Southwest Tennessee Community College	Federal Work-Study Program	84.033	481,654.00	
Tennessee State University	Federal Work-Study Program	84.033	1,005,718.88	
Tennessee Technological University	Federal Work-Study Program	84.033	336,978.32	
Tennessee Technological University	ARRA-Federal Work-Study Program	84.033	71,053.00	
University of Memphis	Federal Work-Study Program	84.033	1,518,684.69	
University of Tennessee	Federal Work-Study Program	84.033	1,761,872.74	
University of Tennessee	ARRA-Federal Work-Study Program	84.033	417,556.12	

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Volunteer State Community College	Federal Work-Study Program	84.033	39,569.14	
Walters State Community College	Federal Work-Study Program	84.033	55,630.64	
Walters State Community College	ARRA-Federal Work-Study Program	84.033	168,657.37	9,545,223.09
Austin Peay State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	$ 1,276,793.30	
East Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	6,168,306.34	
Jackson State Community College	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	140,588.97	
Middle Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	3,087,042.60	
Tennessee State University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	2,313,707.21	
Tennessee Technological University	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	2,193,812.57	
University of Memphis	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	3,992,251.74	
University of Tennessee	Federal Perkins Loan Program_ Federal Capital Contributions	84.038	30,902,044.74	50,074,547.47
Austin Peay State University	Federal Pell Grant Program	84.063	$ 18,381,942.73	
Chattanooga State Community College	Federal Pell Grant Program	84.063	19,648,417.93	
Cleveland State Community College	Federal Pell Grant Program	84.063	7,442,519.38	
Columbia State Community College	Federal Pell Grant Program	84.063	9,826,724.39	
Dyersburg State Community College	Federal Pell Grant Program	84.063	7,667,754.40	
East Tennessee State University	Federal Pell Grant Program	84.063	19,294,785.00	
Jackson State Community College	Federal Pell Grant Program	84.063	17,244,387.29	
Middle Tennessee State University	Federal Pell Grant Program	84.063	33,869,452.00	
Motlow State Community College	Federal Pell Grant Program	84.063	9,102,322.75	
Nashville State Community College	Federal Pell Grant Program	84.063	17,236,449.25	
Northeast State Community College	Federal Pell Grant Program	84.063	14,587,723.59	
Pellissippi State Community College	Federal Pell Grant Program	84.063	17,046,453.72	
Roane State Community College	Federal Pell Grant Program	84.063	15,458,631.63	
Southwest Tennessee Community College	Federal Pell Grant Program	84.063	35,715,595.23	
Tennessee State University	Federal Pell Grant Program	84.063	19,164,008.78	
Tennessee Technological University	Federal Pell Grant Program	84.063	13,055,948.47	
University of Memphis	Federal Pell Grant Program	84.063	34,347,789.03	
University of Tennessee	Federal Pell Grant Program	84.063	48,787,867.60	
Volunteer State Community College	Federal Pell Grant Program	84.063	14,488,323.00	
Walters State Community College	Federal Pell Grant Program	84.063	14,086,203.13	386,453,299.30
Chattanooga State Community College	Federal Direct Student Loans	84.268	$ 27,539,825.00	
Columbia State Community College	Federal Direct Student Loans	84.268	36,320.00	
Middle Tennessee State University	Federal Direct Student Loans	84.268	108,811,288.91	
Motlow State Community College	Federal Direct Student Loans	84.268	2,526,131.00	
Nashville State Community College	Federal Direct Student Loans	84.268	16,251,561.00	
Pellissippi State Community College	Federal Direct Student Loans	84.268	644,185.00	
Tennessee State University	Federal Direct Student Loans	84.268	63,974,245.00	
Tennessee Technological University	Federal Direct Student Loans	84.268	28,584,219.00	
University of Memphis	Federal Direct Student Loans	84.268	119,580,410.00	367,948,184.91
Austin Peay State University	Academic Competitiveness Grants	84.375	$ 327,947.00	
Chattanooga State Community College	Academic Competitiveness Grants	84.375	177,140.50	
Cleveland State Community College	Academic Competitiveness Grants	84.375	82,529.25	

State of Tennessee
Schedule of Expenditures of Federal Awards
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Columbia State Community College	Academic Competitiveness Grants	84.375	141,258.00	
Dyersburg State Community College	Academic Competitiveness Grants	84.375	42,025.00	
East Tennessee State University	Academic Competitiveness Grants	84.375	654,820.50	
Jackson State Community College	Academic Competitiveness Grants	84.375	279,938.00	
Middle Tennessee State University	Academic Competitiveness Grants	84.375	1,343,990.50	
Motlow State Community College	Academic Competitiveness Grants	84.375	27,899.00	
Nashville State Community College	Academic Competitiveness Grants	84.375	36,063.00	
Northeast State Community College	Academic Competitiveness Grants	84.375	108,044.00	
Pellissippi State Community College	Academic Competitiveness Grants	84.375	316,861.00	
Roane State Community College	Academic Competitiveness Grants	84.375	247,976.62	
Southwest Tennessee Community College	Academic Competitiveness Grants	84.375	188,409.00	
Tennessee State University	Academic Competitiveness Grants	84.375	228,450.50	
Tennessee Technological University	Academic Competitiveness Grants	84.375	727,148.00	
University of Tennessee	Academic Competitiveness Grants	84.375	1,972,706.00	
Volunteer State Community College	Academic Competitiveness Grants	84.375	128,334.00	
Walters State Community College	Academic Competitiveness Grants	84.375	66,852.00	7,098,391.87
Austin Peay State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	$ 237,502.00	
East Tennessee State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	464,723.00	
Middle Tennessee State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	457,969.00	
Tennessee State University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	58,000.00	
Tennessee Technological University	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	533,632.00	
University of Tennessee	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	1,335,376.50	3,087,202.50
Chattanooga State Community College	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	$ 18,192.00	
East Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	16,920.00	
Middle Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	217,961.00	
Tennessee State University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	45,500.00	
Tennessee Technological University	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	293,272.00	
University of Tennessee	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	138,146.00	729,991.00
Subtotal Direct Programs				$ 1,236,269,304.96
Passed Through ELM Resources Corporation				
Columbia State Community College	Federal Family Education Loans	84.032 / N.A.		$ 5,407,418.02

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Subtotal Pass-Through Programs				$ 5,407,418.02
Subtotal Department of Education				$ 1,241,676,722.98
Department of Health and Human Services				
Direct Programs				
University of Tennessee	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342		$ 1,941,996.59
University of Tennessee	Nursing Student Loans	93.364		142,692.89
Austin Peay State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	$ 2,409.00	
Dyersburg State Community College	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	23,554.00	
Middle Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	6,424.00	
Tennessee State University	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	268,531.71	
University of Tennessee	Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	286,728.00	587,646.71
Subtotal Department of Health and Human Services				$ 2,672,336.19
Total Student Financial Assistance Cluster				$ 1,244,349,059.17
SNAP Cluster				
Department of Agriculture				
Direct Programs				
Human Services	Supplemental Nutrition Assistance Program (Noncash Award)	10.551		$ 1,926,728,077.23
Human Services	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	$ 49,817,311.74	
Human Services	ARRA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	6,451,825.72	
Labor and Workforce Development	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	5,124,426.18	61,393,563.64
Subtotal Department of Agriculture				$ 1,988,121,640.87
Total SNAP Cluster				$ 1,988,121,640.87
Child Nutrition Cluster				
Department of Agriculture				
Direct Programs				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	School Breakfast Program	10.553		$ 66,035,165.79
Agriculture	National School Lunch Program (Noncash Award)	10.555	$ 26,296,859.00	
Education	National School Lunch Program	10.555	205,733,345.90	232,030,204.90
Education	Special Milk Program for Children	10.556		22,084.52
Human Services	Summer Food Service Program for Children	10.559		5,209,692.22
Subtotal Department of Agriculture				$ 303,297,147.43
Total Child Nutrition Cluster				$ 303,297,147.43
Emergency Food Assistance Cluster				
Department of Agriculture				
Direct Programs				
Agriculture	Emergency Food Assistance Program (Administrative Costs)	10.568	$ 1,383,123.86	
Agriculture	ARRA-Emergency Food Assistance Program (Administrative Costs)	10.568	901,019.60	$ 2,284,143.46
Agriculture	Emergency Food Assistance Program (Food Commodities) (Noncash Award)	10.569	$ 9,915,088.00	
Agriculture	ARRA-Emergency Food Assistance Program (Food Commodities) (Noncash Award)	10.569	772,682.00	10,687,770.00
Subtotal Department of Agriculture				$ 12,971,913.46
Total Emergency Food Assistance Cluster				$ 12,971,913.46
Schools and Roads Cluster				
Department of Agriculture				
Direct Programs				
Revenue	Schools and Roads - Grants to States	10.665		$ 1,432,479.32
Subtotal Department of Agriculture				$ 1,432,479.32
Total Schools and Roads Cluster				$ 1,432,479.32
Section 8 Project-Based Cluster				
Department of Housing and Urban Development				
Direct Programs				
Tennessee Housing Development Agency	Section 8 Housing Assistance Payments Program	14.195		$ 147,406,389.06
Subtotal Department of Housing and Urban Development				$ 147,406,389.06
Total Section 8 Project-Based Cluster				$ 147,406,389.06
CDBG - Entitlement Grants Cluster				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Department of Housing and Urban Development				
Passed Through City of Johnson City				
East Tennessee State University	Community Development Block Grants/Entitlement Grants	14.218 / 08-0204		$ 31.95
Passed Through City of Murfreesboro				
Middle Tennessee State University	Community Development Block Grants/Entitlement Grants	14.218 / B-09-MC-47-0009		10,414.23
Subtotal Department of Housing and Urban Development				$ 10,446.18
Total CDBG - Entitlement Grants Cluster				$ 10,446.18
CDBG - State-Administered Small Cities Program Cluster				
Department of Housing and Urban Development				
Direct Programs				
Economic and Community Development	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	$ 23,462,642.38	
Tennessee Housing Development Agency	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	21,582,265.08	$ 45,044,907.46
Economic and Community Development	ARRA-Community Development Block Grant/State's program and Non-Entitlement Grants in Hawaii - (Recovery Act Funded)	14.255		1,426,879.66
Subtotal Department of Housing and Urban Development				$ 46,471,787.12
Total CDBG - State-Administered Small Cities Program Cluster				$ 46,471,787.12
Housing Voucher Cluster				
Department of Housing and Urban Development				
Direct Programs				
Tennessee Housing Development Agency	Section 8 Housing Choice Vouchers	14.871		$ 39,113,314.56
Subtotal Department of Housing and Urban Development				$ 39,113,314.56
Total Housing Voucher Cluster				$ 39,113,314.56
CFP Cluster				
Department of Housing and Urban Development				
Passed Through Chattanooga Housing Authority				
Chattanooga State Community College	Public Housing Capital Fund	14.872 / PO 1434-1075	$ 5,764.67	

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Chattanooga State Community College	Public Housing Capital Fund	14.872 / PO 2254-1755	15,121.68	$ 20,886.35
Subtotal Department of Housing and Urban Development				$ 20,886.35
Total CFP Cluster				$ 20,886.35
Fish and Wildlife Cluster				
Department of the Interior				
Direct Programs				
Tennessee Wildlife Resources Agency	Sport Fish Restoration Program	15.605		$ 8,630,891.00
Tennessee Wildlife Resources Agency	Wildlife Restoration	15.611		7,464,042.90
Subtotal Department of the Interior				$ 16,094,933.90
Total Fish and Wildlife Cluster				$ 16,094,933.90
Employment Service Cluster				
Department of Labor				
Direct Programs				
Labor and Workforce Development	Employment Service/Wagner-Peyser Funded Activities	17.207	$ 8,657,926.37	
Labor and Workforce Development	ARRA-Employment Service/Wagner-Peyser Funded Activities	17.207	2,617,454.36	$ 11,275,380.73
Labor and Workforce Development	Disabled Veterans' Outreach Program (DVOP)	17.801		1,033,688.60
Labor and Workforce Development	Local Veterans' Employment Representative Program	17.804		1,755,457.61
Subtotal Department of Labor				$ 14,064,526.94
Total Employment Service Cluster				$ 14,064,526.94
WIA Cluster				
Department of Labor				
Direct Programs				
Labor and Workforce Development	WIA Adult Program	17.258	$ 19,635,642.67	
Labor and Workforce Development	ARRA-WIA Adult Program	17.258	7,906,790.35	$ 27,542,433.02
Labor and Workforce Development	WIA Youth Activities	17.259	$ 20,412,327.29	
Labor and Workforce Development	ARRA-WIA Youth Activities	17.259	14,070,823.56	34,483,150.85
Labor and Workforce Development	WIA Dislocated Workers	17.260	$ 25,838,513.68	
Labor and Workforce Development	ARRA-WIA Dislocated Workers	17.260	17,917,133.57	43,755,647.25
Subtotal Direct Programs				$ 105,781,231.12
Passed Through Alabama Department of Postsecondary Education				

State of Tennessee
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State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Chattanooga State Community College	WIA Adult Program	17.258 / 85112429		$ 1,771.00
Chattanooga State Community College	WIA Youth Activities	17.259 / 84212438		1,352.01
Chattanooga State Community College	WIA Dislocated Workers	17.260 / 85102407		4,582.25
Passed Through Alliance for Business and Training, Incorporated				
East Tennessee State University	ARRA-WIA Adult Program	17.258 / LW01ST91		30,646.58
Passed Through Knoxville Private Industry Council				
Pellissippi State Community College	WIA Adult Program	17.258 / C-629013	$ 246,842.16	
Pellissippi State Community College	WIA Adult Program	17.258 / C-629014	95,791.67	
Pellissippi State Community College	WIA Adult Program	17.258 / C-629044	98,750.00	441,383.83
Passed Through Nashville Career Advancement Center				
Middle Tennessee State University	WIA Adult Program	17.258 / 16351		17,401.57
Volunteer State Community College	ARRA-WIA Adult Program	17.258 / 18847		52,222.82
Passed Through Southeast Tennessee Development District				
Chattanooga State Community College	WIA Adult Program	17.258 / ADULT	$ 19,339.22	
Chattanooga State Community College	WIA Adult Program	17.258 / 09-52-PY8-1SS-STATE	20,279.65	
Chattanooga State Community College	WIA Adult Program	17.258 / 09-52-FY9-4SS-STATE	42,502.42	
Chattanooga State Community College	ARRA-WIA Adult Program	17.258 / ADULT (S)	21,400.15	103,521.44
Chattanooga State Community College	WIA Youth Activities	17.259 / YOUTH	$ 8,452.41	
Chattanooga State Community College	WIA Youth Activities	17.259 / LW05P091YOUTH10	1,515.45	9,967.86
Chattanooga State Community College	WIA Dislocated Workers	17.260 / DSLWKR	$ 105,920.78	
Chattanooga State Community College	ARRA-WIA Dislocated Workers	17.260 / DSLWKR (S)	8,787.30	114,708.08
Passed Through Upper Cumberland Human Resource Agency				
Volunteer State Community College	ARRA-WIA Adult Program	17.258 / 09-08-PY2-065-TTCHMS-	$ 112,558.87	
Volunteer State Community College	ARRA-WIA Adult Program	17.258 / 10-07-999-900-02-ST	118,855.28	
Volunteer State Community College	ARRA-WIA Adult Program	17.258 / 10-07-999-902-02-YUST	8,625.47	240,039.62
Passed Through Workforce Essentials, Incorporated				
Volunteer State Community College	ARRA-WIA Adult Program	17.258 / LW08ST91ADULT09		138,786.66
Passed Through Workforce Solutions				
Middle Tennessee State University	ARRA-WIA Adult Program	17.258 / 09-06-999-002-STUDYPROGRAM		21,000.00
Passed Through City of Memphis				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
University of Memphis	ARRA-WIA Youth Activities	17.259 / Work Force Investment		36,539.28
Passed Through Northwest Georgia Regional Commission				
Chattanooga State Community College	ARRA-WIA Dislocated Workers	17.260 / 01-09-025		3,970.54
Subtotal Pass-Through Programs				$ 1,217,893.54
Subtotal Department of Labor				$ 106,999,124.66
Total WIA Cluster				$ 106,999,124.66
Highway Planning and Construction Cluster				
Department of Transportation				
Direct Programs				
Environment and Conservation	Highway Planning and Construction	20.205	$ 477,812.73	
Transportation	Highway Planning and Construction	20.205	640,323,548.00	
Transportation	ARRA-Highway Planning and Construction	20.205	308,406,618.83	$ 949,207,979.56
Environment and Conservation	Recreational Trails Program	20.219		1,097,320.79
Subtotal Department of Transportation				$ 950,305,300.35
Total Highway Planning and Construction Cluster				$ 950,305,300.35
Federal Transit Cluster				
Department of Transportation				
Direct Programs				
Transportation	Federal Transit_Capital Investment Grants	20.500		$ 3,541,276.86
Subtotal Department of Transportation				$ 3,541,276.86
Total Federal Transit Cluster				$ 3,541,276.86
Transit Services Programs Cluster				
Department of Transportation				
Direct Programs				
Transportation	Capital Assistance Program for Elderly Persons and Persons With Disabilities	20.513		$ 2,184,072.20
Transportation	Job Access_Reverse Commute	20.516		1,405,400.00
Transportation	New Freedom Program	20.521		76,899.14
Subtotal Department of Transportation				$ 3,666,371.34
Total Transit Services Programs Cluster				$ 3,666,371.34
Highway Safety Cluster				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Department of Transportation				
Direct Programs				
Transportation	State and Community Highway Safety	20.600		$ 4,805,537.68
Transportation	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		2,450,404.16
Transportation	Safety Belt Performance Grants	20.609		803,986.44
Transportation	State Traffic Safety Information System Improvement Grants	20.610		675,544.82
Transportation	Incentive Grant Program to Prohibit Racial Profiling	20.611		845,006.72
Transportation	Incentive Grant Program to Increase Motorcyclist Safety	20.612		24,706.97
Transportation	Child Safety and Child Booster Seats Incentive Grants	20.613		337,562.77
Subtotal Department of Transportation				$ 9,942,749.56
Total Highway Safety Cluster				$ 9,942,749.56
Title I, Part A Cluster				
Department of Education				
Direct Programs				
Education	Title I Grants to Local Educational Agencies	84.010		$ 262,932,035.73
Education	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389		84,925,554.99
Subtotal Direct Programs				$ 347,857,590.72
Passed Through Alabama Department of Education				
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / COU0404	$ 455.45	
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / CBU0535	94,971.87	
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / C0U0002	80,000.00	$ 175,427.32
Passed Through Virginia Department of Education				
University of Memphis	Title I Grants to Local Educational Agencies	84.010 / SES CREP 2008		74,593.94
Passed Through Hamilton County Department of Education				
Chattanooga State Community College	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389 / S389A090042		35,967.11
Passed Through Union County Schools				
University of Tennessee	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	84.389 / HIGH SCH REDESIGN EV		16,260.48
Subtotal Pass-Through Programs				$ 302,248.85
Subtotal Department of Education				$ 348,159,839.57

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Total Title I, Part A Cluster				$ 348,159,839.57
Special Education Cluster (IDEA)				
Department of Education				
Direct Programs				
Education	Special Education_Grants to States	84.027		$ 215,388,788.30
Education	Special Education_Preschool Grants	84.173		5,229,569.50
Education	ARRA-Special Education Grants to States, Recovery Act	84.391		104,501,657.57
Education	ARRA-Special Education - Preschool Grants, Recovery Act	84.392		2,709,691.35
Subtotal Department of Education				$ 327,829,706.72
Total Special Education Cluster (IDEA)				$ 327,829,706.72
TRIO Cluster				
Department of Education				
Direct Programs				
Austin Peay State University	TRIO_Student Support Services	84.042	$ 260,601.39	
Dyersburg State Community College	TRIO_Student Support Services	84.042	324,791.40	
East Tennessee State University	TRIO_Student Support Services	84.042	316,708.53	
Middle Tennessee State University	TRIO_Student Support Services	84.042	269,340.27	
Northeast State Community College	TRIO_Student Support Services	84.042	298,776.50	
Pellissippi State Community College	TRIO_Student Support Services	84.042	281,144.08	
Tennessee State University	TRIO_Student Support Services	84.042	301,866.32	
University of Memphis	TRIO_Student Support Services	84.042	282,459.39	
University of Tennessee	TRIO_Student Support Services	84.042	950,984.46	
Volunteer State Community College	TRIO_Student Support Services	84.042	245,365.96	$ 3,532,038.30
East Tennessee State University	TRIO_Talent Search	84.044	$ 236,497.08	
Middle Tennessee State University	TRIO_Talent Search	84.044	171,858.97	
Tennessee State University	TRIO_Talent Search	84.044	259,916.66	
University of Tennessee	TRIO_Talent Search	84.044	244,222.32	912,495.03
Austin Peay State University	TRIO_Upward Bound	84.047	$ 865,197.80	
Dyersburg State Community College	TRIO_Upward Bound	84.047	296,676.35	
East Tennessee State University	TRIO_Upward Bound	84.047	1,245,370.85	
Southwest Tennessee Community College	TRIO_Upward Bound	84.047	315,577.66	
Tennessee State University	TRIO_Upward Bound	84.047	293,141.12	
University of Tennessee	TRIO_Upward Bound	84.047	1,883,420.32	4,899,384.10
Austin Peay State University	TRIO_Educational Opportunity Centers	84.066	$ 304,816.47	
East Tennessee State University	TRIO_Educational Opportunity Centers	84.066	223,115.35	
Southwest Tennessee Community College	TRIO_Educational Opportunity Centers	84.066	212,730.70	
University of Tennessee	TRIO_Educational Opportunity Centers	84.066	726,640.13	1,467,302.65

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
East Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement	84.217	$ 240,101.61	
Middle Tennessee State University	TRIO_McNair Post-Baccalaureate Achievement	84.217	246,011.91	486,113.52
Subtotal Department of Education				$ 11,297,333.60
Total TRIO Cluster				$ 11,297,333.60
Vocational Rehabilitation Cluster				
Department of Education				
Direct Programs				
Human Services	Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126		$ 49,404,137.80
Human Services	ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390		12,156,652.05
Subtotal Department of Education				$ 61,560,789.85
Total Vocational Rehabilitation Cluster				$ 61,560,789.85
Early Intervention Services (IDEA) Cluster				
Department of Education				
Direct Programs				
Education	Special Education-Grants for Infants and Families	84.181		$ 7,330,580.57
Education	ARRA-Special Education - Grants for Infants and Families, Recovery Act	84.393		1,523,571.04
Subtotal Department of Education				$ 8,854,151.61
Total Early Intervention Services (IDEA) Cluster				$ 8,854,151.61
Educational Technology State Grants Cluster				
Department of Education				
Direct Programs				
Education	Educational Technology State Grants	84.318		$ 4,198,107.13
Education	ARRA-Education Technology State Grants, Recovery Act	84.386		4,649,606.35
Subtotal Department of Education				$ 8,847,713.48
Total Educational Technology State Grants Cluster				$ 8,847,713.48
State Fiscal Stabilization Fund Cluster				
Department of Education				
Direct Programs				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	$ 172,400,000.00	
Finance and Administration	ARRA-State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	149,959,639.76	$ 322,359,639.76
Correction	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	$ 46,908,600.00	
Education	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	39,449,475.82	
Health	ARRA-State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	3,916,810.02	90,274,885.84
Subtotal Department of Education				$ 412,634,525.60
Total State Fiscal Stabilization Fund Cluster				$ 412,634,525.60
Aging Cluster				
Department of Health and Human Services				
Direct Programs				
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044		$ 8,538,757.75
Commission on Aging and Disability	Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045		12,249,823.10
Commission on Aging and Disability	Nutrition Services Incentive Program	93.053		1,822,900.00
Commission on Aging and Disability	ARRA-Aging Home-Delivered Nutrition Services for States	93.705		411,358.00
Commission on Aging and Disability	ARRA-Aging Congregate Nutrition Services for States	93.707		817,376.00
Subtotal Department of Health and Human Services				$ 23,840,214.85
Total Aging Cluster				$ 23,840,214.85
Immunization Cluster				
Department of Health and Human Services				
Direct Programs				
Health	Immunization Grants	93.268	$ 2,634,493.12	
Health	Immunization Grants (Noncash Award)	93.268	64,010,156.00	$ 66,644,649.12
Health	ARRA - Immunization	93.712		84,213.61
Subtotal Department of Health and Human Services				$ 66,728,862.73
Total Immunization Cluster				$ 66,728,862.73
TANF Cluster				
Department of Health and Human Services				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Direct Programs				
Human Services	Temporary Assistance for Needy Families	93.558		$ 207,235,644.66
Human Services	ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714		24,768,695.54
Subtotal Department of Health and Human Services				$ 232,004,340.20
Total TANF Cluster				$ 232,004,340.20
CSBG Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Community Services Block Grant	93.569		$ 12,020,207.59
Human Services	ARRA - Community Services Block Grant	93.710		17,052,646.99
Subtotal Department of Health and Human Services				$ 29,072,854.58
Total CSBG Cluster				$ 29,072,854.58
CCDF Cluster				
Department of Health and Human Services				
Direct Programs				
Human Services	Child Care and Development Block Grant	93.575	$ 109,617,168.34	
University of Tennessee	Child Care and Development Block Grant	93.575	55,704.63	$ 109,672,872.97
Human Services	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		71,227,363.71
Human Services	ARRA - Child Care and Development Block Grant	93.713		30,061,694.54
Subtotal Direct Programs				$ 210,961,931.22
Passed Through Signal Centers, Incorporated				
University of Tennessee	Child Care and Development Block Grant	93.575 / GR-09-25256-00	$ (83.68)	
University of Tennessee	Child Care and Development Block Grant	93.575 / GR-09-25256	457,315.99	$ 457,232.31
Subtotal Pass-Through Programs				$ 457,232.31
Subtotal Department of Health and Human Services				$ 211,419,163.53
Total CCDF Cluster				$ 211,419,163.53
Head Start Cluster				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Department of Health and Human Services				
Direct Programs				
Education	Head Start	93.600	$ 130,234.56	
Tennessee State University	Head Start	93.600	1,655,725.90	$ 1,785,960.46
Tennessee State University	ARRA - Head Start	93.708		64,028.48
Tennessee State University	ARRA - Early Head Start	93.709		1,464.98
Subtotal Direct Programs				$ 1,851,453.92
Passed Through American Alliance for Health				
University of Memphis	Head Start	93.600 / US DHHS VIA AAHPERD		$ 54,645.04
Passed Through Shelby County Government				
University of Memphis	Head Start	93.600 / CA074475	$ 6,077.30	
University of Memphis	Head Start	93.600 / CA084475	293,264.37	299,341.67
Subtotal Pass-Through Programs				$ 353,986.71
Subtotal Department of Health and Human Services				$ 2,205,440.63
Total Head Start Cluster				$ 2,205,440.63
Medicaid Cluster				
Department of Health and Human Services				
Direct Programs				
Tennessee Bureau of Investigation	State Medicaid Fraud Control Units	93.775		$ 2,458,587.95
Health	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		8,072,397.87
Finance and Administration	Medical Assistance Program	93.778	$ 5,490,242,802.00	
Finance and Administration	ARRA-Medical Assistance Program	93.778	777,396,486.00	6,267,639,288.00
Subtotal Direct Programs				$ 6,278,170,273.82
Passed Through University Health System, Incorporated				
University of Tennessee	Medical Assistance Program	93.778 / GMEP		$ 27,392,931.38
Subtotal Pass-Through Programs				$ 27,392,931.38
Subtotal Department of Health and Human Services				$ 6,305,563,205.20
Total Medicaid Cluster				$ 6,305,563,205.20
Disability Insurance/SSI Cluster				
Social Security Administration				
Direct Programs				
Human Services	Social Security_Disability Insurance	96.001		$ 60,104,221.10
Subtotal Social Security Administration				$ 60,104,221.10

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues	
Total Disability Insurance/SSI Cluster				$ 60,104,221.10
Homeland Security Cluster				
Department of Homeland Security				
Direct Programs				
Military	Homeland Security Grant Program	97.067		$ 7,208,112.64
Subtotal Direct Programs				$ 7,208,112.64
Passed Through City of Knoxville				
University of Tennessee	Homeland Security Grant Program	97.067 / C-09-0173	$ 21,118.86	
University of Tennessee	Homeland Security Grant Program	97.067 / C-10-0091	594.06	$ 21,712.92
Subtotal Pass-Through Programs				$ 21,712.92
Subtotal Department of Homeland Security				$ 7,229,825.56
Total Homeland Security Cluster				$ 7,229,825.56
Independent Living State Grants Cluster				
Department of Education				
Direct Programs				
Human Services	Independent Living_State Grants	84.169		$ 278,790.52
Human Services	ARRA-Independent Living State Grants, Recovery Act	84.398		27,855.12
Subtotal Department of Education				$ 306,645.64
Total Independent Living State Grants Cluster				$ 306,645.64
Independent Living Services for Older Individuals Who Are Blind Cluster				
Department of Education				
Direct Programs				
Human Services	Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177		$ 479,640.02
Human Services	ARRA-Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399		418,522.68
Subtotal Department of Education				$ 898,162.70
Total Independent Living Services for Older Individuals Who Are Blind Cluster				$ 898,162.70
Education of Homeless Children and Youth Cluster				
Department of Education				

State of Tennessee
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

State Grantee Agency	Program Name	CFDA / Other Identifying Number	Disbursement/Issues
Direct Programs			
Education	Education for Homeless Children and Youth	84.196	$ 1,292,625.54
Education	ARRA-Education for Homeless Children and Youth, Recovery Act	84.387	467,896.77
Subtotal Department of Education			$ 1,760,522.31
Total Education of Homeless Children and Youth Cluster			$ 1,760,522.31
Teacher Quality Partnership Grants Cluster			
Department of Education			
Direct Programs			
University of Memphis	Teacher Quality Partnership Grants	84.336	$ (6,510.32)
Subtotal Direct Programs			$ (6,510.32)
Passed Through Council for Economic Education			
University of Tennessee	Teacher Quality Partnership Grants	84.336 / TT-0901600	$ 2,137.22
Subtotal Pass-Through Programs			$ 2,137.22
Subtotal Department of Education			$ (4,373.10)
Total Teacher Quality Partnership Grants Cluster			$ (4,373.10)
Statewide Data Systems Cluster			
Department of Education			
Direct Programs			
Education	Statewide Data Systems	84.372	$ 161,385.81
Subtotal Department of Education			$ 161,385.81
Total Statewide Data Systems Cluster			$ 161,385.81
School Improvement Grants Cluster			
Department of Education			
Direct Programs			
Education	School Improvement Grants	84.377	$ 6,812,229.04
Subtotal Department of Education			$ 6,812,229.04
Total School Improvement Grants Cluster			$ 6,812,229.04
Grand Total Federal Assistance			$ 16,900,466,429.35

N.A. = Not Available

The accompanying notes are an integral part of this schedule.

NOTE 1. PURPOSE OF THE SCHEDULE

The Single Audit of the State of Tennessee for the year ended June 30, 2010, was conducted in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, which requires a disclosure of the financial activities of all federally funded programs. To comply with the circular, the Department of Finance and Administration required each department, agency, and institution that expended direct or pass-through federal funding during the year to prepare a schedule of expenditures of federal awards and reconciliations with both the state's accounting system and grantor financial reports. The schedules for the departments, agencies, and institutions were combined to form the Schedule of Expenditures of Federal Awards for the State of Tennessee. The schedules for the technology centers have been combined with the schedules for the community colleges designated as their lead institutions.

NOTE 2. BASIS OF ACCOUNTING FOR PRESENTATION OF SCHEDULE

The Schedule of Expenditures of Federal Awards is reported on the accrual basis of accounting.

NOTE 3. UNEMPLOYMENT INSURANCE

State unemployment tax revenues and other payments and revenues are combined with federal funds and used to pay benefits under the Unemployment Insurance (CFDA 17.225) program. The state and federal portions of the total expenditures reported in the Schedule of Expenditures of Federal Awards were $754,286,443.99 and $1,449,260,558.44, respectively.

NOTE 4. LOAN AND LOAN GUARANTEE PROGRAMS

Federal Perkins Loan Program_Federal Capital Contributions (CFDA 84.038); Nurse Faculty Loan Program (NFLP) (CFDA 93.264); Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342); and Nursing Student Loans (CFDA 93.364): Institutions of higher education within the State reporting entity administer these federal student loan programs. Expenditures of federal awards in the accompanying Schedule of Expenditures of Federal Awards include the value of new loans made during the year, the balance of loans from previous years subject to federal continuing compliance requirements, and administrative cost allowances.

Loan balances outstanding at year-end:

Program	CFDA #	Amount Outstanding
Federal Perkins Loan Program_Federal Capital Contributions	84.038	$50,060,683.47
Nurse Faculty Loan Program (NFLP)	93.264	$62,374.80
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	$1,941,996.59
Nursing Student Loans	93.364	$142,692.89

Federal Family Education Loans (CFDA 84.032) and Federal Direct Student Loans (CFDA 84.268): The loans under these programs are made by outside lenders to students at institutions of higher education within the State reporting entity. The institutions are responsible for certain administrative requirements for new loans. As a result, the value of loans made during the year and administrative cost allowances are recognized as expenditures of federal awards in the accompanying Schedule of Expenditures of Federal Awards. The balance of loans for previous years is not included because the lender accounts for the prior balances.

The Federal Family Education Loans are insured by the Tennessee Student Assistance Corporation (TSAC), a component unit. At June 30, 2010, the insured loans outstanding totaled $4,456,227,576.02. Expenditures of the federal award to TSAC for administrative cost allowances and payments on defaulted loans are reported in the unclustered section of the accompanying Schedule of Expenditures of Federal Awards.

NOTE 5. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

STATE OF TENNESSEE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDING 6/30/2010

FINDING NUMBER	FINDING	STATE AGENCY	CONTACT PERSON	ANTICIPATED CORRECTIVE ACTION AND COMPLETION DATE
10-DCS-01	Similar to findings over the past eight years, the Department of Children's Services has made certain adoption assistance payments that were not justified by supporting documentation	Department of Children's Services	Kathryn O'Day	As of February 2011, staff responsible for subsidies has completely transitioned under the direct management and supervision of Central Office for ongoing maintenance and oversight of subsidy records. Central office staff will be responsible for timely eligibility determinations for subsidies paid past the child's 18th birthday, including accurate entry into Tennessee Family and Child Tracking System (TFACTS). Central Office staff will conduct quarterly Case Process Reviews of subsidy records to ensure documentation to support any rate paid beyond the regular adoption assistance rate is located in the file and also in TFACTS. The Director of Foster Care & Adopton will provide training to staff, during the next quarterly Permanency meetings, regarding the submitting of a waiver of the 90 day requirement. In addition, the Department has refunded the total amount of questioned costs to the US Department of Health and Human Services. The Department has refunded $21,271.31, which included $1,844.71 of ARRA funds, on January 25,2011. In addition, the Department refunded $4,536.69 on February 15, 2011, which included $394.29 of ARRA funds. To support compliance with federal TItle IV-E Adoption Assistance eligibility requirements, the state of Tennessee has also developed and deployed a new Statewide Automated Child Welfare Information System (SACWIS). Built within Tenneessee's SACWIS is functionality to support the automated determination of Title IV-E and State Funded Adoption Assistance eligibility.
10-DFA-01	As reported in the previous audit, TennCare did not redetermine eligibility for some enrollees, or have controls in place to appropriately terminate ineligible enrollees; in addition, certain TennCare Standard enrollees are not listed in ACCENT, and an undocumented alien was improperly enrolled during the audit period, all of which resulted in total questioned costs of $22,615	Department of Finance and Administration	Mark Emkes	Enrollees' Benefits Not Terminated Properly - TennCare is creating a new report that would be generated to identify cases with overlapping Medicaid and Standard eligibility. The report is currently in testing and is expected to be available before the end of the fiscal year. TennCare is also testing a system modification as part of the reverification of Standard children. In addition, TennCare has also initiated a seperate system correction to resolve cases with overlapping eligibility. Enrollees' Not Redetermined on an Annual Basis - TennCare is currently working to make system modifications to ensure that the reverification process for TennCare Standard children is consistent with the process that was approved by CMS, the 6th Circuit Court of Appeals in the Rosen case, and as required by 42 CFR 435.916(a). System corrections are currently in testing and are expected to be implemented before the end of the fiscal year. The Bureau's risk assessments were updated on November 22, 2010. Certain TennCare Standard Enrollees Not Listed in ACCENT and Benefits Not Terminated Properly - These enrollees are part of the reverification process for TennCare Standard children mentioned above that is currently in testing. All of the individuals should complete the reverification process in calendar year 2011. An Undocumented Alien Was Improperly Enrolled -TennCare provides reimbursement to hospitals for emergency services provided to undocumented aliens. Undocumented aliens are not eligible for TennCare benefits and should not be enrolled. The undocumented alien in this case had eligibility added to the ACCENT system based on a keying entry error. TennCare has researched this case and determined that no claims were paid on behalf of this enrollee. TennCare Fiscal is in the process of recouping from the MCCs any capitation payments TennCare paid for this individual. While system controls currently exist, TennCare has discovered an error in the Department of Human Services (DHS) system that allowed this case to be approved. System staff at DHS is currently in the process of modifying the ACCENT system to prevent this error from occurring again. In addition, TennCare is also running a monthly report to identify individuals who may have been added in error. DHS will be notified and corrective action will begin immediately on any problems noted.
10-DFA-02	Management did not maintain proper controls over TennCare's management information system to mitigate the risks of unauthorized system access and data being compromised	Department of Finance and Administration	Mark Emkes	The agency concurred in part with this finding. Several of the noted exceptions in the finding predate the current *Security Unit Procedure Guide for Provisioning (Granting Access)* and predate the substantial documentation, system and process changes that the Bureau has implemented over the last several years. The current documentation, systems and process are designed to prevent the noted historial deficiencies. Notwithstanding these comments, and consistent with our ongoing focus on quality improvement , the Bureau will initiate additional actions to address historical deficiencies and will implement additional system and process changes and controls in response to this finding. The Bureau risk assessment did identify risks and mitigating controls related to system security administration. The risk assessment will be revised and expanded to capture additional information.

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10-DFA-03	Internal Controls did not prevent material missstatement in the Employment Security fund's financial statements	Department of Finance and Administration	Mark Emkes	Department of Finance and Administration- The audit revealed information available on the U.S. Treasury Trust Fund website which has been incorporated as a step in the analytical review process for the future. To enhance communications, and the controls and procedures in place for addressing risks of reliance on the financial information processed by state agencies, the department will expand its use of agency year end closing checklists in an attempt to ensure that agency fiscal offices perform necessary reconciliations and detailed analytical reviews. Department of Labor and Workforce Development- There were delays in Fund Accounting's ability to enter transactions into Edison (the state's new accounting system). The Fund Accounting Unit continues to implement Edison as its accounting system. Staff will use available Edison queries to monitor Edison activity for timeliness, completeness, and accuracy. Staff will perform the appropriate reconciliations to ensure that the state's accounting records are in agreement with the U.S. Treasury's records, which will include comparing the amount of federal cash in the general ledger at fiscal year -end to the U.S. Department of Treasury's website. Management will update the annual risk assessment to note the improved internal controls in the Fund Accounting Unit.
10-DFA-04	Internal Controls did not prevent material missstatement in the Highway fund's financial statements	Department of Finance and Administration	Mark Emkes	Department of Finance and Administration - To improve communication with agency fiscal officers, a checklist will be developed for future closings to ensure that agency fiscal offices perform necessary reconciliations and detailed analytical reviews so that they may be more accountable for their financial activity. Department of Transportation - A contributing factor in not detecting this misstatement was the unusually large number of lines to be reviewed on the journal entry in question. To reduce the number of lines, financial transactions, journals and other accounting data will be processed more timely and the results reviewed on a regular basis. Procedures, checklists and other methods are currently being developed by the Department of Finance and Administration, which will be used to validate appropriate transactions and account balances.
10-DHS-01	The Department of Human Services did not ensure that the subrecipients followed key controls over the Weatherization Assistance for Low-Income Persons program, resulting in federal questioned costs totaling $92,448 and increased risk of fraud, waste, abuse and additional noncompliance	Department of Human Services	Dr. Raquel Hatter	The Department of Human Services (DHS) did not concur with this finding. DHS stated that they have developed a transparent and accountable weatherization program designed to adapt to the multimillion dollar increase in funding that was received as a result of the American Recovery and Reinvestment Act of 2009 (ARRA). The department agreed that the Subrecipients responsible for the direct administration of the program has sometimes lacked the proper controls over administering the program, however the department did not agree that they failed to ensure key controls were in place. DHS disagreed that it resulted in questioned cost in the amount of $92,448. The department stated that the only costs incurred in the finding which has not already been questioned to the Subrecipient is $36,137.
10-DHS-02	The Department of Human Services did not ensure that the subrecipients accurately determined eligibility and maintained adequate eligibility documentation for the Weatherization Assistance for Low-Income Persons program, which resulted in federal questioned costs of $93,913	Department of Human Services	Dr. Raquel Hatter	The Department of Human Services did not concur with this finding. The Department stated that they have developed a transparent and accountable weatherization program designed to adapt to the multi-million dollar increase in funding that was received as a result of the American Recovery and Reinvestment Act of 2009 (ARRA). The Department agrees that the Subrecipients responsible for the direct administration of the program have not always appropriately maintained adequate eligibility documentation. However, this has not resulted in question cost in the amount of $93,913. The department stated that the only costs incurred in this finding which has not already been questioned to the Subrecipient are $31,880.
10-DHS-03	The Department of Human Services failed to deny Temporary Assistance for Needy Families benefits for participants who failed to cooperate with child support requirements, resulting in federal questioned costs of $23,819	Department of Human Services	Dr. Raquel Hatter	The agency has created a new report that comes directly from the Tennessee Child Support Enforcement System (TCSES). By utilizing this report, rather than relying on the interface between the Automated Client Certification and Eligibility Network for Tennessee (ACCENT) and TCSES, we are assured of receiving all of the proper non-cooperation alerts. As to the 34 cases that have been identified as non-cooperating, we have sanctioned the individuals in 15 of the cases. The remaining 19 cases have been resolved.
10-DHS-04	The department failed to submit federally required financial reports and did not submit seven federally required reports to federal agencies timely	Department of Human Services	Dr. Raquel Hatter	Reports Not Submitted -The Department has assumed that the submission of the Community Services Block Grant (CSBG)-IS programmatic reports, which includes the required financial information, has satisifed the quarterly CSBG reporting requirement. The Department and our CSBG federal partners have agreed that the reporting confusion can be resolved by the department submitting SF-269 to satisfy all future quarter CSBG reporting requirements. Reports Submitted Late - The Child Care Development Fund (CCDF) and the Temporary Assistance to Needy Families (TANF) final reporting is not the same date. Because they do not coincide, the department will submit the CCDF report timely and revise as necessary to reflect the final TANF reporting information. The submission of the SSA-4514 was delayed during the audit period because of the department's conversion to Edison (State's new accounting system). During the conversion, the informaton for the SSA-4514 had to be obtained from an Edison query that only Edison staff could run which caused delays. With the full implementation of Edison, this query is run by Department of Human Resource's staff on a regular basis and supplied timely to the department. If the agency/department determines it unlikely that staff can submit federal reports by deadlines, the agency will notify the federal grantor and request an extention to the deadline. Documentation of this request will be maintained. Management staff shall periodically reassess risks associated with federal reporting and develop controls to address risks.

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10-DOC-01	Management at the Department of Correction failed to develop a program-specific risk assessment process for ARRA funds, thus increasing the risk of noncompliance	Department of Correction	Derrick D. Schofield	The Director of Budget and Fiscal Services will ensure that for any future American Recovery and Reinvestment Act (ARRA) funded programs a risk-assessment process is developed and implemented. This process will include risk identification, evaluation, and mitigation plans that address meeting program requirements and objectives as required by Tennessee Recovery Act Management (TRAM) directives. In addition, management will review funds received from federal sources to ensure compliance with all federal regulations and compliance requirements.
10-DOT-01	Department of Transportation staff inappropriately charged expenditures to the Highway Planning and Construction program, resulting in federal questioned costs of $842.93	Department of Transportation	John Schroer	The error was a result of mistakes on two transactions. One was a freight charge of $839.08 and the other was a charge for Tennessee Department of Transportation (TDOT) equipment usage of $8.35. A credit invoice for the freight charge was received and processed in November 2010. An acceptable process to correct equipment usage mistakes in Edison (State's new accounting system) is still being developed. Once a process has been developed, tested and implemented, a correction of the $3.85 will be entered.
10-DOT-02	The Department of Transportation overcharged the Federal Highway Administration when it used an incorrect matching percentage, resulting in federal questioned costs of $79.32	Department of Transportation	John Schroer	An invoice for $396.60 was apparently entered without using a speedchart and 100% of the amount was mistakenly charged to Federal Highway Administration (FHWA). This resulted in an overcharge to the FHWA of $79.32, since the allowable amout was 80% of $396.60 or $317.28. A correcting entry was posted on October 27, 2010.
10-DOT-03	Controls over the vehicle inventory for the Formula Grants for Other Than Urbanized Areas program were inadequate, increasing the risk of misuse of grant program assets	Department of Transportation	John Schroer	To address the deficiencies, the Division of Multimodal Transportation Resources (DMTR) will take the following corrective actions: 1) the Division will retain the original ownership titles of all vehicles purchased with federal and state funds. 2) The Division will collaborate with the Tennessee Public Transportation Association Maintenance Alliance to obtain data on the results of vehicle inspections and to ensure all agency vehicles are inspected and required information is collected. 3) The Division will require the public transit agencies to provide information from vehicle inspections required by the TennCare program and performed by authorized representatives of the Managed Care Organizations Program. 4) The Division will require the public transit agencies to provide information from vehicle safety inspections performed by the Tennessee Department of Safety. 5) The Division will incorporate a review of vehicle inspection records as a part of their review process. The revised DMTR State Management Plan will incorporate the actions stated above and the revisions implemented upon approval by the Federal Transit Administration.
10-DOT-04	The Department of Transportation overcharged the Federal Transit Administration when it used incorrect matching percentages, resulting in federal questioned costs of $23,510.86	Department of Transportation	John Schroer	The Federal Transit Administration's State administrative assistance (100% federal funds) and the project administrative assistance (80% federal funds) were combined into one line item in the Edison system. The subrecipient amended its budget to correct the error, and billed appropriately thereafter. The Division of Multimodal Transportation revised the Detail Summary for Reimbursement Requests to clearly define the type of administrative assistance and the appropriate percentage of federal funding. The application and contracts pertaining to the incorrect matching rate used for service vehicle purchase was reviewed. It was determined that in the Intercity Bus Service Program (U.S.C 5311(f)) application for funding, the Planner IV used the ADA 83% federal rate for capital purchases. The Division will ensure that future applications include the appropriate capital match and identify capital items eligible for the ADA 83% federal funding.
10-DOT-05	Department staff did not review construction contracts to verify that program subrecipients had ensured compliance with the Davis-Bacon Act, increasing the risk of workers not receiving the prevailing wage rates	Department of Transportation	John Schroer	All staff members with the Division of Multimodal Transportation Resources have been provided with guidance regarding Federal Transit Administration required third-party contract clauses. The guidance will be referenced when reviewing third party contracts. This will ensure that the applicable clauses are included in contracts executed by subrecipients. The division is responsible for subrecipient compliance with the Davis-Bacon Act and will take corrective action to address the deficiencies identified in this finding.
10-DOT-06	Incorrect reporting methodology and lack of a proper reconciliation resulted in the department misstating amounts on the required federal reports and not detecting significant unbilled costs	Department of Transportation	John Schroer	The Finance Division will prepare the Standard Form (SF)-425 Federal Financial Reports to the Federal Transit Administration (FTA) and will submit a copy to the Division of Multimodal Transportation Resources to be used to reconcile federal grant drawdowns from FTA to the expenditures paid to subrecipients. Also, the Finance Division will run a series of queries designed to ensure that all billable expenditures are billed to the applicable entity in a timely manner.
10-DOT-07	The Department of Transportation's Division of Multimodal Transportation Resources failed to thoroughly and adequately review subrecipients' reimbursement requests and ultimately paid subrecipients with federal funds from the Formula Grants for Other Than Urbanized Areas program, resulting in federal questioned costs of $79,020.93 and state questioned costs of $7,238.29	Department of Transportation	John Schroer	The Division of Multimodal Transportation Resources(DMTR) implemented corrective action by discontinuing service on routes not in compliance with Federal Transit Administration (FTA)policy for the Intercity Bus Program, U.S.C. 5311(f). The subreceipient received notification in November 2010 to suspend all operations and to not incur additional expenses related to the Intercity Bus Program grant contracts. In addition, The DMTR will ensure that all staff has the current Department of Finance and Administration Policy 8, "Comprehensive Travel Regulations" and U.S. General Services Administration CONUS information when reviewing reimbursement requests. Written guidelines regarding the supporting documentation required to process invoices has been developed and distributed to transit agencies, division staff, and the Tennessee Public Transportation Association. Weekly training for all DMTR staff has been implemented. Copies of all FTA Program Circulars are bound and placed in a centralized location available to all staff. The Department is currently in contact with the subrecipients to address resolution of the questioned costs.

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10-DOT-08	In some instances, the department did not comply with the Department of Finance and Administration's subrecipient monitoring requirements, thereby increasing the risk of not detecting fraud, waste, abuse and noncompliance by subrecipients	Department of Transportation	John Schroer	The various program areas of the Department will take steps to ensure that an annual risk assessment is completed for all subrecipients and that risk factors are properly documented. The Finance Office will ensure that fiscal monitoring reviews are completed and that subrecipients submit required corrective action plans timely.
10-DOT-09	The Department of Transportation did not reconcile the Schedule of Expenditures of Federal Awards to federal reports and the accounting records	Department of Transportation	John Schroer	Finance Office staff responsible for the department's Schedule of Expenditures of Federal Awards (SEFA) shall comply with the Department of Finance and Administration (F&A) SEFA instructions. Query results and reconciliations performed for SEFA purposes, shall be forwarded to Finance & Administration along with the SEFA. Prior to submission to F&A, the SEFA query results and reconciliations shall be reviewed for accuracy and completeness by the Assistant Director of Finance.
10-DOT-10	The Tennessee Department of Transportation did not establish and maintain internal controls over the Formula Grants for Other Than Urbanized Areas program, which created an atmosphere for fraud, waste, and abuse to occur and resulted in material noncompliance with federal questioned costs of $452,369.72 and state questioned costs of $46,135.88	Department of Transportation	John Schroer	The Division of Multimodal Transportation Resources (DMTR) will ensure that any future application solicitations for the Intercity Bus Program will include grading criteria so that there is full disclosure regarding the method for grading all proposals. The current Director of Operations for the DMTR has implemented weekly training for all Multimodal staff. Copies of all FTA Program Circulars are placed in a centralized location available for all staff. The currect Director of Operations for the Division of Multimodal Transportation Resources has worked closely with the Division of Finance Director to develop written guidelines regarding the supporting documentation required to process invoices. The new guidelines have been distributed to transit agencies, Tennessee Public Transportation Association and to Division staff. None of the staff members involved or responsible for the initial implementation and management of the Intercity Bus Program 5311(f) are currently employed with the Department of Transportation. The agency is currently in contact with subrecipients to address resolution of the questioned costs.
10-ECD-01	The Department of Economic & Community Development did not file quarterly reports to the United States Department of Housing and Urban Development in a timely manner	Department of Economic & Community Development	Bill Hagerty	The department is committed to stewardship and accountability of federal and state funds and has begun the process of establishing new business practices that will align with Edison, the state's new Enterprise Resource Planning system. The new business practices will allow for timely submittal of the quarterly Federal Cash Transactions Reports (SF-272) to the Department of Housing and Urban Development (HUD).
10-TBR-01	Some institutions under the Tennessee Board of Regents' statutory responsibility failed to follow established policies and procedures for ARRA reports, purchases, and property, which increased the risk of errors, noncompliance, fraud, waste, and abuse	Tennessee Board of Regents	John Morgan	To continue to be vigilant in its current oversight role the Tennessee Board of Regents (TBR) activities include: conducting quarterly meetings of institutional leadership staff in various functional areas to review policies and procedures and the results of internal and external audits; the review and approval of certain purchasing, personnel and other transactions by staff to ensure compliance with state law and TBR policies; quarterly discussion of significant operational issues with institutional Presidents and Directors; and a system wide internal audit effort. TBR will emphasize: 1) the importance of following policies and procedures regarding reviews/reconciliations; 2) importance of ensuring that purchasing policies and procedures are consistently followed; 3) importance of following property/equipment policies and procedures and 4)important of performing risk assessments.
10-TDEC-01	The management and staff of the Department of Environment & Conservation did not familiarize themselves with federal requirements in OMB Circular A-133, Section 400(d), which resulted in noncompliance and $10,506,832 in related federal questioned costs	Department of Environment & Conservation	Robert Martineau	Management and staff will develop controls to mitigate the risks identified and ensure these controls are in place to ensure compliance with federal regulations to mitigate risks of fraud, waste and abuse. Risk assessments due December 31, 2011 will include risks identified in the finding. The department's Subrecipient Monitoring Plan submitted on September 27, 2010 included all Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) subrecipients. The plan was approved by Finance & Administration on November 17, 2010. In addition loan agreements have been amended for new loans awarded after September 1, 2010 to include necessary federal award information (CFDA title, CFDA number, grant number etc). As of March 2, 2011, letters sent to loan recipients from the Office of State and Local Finance will include the amount of federal funds disbursed to each loan recipient. Also, the Division of Internal Audit has implemented procedures to check the Federal Audit Clearing House to verify that the department's subrecipients and loan recipients submit their data collection form and reporting package within nine months after the end of the audit period. The Division of Internal Audit will notify program management and provide guidance to them in issing management decision letters related to findings timely and ensure that corrective action is taken promptly. Regarding the $10,506,833 of questioned costs for a loan to Metropolitan Nashville and Davidson County (Nashville), Division of Internal Audit requested corrective action (October 15, 2010). A response was received from Nashville on November 29, 2010 and guidance was received from the Environmental Protection Agency (EPA) on January 26, 2011. Nashville indicated that they would comply with the corrective action. Nashville will amend and reissue the audit report for the year ending June 30, 2009 by March 31, 2011.

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10-TSAC -01	The Tennessee Student Assistance Corporation Did Not Comply With a Special Test and Provision Regarding a Conflict of Interest	Tennessee Student Assistance Corporation	Richard G. Rhoda	Management of the Tennessee Student Assistance Corporation (TSAC) notified the U.S. Department of Education (ED) on April 15,2009, that upon expiration of the current contract with TSAC's loan servicer, that TSAC would ensure the conflict of interest is eliminated. TSAC will further consult with ED regarding the effect of the Health Care and Education Affordability Reconciliation Act on the requirements in 34 CFR 682, 404(k)(4) to avoid conflicts of interests.
10-TSAC-02	Incorrect accounting entries for the Federal Family Education Loan Program resulted in a overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund	Tennessee Student Assistance Corporation	Richard G. Rhoda	Management has completed its review of accounting entries related to averted claim transactions occurring in fiscal years 2008 through 2010. An accounting entry to correct the operating and federal fund balances for 2009 accounting errors ($3,782,145.43) was requested and subsequently approved by the U.S. Department of Education in October 2010. Corrections for 2008 and 2010 totaling $2,519,166.23 and $1,751,007.93 respectively have been submitted to the U.S. Department of Education for approval. TSAC continues to research transactions for fiscal years 2005 through 2007. All claim payments are directed to the state authorized servicer "lockbox" bank account used exclusively for Federal Family Education Loan Program related collections. This account is used solely by the contracted servicer to deposit collections on defaulted Federal Family Education Loan Program loans guaranteed by TSAC. This process reduces the risk of duplicate entries that could result in missstatements of operating and federal fund balances.

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2009 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Children's Services	05-DCS-05	93.659	Adoption Assistance	0101TN1407 through 0501TN1407	Since 2002, Adoption Assistance files have not contained adequate documentation to support the subsidies paid to adoptive parents ($21,376).		1		
Children's Services	06-DCS-02	93.659	Adoption Assistance	0201TN1407 through 0601TN1407	Since 2002, Adoption Assistance files have not contained adequate documentation to support the subsidies paid to adoptive parents, thus increasing the risk of inappropriate payments.		1		
Children's Services	07-DCS-01	93.659	Adoption Assistance	0401TN1407 through 0701TN1407	The department has not adequately mitigated the risks to prevent Adoption Assistance overpayments, the adopted children's files have not always contained adequate documentation to support the subsidies paid to adoptive parents, and payments that should have been made with state funds were sometimes made with federal funds.		1		
Children's Services	07-DCS-03	93.658	Foster Care - Title IV-E	0101TN1401 through 0701TN1401	The department allocated non-reimbursable payments made on behalf of foster children to Title IV-E (Foster Care Program).		2		
Children's Services	08-DCS-01	93.659	Adoption Assistance	0501TN1407 through 0801TN1407	Since 2002, the department has not adequately mitigated the risks to prevent Adoption Assistance overpayments, the adopted children’s files have not always contained adequate documentation to support the subsidies paid to adoptive parents, and payments that should have been made with state funds were sometimes made with federal funds		1		

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2009 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Children's Services	08-DCS-02	93.658	Foster Care – Title IV-E	0501TN1401 through 0801TN1401	The department again allocated non-reimbursable payments made on behalf of foster children to Title IV-E (Foster Care Program), did not follow procedures for foster home approval, and did not reassess foster homes timely, increasing the risk of improper children's placements		2		
Children's Services	09-DCS-01	93.658	Foster Care – Title IV-E and ARRA- Foster Care – Title IV-E	0701TN1401 through 0901TN1401 and 0901TN1402	The department again allocated non-reimbursable payments made on behalf of foster children to Title IV-E (Foster Care Program)		2		
Children's Services	09-DCS-02	93.659	Adoption Assistance and ARRA-Adoption Assistance	0801TN1407; 0901TN1407; 0901TN1403	The department has continued to use federal Adoption Assistance funds in certain situations where only state funds should be used and has increased daily rates without any documented justification		1		
Department of Finance and Administration	09-DFA-01	93.778	Medicaid Cluster	05-0805TN5028, 05-0905TN5028, 05-0905TNARRA	The Bureau of TennCare and the Pharmacy Benefits Manager were not ensuring that complete enrollment records of providers were maintained, increasing the risk of payments to illegitimate providers			5	
Department of Finance and Administration	09-DFA-02	93.778	Medicaid Cluster	05-0805TN5028, 05-0905TN5028, 05-0905TNARRA	TennCare did not redetermine eligibility for some enrollees or terminate some ineligible enrollees, resulting in questioned costs of $12,912			7	

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2009 AND PRIOR

STATE AGENCY	FINDING NUMBER	CFDA NUMBER	PROGRAM NAME	GRANT/ CONTRACT NUMBER	FINDING	CORRECTIVE ACTION TAKEN SEE FOOTNOTES SECTION FOR DETAILS			FINDING DOES NOT WARRANT FURTHER ACTION
						CORRECTED	PARTIALLY	NONE	
Tennessee Student Assistance Corporation	09-TSAC-01	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	The Tennessee Student Assistance Corporation Did Not Comply With Certain Special Tests and Provisions Regarding the Collection of Delinquent Accounts and the Recovery of Indirect Costs		3		
Tennessee Student Assistance Corporation	09-TSAC-02	84.032	Federal Family Education Loans - Guaranty Agencies	N/A	Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund		4		
COLLEGES, UNIVERSITIES, AND TECHNOLOGY CENTERS									
University of Tennessee	09-UTS-01	81.121	Research and Development Cluster	DE-FG07-07ID14895	University personnel overbilled facilities and administrative (F&A) costs to a federal research and development grant, resulting in $11,816.04 of questioned costs	x (6)			

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2009 AND PRIOR
FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
1	During the period up to and including 2009, the department has conducted a multi-faceted strategy for correcting these findings. 1) They conducted a re-training statewide on the qualifications and approval process. 2) They have strengthened the Adoption policy to add qualifications and clarification for the definition of a mental and physical disability for the 18-21 population. This should assist staff and parents with gathering the required documentation to justify continuation of the adoption subsidy. 3) With the completed development of a Statewide Automated Child Welfare System (SACWIS) TFACTS [Tennessee Family and Child Tracking System], an automated and integrated tool which will employ various rules to improve our overall accountabilities and enhanced internal controls, the reoccurrence of the finding should be reduced. TFACTS is designed to end date the subside record and any related future payments when the child becomes 18 years of age. Continuation of any adoption assistance subsidy must be documented in the system and approved before any payments can continue beyond age 18 for recipients.
1 continued	TFACTS was used as a pilot program in the Mid-Cumberland Region (beginning June 2010) as was initiated state-wide on September 1, 2010. Beginning September 6, 2010, the Division of Foster Care and Adoption Services began the transition of oversight, supervision, and management of the Adoption Assistance program. Specifically, additional staff members will be responsible for any approval of special/extraordinary rates and the on-going renewal of all subsidies, including those for children age 18 or over. The initial approval of what is classified as the standard adoption assistance subsidy will continue to be reviewed, approved and authorized at the regional level. With the conversion of the Adoption Assistance case files in the new SACWIS system, there will be a dual approval process for all rates by the Program and Fiscal staff prior to the initiation of any payment. All documentation supporting any rate will be maintained in both the TFACTS system and hard copy files managed by central office staff. Likewise, management and support to the new staff members will come directly from Central Office rather than in the region. DCS has made improvements in this finding. For Fiscal Year Ending June 30, 2009, there were only 3 questioned files out of a total of 60 files reviewed and the amount of the Federal Questioned Costs was $5,053, the lowest amount recorded in the prior audit findings.
2	The audit noted that DCS had corrected the issues from the prior finding related to foster home placement, payments for children who left DCS custody, training documentation, foster home reassessment, and reassessment documentation. The weakness related to payments for children that were not Title IV-E reimbursable. With the completed development of a Statewide Automated Child Welfare System (SACWIS)TFACTS (Tennessee Family and Child Tracking System), an automated and integrated tool which will employ rules to improve our overall accountabilities and enhance internal controls, the reoccurrence of the finding should be reduced. The TFACTS system tightly integrates placement and eligibility and ultimate funding of expenditure transactions. At the point of the accounts payable payment transaction, the system executes funding based upon relative system eligibility requirements and records combined with the funding model rules.
2 continued	The system is driven by placement setting with rates and funding rules pre-set and controlled administratively (central Office of Finance and Program Support [OFPS]). The payment processing is reviewed both in the Regional Fiscal Units and also Central OFPS. TFACTS was used as a pilot program in the Mid-Cumberland Region (beginning June 2010) and was initiated state-wide on September 1, 2010. The audit for fiscal year ended June 30, 2009 had only one payment out of a sample of 65 foster child expenditures that was not reimbursable. The amount of federal questioned costs was $877 which is also the lowest amount the auditors have identified compared to prior year audits. The federal questioned costs ($877) was returned to the US Department of Health and Human Services with an effective date of 12/31/2009.
3	The Tennessee Student Assistance Corporation (TSAC) has developed a methodology to perform the alternative default collection cost rates consistent with federal guidelines. The calculation was made for the 2009-10 year. The U.S. Department of Education (DOE) has not distributed a percentage rate for collection costs for the current year. Without a new rate, DOE requires TSAC to continue to use the rate previously distributed. TSAC now has written procedures in place to ensure the calculation is used. Also, TSAC will be issuing a Request for Proposal (RFP) in 2011 for a loan servicer and will not include collection activities in that RFP. A separate RFP for collection activities will be issued in 2011. Lastly, on April 19, 2010 TSAC received a temporary indirect Cost Rate Agreement from the U.S. DOE for the year ending June 30, 2010. The next indirect cost rate proposal is due to the U.S. DOE by December 31, 2010.
4	To correct the deficiency, the process has been reinstated for lenders to send funds to the Nelnet Guarantor Solutions (NGS) lockbox instead of Tennessee Student Assistance Corporation (TSAC). On April 16, 2010, T submitted a request to the U.S. Department of Education (DOE) to transfer $3,782,145.43 from the Federal Fund to the Operating Fund to correct accounting records for FY2009. A final determination from the U.S. DOE has not been received. Research continues on the other years and requests for permission to transfer funds for those years will be submitted to the U.S. DOE as soon as completed.
5	TennCare's audit findings were not issued until after June 30, 2010. As such, the corrective action that follows occurred after June 30, 2010. As a longer term solution, Tenncare intends to take the necessary steps to computerize the provider application process utilizing a web-based portal through which providers will submit their application materials. Once this computerized system is in place, we will require existing providers who have not been through a recent reenrollment process to reenroll through the new system. In the shorter term, we have begun a process of sequentially requiring providers (beginning with hospitals) to reenroll with TennCare, thereby creating the opportunity to update provider files. In addition, we have initiated a process to identify providers who are not currently in an MCO network and who have not submitted a recent claim, and we will take action to either obtain updated provider enrollment documents or to terminate the enrollment of these providers. We have also obtained over 91% of the missing documents from the providers listed in the finding. Those providers that do not return the missing documents will be terminated.

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2009 AND PRIOR
FOOTNOTES SECTION

FOOTNOTE NUMBER(S)	PLANNED CORRECTIVE ACTION AND PARTIAL ACTION TAKEN
5 continued	Additionally, SXC is aware that both a signed application and a signed pharmacy agreement are required for every pharmacy enrolled in the network. SWC has obtained signed applications from the providers listed in the finding. SWC's Provider Networks division will development a monitoring process to review existing files to verify all required documents are present for all network pharmacies.
6	The questioned cost were returned to the account on November 6, 2009. The Knoxville campus Sponsored Projects Accounting (SPA) has now implemented a process to specifically monitor the expenditures posting to the general ledger codes 481100-Subgrants and Subcontracts to $25,000 and 482100-Subgrants and Subcontracts over $25,000. The monthly monitoring process has been assigned to one of the Financial Specialists.
7	TennCare's audit findings were not issued until after June 30, 2010. As such, the corrective action that follows occurred after June 30, 2010. Enrollees Not Redetermined-TennCare has identified the issue and initiated the systems changes to ensure that all TennCare Standard children are reverified annually. Enrollees' Benefits Not Terminated Properly- (a) The system control in place to address this type of situation is to write the error to a file that is sent to DHS daily. DHS is expected to correct the transaction and resend to TennCare. This particular closure was keyed on March 1, 2007. The daily error report dated March 3, 2007, contains this closure transaction. In this case, DHS did not send a corrected transaction to close the eligibility. Therefore, there was no resolution to this noted error. DHS has responded with corrective action: Six total staff in the DHS Central Office Medicaid Policy Unit are specifically dedicated to monitoring and working the daily error reports generated when discrepancies occur between ACCENT and TennCare. The reports are all worked daily and thus a one-day turnaround is anticipated for errors to be corrected.
7 continued	However, some errors may require an action to be taken by staff in the field, and those may pend for a response. In these situations, the Central Office staff will send the county worker an email and request a response with three days b) The system control in place to address this type of situation is to generate a daily report of all cases with outstanding RFIs (Request for Information). TennCare will review and revise the parameters of this report so that issues can be identified . TennCare will also begin running a new report to identify cases with overlapping Medicaid and Standard eligibility. The results of this new report will be researched so that only the appropriate cases remain open in the TennCare system.

STATE OF TENNESSEE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEARS 2009 AND PRIOR

Basis of Presentation

Any unresolved items listed on the State of Tennessee's 2009 Summary Schedule of Prior Audit Findings and the audit findings from the 2009 Single Audit Report was used to compile the 2010 Summary Schedule of Prior Audit Findings, required by OMB Circular No. A-133 Section___.315(b).

Report Legend

State Agency: The title refers to the state agency or institution in which a finding was taken in the Single Audit Report.

Finding Number: Finding Number is the number assigned the finding in its respective Single Audit Report. The first two digits indicate the fiscal year of the Single Audit Report in which the finding was published.

CFDA Number: Catalog of Federal Domestic Assistance Number is the number assigned to a federal program.

Program Name: The identification of the program in which the finding is related.

Grant/Contract Number: The number that is used to identify the particular grant or contract.

Finding: A synopsis of the actual finding cited in the Single Audit Report for the fiscal year shown.

Corrective Action Taken: This is to indicate whether steps implemented by management have corrected, partially corrected, or not corrected the finding noted.

Finding Does Not Warrant Further Action:

Circular A-133 states that a valid reason for considering an audit finding as not warranting further action is that *all* of the following have occurred:

Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse.

The federal agency or pass-through entity is not currently following up with the auditee on the audit finding.

A management decision was not issued.

TENNESSEE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2010

Comprehensive Annual Financial Report • For the Fiscal Year Ended June 30, 2010

Tennessee Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2010

BILL HASLAM, Governor

DEPARTMENT OF AUDIT
JUSTIN P. WILSON, Comptroller of the Treasury
Division of State Audit
ARTHUR A. HAYES, JR., Director

DEPARTMENT OF FINANCE AND ADMINISTRATION
MARK EMKES, Commissioner
Division of Accounts
JAN I. SYLVIS, CHIEF OF ACCOUNTS

Front Cover: Various plaques depicting functions of TN State Government
TN Department of General Services, Division of Graphic Arts
State of Tennessee

Tennessee Department of Finance and Administration, Authorization No. 317332, Feb 2011. 240 copies. This public document was promulgated at a cost of $10.49 per copy.

STATE OF TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2010

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INTRODUCTORY SECTION

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

MARK A. EMKES
COMMISSIONER

March 29, 2011

To the Honorable Bill Haslam, Governor of the State of Tennessee, Members of the Legislature, and Citizens of the State of Tennessee.

Tennessee Code Annotated 4-3-1007 requires the Department of Finance and Administration to maintain a system of general accounts embracing all the financial transactions of state government. As a part of the carrying out of this responsibility, I am pleased to submit the Comprehensive Annual Financial Report of the State of Tennessee for the fiscal year ended June 30, 2010.

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

State statutes require an annual audit of all financial statements of the state. The Office of the Comptroller of the Treasury, Division of State Audit, has issued an unqualified ("clean") opinion on the State of Tennessee's financial statements for the year ended June 30, 2010. The independent auditor's report is located at the front of the financial section of this report.

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

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

Profile of the Government

The State of Tennessee was admitted to the union in 1796, as the sixteenth state. Tennessee has 42,146 square miles and a population estimated to be 6.3 million. The state has three branches of government, Executive, Legislative and Judicial. The Governor, who appoints commissioners to lead the various departments, heads the Executive branch. The Legislative branch is bicameral, with 99 members of the House of Representatives and 33 Senators. The Representatives serve two-year terms. The Senators serve four-year terms, with about one half being elected every two years. The Judicial branch rules on the constitutionality of laws enacted by the Legislature and the legality of administrative policies and regulations of the Executive branch.

The State of Tennessee provides a full range of services including education, health and social services, transportation, law, correction, safety, resources, regulation, and business and economic development. Its financial reporting entity includes all the funds of the primary government as well as all its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

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

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

Local economy

Situated in the eastern south-central United States, Tennessee is within a day's drive from 75 percent of the major markets that represent 50 percent of the entire United States population. Its central location, along with a strong transportation infrastructure (including 1,062 miles/1,609 km of navigable waterways), makes it a strategic choice for business. In the last four years more than fifty new corporate headquarters have decided to call Tennessee home. With over a 41 percent land base in farmland (nationally, Tennessee ranks 8th in the number of farms), Tennessee's business community is diverse, representing a wide range of companies in manufacturing, technology, back office, and agriculture. In all, Tennessee is home to nine Fortune 500 companies, and seven hundred thirty four foreign-owned subsidiaries representing thirty six countries. Tennessee offers one of the lowest per capita tax burdens in the nation and consistently ranks among the top ten states for business climate.

While the "Great Recession" technically ended in June 2009, and the economy is finally moving in the right direction, the slow pace of expansion for the nation translates into slow growth for the Tennessee economy as well. Most measures of economic activity, including employment and taxable sales, remain well below their pre-recession peaks. Still, as Tennessee entered 2010, the state saw modest and preliminary indications of an economy that was on the mend. Tennessee's seasonally-adjusted unemployment rate peaked at 10.9 percent in June, July, and August of 2009, and with some backward movement along the way, the state's unemployment rate has edged down since then, reaching a 9.4 percent low in late 2010. In addition, while revenue levels are still below collections from fiscal year 2008, Tennessee, much like the southeast and the nation, saw promising tax revenue collections in the second half of 2010.

The recession is expected to have long-term effects on both national and state labor markets. Between December 2007 and November 2010, the nation lost 7.4 million jobs reflecting 5.4 percent of total employment. Only two states posted employment gains over this period, while Tennessee endured losses of 6.6 percent. In 2000, just before the onset of the 2001 recession, the state unemployment rate was only 4 percent; in 2007, unemployment in the U.S. and Tennessee was under 5 percent. Following the start of the recession in December 2007, unemployment increased to great heights. In 2010, Tennessee's unemployment rate averaged 10 percent which was higher than the national average of 9.6 percent, but compares favorably to most states in the southeast region. Looking forward, the annual unemployment rate in both the U.S. and Tennessee is expected to slowly decline but remain elevated throughout the decade. Overall nonfarm employment in Tennessee is expected to grow at 1.3 percent compound annual growth rate between 2010 and 2020. Sectors expected to grow the fastest are professional and business services, natural resources, mining and construction, and education and health services. Job creation remains a top priority of the state, with strategies tailored to the unique assets of each region of the state and a heavy focus on rural job creation.

Over the next ten years, inflation adjusted state gross domestic product is projected to grow at a 2.8 percent compound annual growth rate, slightly below the rate of growth for the output of the nation, but well above the historical record between 2000 and 2010. Likewise, nominal personal and per capita incomes in Tennessee are expected to grow over the next decade at rates near those for the nation (4.9 and 4.1 percent, respectively).

The tepid economic growth that is finally emerging in Tennessee is building on the longest and deepest economic downturn in modern history. Unlike most recessions, the "Great Recession" that began in 2007 and ended in 2009 will continue to have a significant impact on economic performance for many years to come. The decade ahead will represent a period of significant adjustment and restructuring for both the state and national economies. Economists believe the near-term outlook for the state to be largely positive, but expect relatively modest rates of expansion compared to recovery from other historic recessions. Nonfarm employment is expected to advance 1.3 percent in 2011, the first annual gain since 2007; and, after averaging 10 percent in 2010, the unemployment rate is expected to drop to 9.1 percent in 2011 and to 8.8 percent in 2012. This slow but steady improvement in economic conditions should help support improvement in taxable sales activity.

Long-term financial planning

The state has a careful multi-year budget planning process that is designed to preserve core services to the people of Tennessee. The recession has caused the state's revenue base to be reduced. The budget planning process has addressed the effect through a combination of program reductions and the use of reserves. Recurring base budget reduction plans in general fund programs throughout state government are being implemented during 2011, as they were in 2010. Non-recurring funds from state sources (for example, capital project cancellations and funding changes, program reserves, and the revenue fluctuations reserve), as well as U.S. economic recovery sources, will be used to preserve core services and help state agencies and local service providers implement the reductions thoughtfully over a one-year or multi-year period. Under the current plan, budgeted expenditures will match revenue projections (which have been based on a slow economic recovery) without the use of non-recurring revenues.

Relevant financial policies

In 1996, legislation was enacted that determined the allocation goal for a reserve for revenue fluctuations to be five percent of the estimated state tax revenues to be allocated to the general fund and education trust fund. The revenue fluctuation reserve allows services to be maintained when revenue growth is slower than estimated in the budget. Amounts in the revenue fluctuation reserve may be utilized to meet state tax revenue shortfalls. Subject to specific provisions of the general appropriations bill, an amount not to exceed the greater of $100 million or one-half (1/2) of the amount available in the reserve may be used to meet expenditure requirements in excess of budgeted appropriation levels. At June 30, 2010, the balance in this reserve was $453.1 million.

In recent years, subject to the specific provisions of an appropriation act, state legislation was also passed that allows certain funds, reserve accounts or program carry forwards to be denied, and allows for the transfer of funds from the same, for purposes of meeting the requirements of funding the operations of state government. Certain reserve funds specific to the TennCare program (one of the largest government-run managed healthcare organizations in the country) have been preserved in an effort to prevent sudden financial instability from federal financing changes beyond the state's control.

The Governor may effect 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. If necessary, the Governor may reduce portions of administrative budgets prior to allotment. Furthermore, the governor is authorized to call special sessions of the General Assembly at any time to address financial or other emergencies.

Major initiatives

Tennessee maintains education as the state's top priority, considering it the key to the future success of the state. The state applied for and won a $501.8 million grant in the competitive American Recovery and Reinvestment Act (ARRA) federal program called Race to the Top. This grant will be used for implementing a plan for comprehensive education reform. Key areas of reform are administration, standards and assessments, data systems, teachers and leaders, and school turn-around. The state continues to fund the Basic Education Program formula, which provides an equitable state share of K-12 public education funding to local education agencies.

ARRA funds in 2011, totaling $1.3 billion, will assist in maintaining state services and will provide additional non-recurring support in federal grant programs.

Awards and acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Tennessee for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2008. This was the thirtieth consecutive year that the state has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report meets the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Tennessee Consolidated Retirement System was awarded a Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year that ended June 30, 2009. This was the twenty-second consecutive year that the System received this prestigious award. In addition, for the seventeenth year, the state received GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2009-2010. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan, and a communications device.

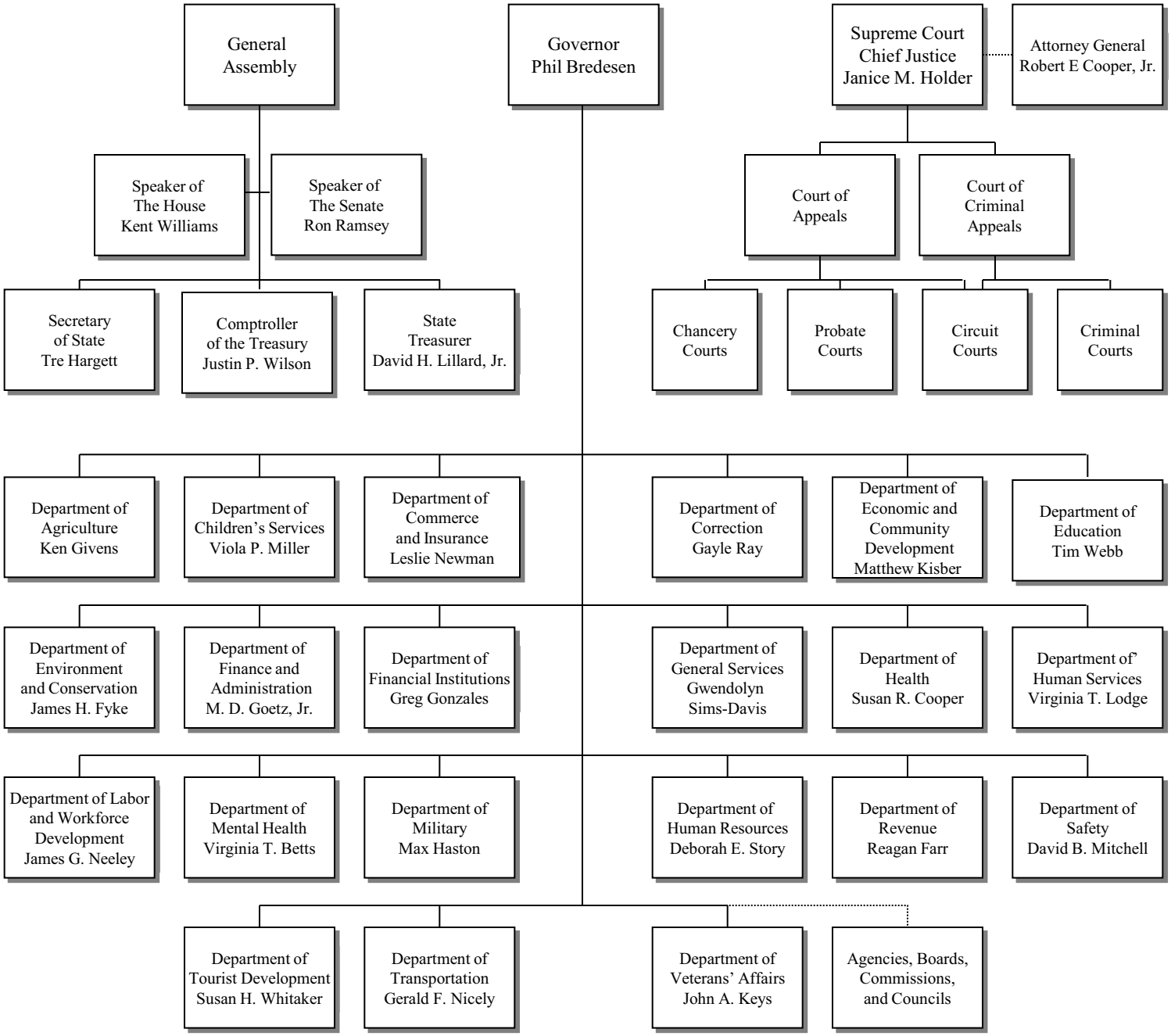
The preparation of this report would not have been possible without the professionalism and dedication demonstrated by the entire staff of the Division of Accounts in the Department of Finance and Administration; and, the cooperation of all state agencies and branches. My sincerest appreciation is extended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

Respectfully submitted,

Mark A. Emkes
Commissioner

Jan Sylvis
Chief of Accounts

STATE OF TENNESSEE
ORGANIZATION CHART
As of June 30, 2010



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FINANCIAL SECTION

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

March 29, 2011

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

Ladies and Gentlemen:

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, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of 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 Assistance Corporation, and the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in these capacities affected our ability to conduct an independent audit of the State of Tennessee.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Tennessee as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the State implemented the Governmental Accounting Standards Board's statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The management's discussion and analysis, the schedule of revenues, expenditures and changes in fund balances – budget and actual, infrastructure assets reported using the modified approach, other post employment benefits schedule of funding progress for primary government, other post employment benefits schedule of funding progress for component units, and AccessTN Insurance Fund – ten-year claims development table are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with generally accepted government auditing standards, we have issued our report dated March 29, 2011, on our consideration of the State of Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters in the *Tennessee Single Audit Report*. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,

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

AAH/tlk

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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, 2010. Please read it as a narrative introduction to the financial statements that follow. The information included here should be considered along with the transmittal letter which can be found on pages 3-6 of this report. MD&A includes a description of the basic financial statements for government, condensed financial information along with analyses of balances and financial position, descriptions of significant asset and debt activity, discussions of budgetary matters and significant issues affecting financial position.

FINANCIAL HIGHLIGHTS

- **Government-wide:**

  Net Assets - The assets of the State exceeded its liabilities at June 30, 2010, by $26.95 billion (reported as net assets). Of this amount, $1.4 billion may be used to meet the State's obligations not funded by restricted net assets. However, $23.36 billion of this amount represents *invested in capital assets, net of related debt*, which cannot be used to fund ongoing activities of the government.

  Changes in Net Assets - The State's net assets increased by $575.73 million. This increase was largely the result of an increase in capital assets.

  Component units - Component units reported net assets of $5.58 billion, an increase of $536.9 million.

- **Fund Level:**

  At June 30, 2010, the State's governmental funds reported combined ending fund balances of $3.78 billion, an increase of $2.3 million (see discussion on page 18) compared to the prior year. Of the combined fund balance approximately $1.6 billion is available for spending at management's discretion (unreserved fund balance); however, $453.1 million of this amount is designated for revenue fluctuations.

- **Long-Term Debt:**

  The State's total debt increased by $214.96 million during the fiscal year to total $1.930 billion. This change primarily results from the State's decision to issue general obligation bonds during the fiscal year to obtain long–term financing for capital projects.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 25 and 26-27) 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 30. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. Fund financial statements also report the State's operations in more detail than the government-wide statements by providing information about the State's most significant funds. The remaining statements provide financial information about activities for which the State acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the State as a whole begins on page 15. One of the most important questions asked about the State's finances is, "Is the State as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the State as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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

Reporting the State's Most Significant Funds

Fund financial statements

Our analysis of the State's major funds begins on page 18. The fund financial statements begin on page 30 and provide detailed information about the most significant funds–not the State as a whole. Some funds are required to be established by State law and by bond covenants. However, the State establishes many other funds to help it control and manage money for particular purposes (like capital projects) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The State's two kinds of funds–governmental and proprietary–use different accounting approaches.

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

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

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

The State as Trustee

Reporting the State's Fiduciary Responsibility

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

THE STATE AS A WHOLE

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the State, combined assets exceeded liabilities by $26.95 billion as of June 30, 2010.

By far, the largest portion of the State's net assets (87%) reflects its investment in capital assets (e.g., land, infrastructure, structures and improvements, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Tennessee
Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	$ 6,530,164	$ 6,164,039	$ 1,501,854	$ 1,443,547	$ 8,032,018	$ 7,607,586
Capital assets	24,046,140	23,108,828			24,046,140	23,108,828
Total assets	30,576,304	29,272,867	1,501,854	1,443,547	32,078,158	30,716,414
Current and other liabilities	2,169,021	1,777,591	109,463	95,240	2,278,484	1,872,831
Noncurrent liabilities	2,838,182	2,458,476	6,606	5,946	2,844,788	2,464,422
Total liabilities	5,007,203	4,236,067	116,069	101,186	5,123,272	4,337,253
Net assets:						
Invested in capital assets, net of related debt	23,360,007	22,575,852			23,360,007	22,575,852
Restricted net assets	924,902	965,292	1,235,085	1,160,425	2,159,987	2,125,717
Unrestricted net assets	1,284,192	1,495,656	150,700	181,936	1,434,892	1,677,592
Total net assets	$ 25,569,101	$ 25,036,800	$ 1,385,785	$ 1,342,361	$ 26,954,886	$ 26,379,161

An additional portion of the State's net assets (8.01%) is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets ($1.4 billion) and may be used to meet the State's ongoing obligations to citizens and creditors not funded by resources that are restricted.

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

The State's net assets increased by $575.7 million during the year ended June 30, 2010. A significant portion of this increase was attributable to the improvement of the economy during the second half of the fiscal year. This increase nearly corresponds to prior year's entire decline in net assets.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 1,762,448	$ 1,835,813	$ 1,253,402	$ 1,107,025	$ 3,015,850	$ 2,942,838
Operating grants and contributions	12,076,579	9,758,691	1,482,113	508,249	13,558,692	10,266,940
Capital grants and contributions	782,188	592,719			782,188	592,719
General revenues:						
Sales Taxes	6,170,977	6,326,857			6,170,977	6,326,857
Other taxes	4,323,726	4,052,600			4,323,726	4,052,600
Other	202,659	269,790			202,659	269,790
Total revenues	25,318,577	22,836,470	2,735,515	1,615,274	28,054,092	24,451,744
Expenses:						
General government	1,078,294	988,309			1,078,294	988,309
Education	6,893,801	6,520,569			6,893,801	6,520,569
Health and social services	12,849,335	11,697,900			12,849,335	11,697,900
Law, justice and public safety	1,365,134	1,338,869			1,365,134	1,338,869
Recreation and resources development	499,080	538,386			499,080	538,386
Regulation of business and professions	132,784	126,003			132,784	126,003
Transportation	1,010,029	979,454			1,010,029	979,454
Intergovernmental revenue sharing	874,094	810,063			874,094	810,063
Interest on long-term debt	60,566	51,977			60,566	51,977
Payments to fiduciary funds	19,747				19,747	
Employment security			2,135,537	1,427,713	2,135,537	1,427,713
Insurance programs			557,371	514,065	557,371	514,065
Loan programs			1,406	1,345	1,406	1,345
Other			1,385	2,265	1,385	2,265
Total expenses	24,782,864	23,051,530	2,695,699	1,945,388	27,478,563	24,996,918
Increase (decrease) in net assets before contributions and transfers	535,713	(215,060)	39,816	(330,114)	575,529	(545,174)
Transfers	(3,608)	(3,541)	3,608	3,541		
Contributions to permanent funds	196	217			196	217
Increase (decrease) in net assets	532,301	(218,384)	43,424	(326,573)	575,725	(544,957)
Net assets, July 1	25,036,800	25,255,184	1,342,361	1,668,934	26,379,161	26,924,118
Net assets, June 30	$ 25,569,101	$ 25,036,800	$ 1,385,785	$ 1,342,361	$ 26,954,886	$ 26,379,161

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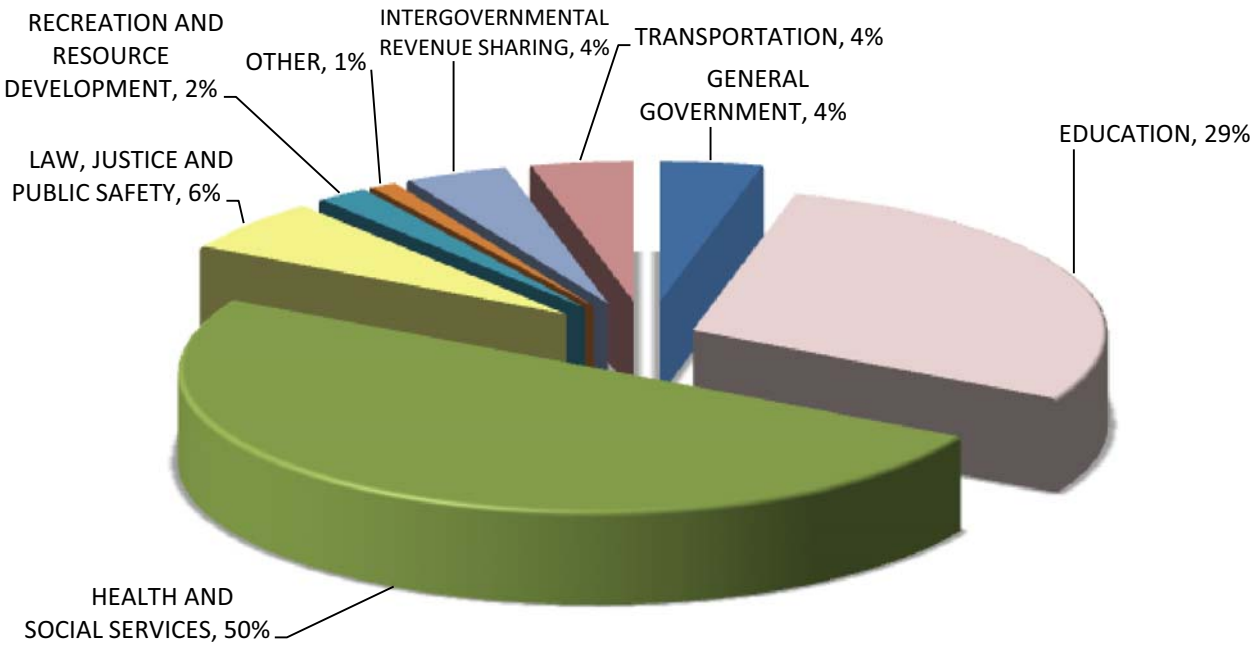
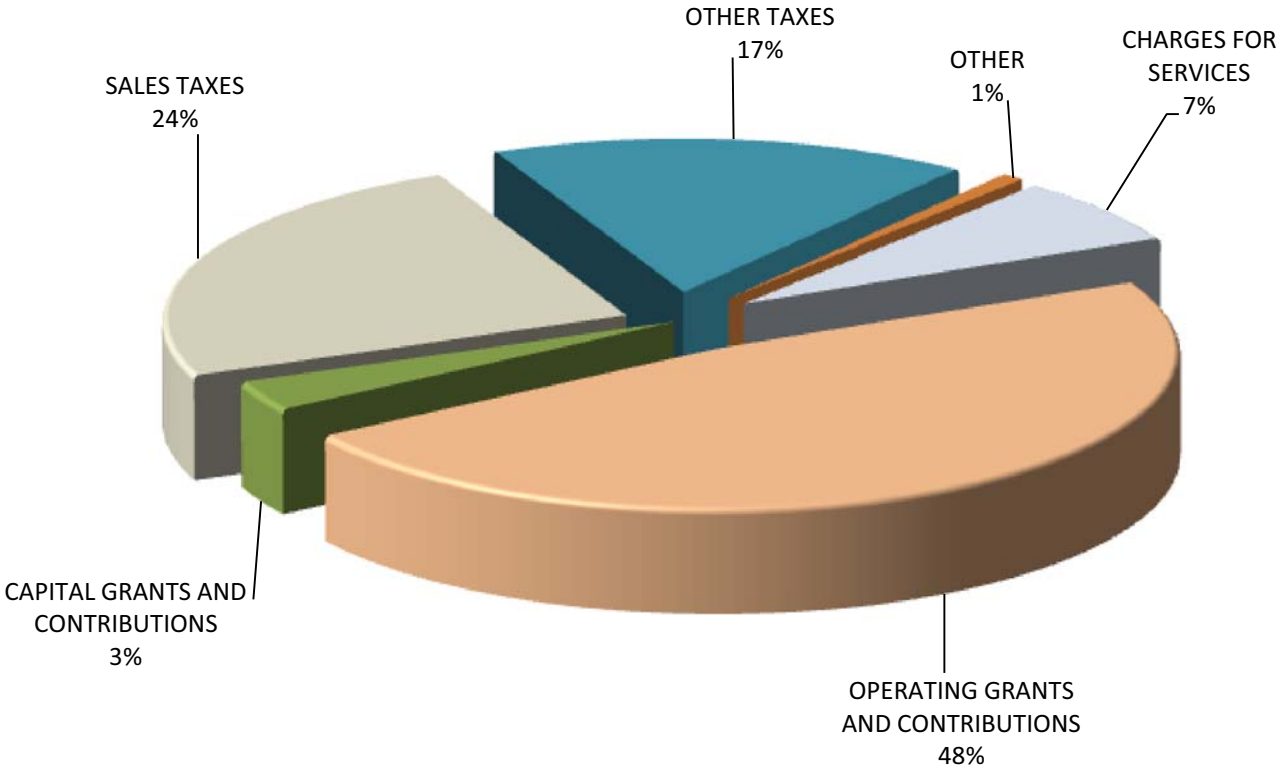
Governmental activities. Net assets of the State's governmental activities increased by $532 million, which accounts for 92.5% of the total increase in net assets of the primary government. This increase is primarily due to the use of funds to increase capital assets and an 11% increase in total revenues. The primary revenue increase was from an increase in grants and contributions, mostly from federal sources.

EXPENSES BY FUNCTION-GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE-GOVERNMENTAL ACTIVITIES



Business-type activities. Net assets of the State's business-type activities increased by $43.4 million, a 3% increase. The Sewer Treatment Loan program and Employment Security trust fund experienced an increase in net assets of $63.8 million due to an increase in loan proceeds and in the collection of employer premiums, respectively. The Nonmajor Enterprise funds' activity resulted in a $20.4 million decrease in net assets.

THE STATE'S FUNDS

Tax collections and expenditures increased overall for the year. Details are in the following paragraphs. The Revenue Fluctuation Reserve has been decreased to $453.1 million or 2.7% of General fund expenditures.

General fund revenue collections increased for the year by $1.59 billion. Contributing to this increase were federal reimbursements which increased by $1.7 billion due to increased expenditures in the TennCare program and as a result of funds received through the American Recovery and Reinvestment Act (ARRA). Offsetting the increase in federal revenue was a $141.7 million decline in revenues received from departmental services and a $32 million decline in investment income. Revenues from sales taxes decreased by $53.4 million from prior year but, revenues from business taxes were $192.6 million more than prior year.

General fund expenditures increased approximately $1.1 billion. TennCare expenditures increased by $500 million and an increase in Human Services expenditures accounts for $608 million of the total increase. These increases reflect the rising cost of community residential placements and associated medical costs as well as a continued increased demand for services in the health and social services function. In addition, a large percentage of ARRA funds were allocated to programs under these agencies.

Assets in the General fund increased by approximately 17%. The fund balance of the General fund increased by 6.89%. These increases are, in part, the result of increased revenue collections as mentioned in the above paragraph.

The Education Trust fund revenue collections increased approximately $522 million for the year. The increase was primarily a result of additional federal reimbursements received through ARRA.

Education Trust fund expenditures increased overall by $347 million or 5.5%. The overall increase was due to additional ARRA funds allocated to No Child Left Behind, School Nutrition, Special Education Services, and higher education programs. The increase was offset by a reduction in expenditures in other educational programs of approximately $289 million because of budget reductions due to expected decline in tax collections.

Overall revenues and expenditures increased $165 million and $275 million, respectively for the highway fund. Revenues and expenditures increased primarily as a result of the increase of federal funds through the ARRA. Also contributing to the increase in revenues and expenditures was the increase in the collections and remittances of fuel taxes to local governments. The excess of expenditures over revenues was funded with state reserves in the highway fund.

The total plan net assets of the pension trust funds were $28.6 billion, an increase of approximately $2.2 billion from the prior year. As a result of the improvement in the performance of the financial markets, the pension trust funds incurred a net investment gain of $2.7 billion.

General Fund Budgetary Highlights

A significant variance occurred in tax revenues in the General fund between original and final budget primarily because of the significant shortfalls in sales and privilege tax revenue collections. Total tax collections were $67 million under estimates. Business tax collections were over estimates, offsetting a $95.9 million shortfall in sales tax collections. Significant variances occurred between the federal and departmental revenue budgeted amounts and actual collections because a large majority of the ARRA funds included in budget estimates were not expended in the current year. Actual expenditures in the Tenncare program, Labor and Workforce Development, Economic and Community Development, Finance and Administration and Military were significantly less than was projected in the final budget primarily due to unexpended reserved amounts that were appropriated. The unspent ARRA funds previously mentioned also contributed to the variances in those programs and in Human Services programs. Another element in the favorable variance in Tenncare actual expenditures was the fact that payments to Nursing Homes and ICF/MR private facilities were lower than budgeted. Military and Economic and Community Development were also allotted funds for multi–year projects for energy projects and flood damage repair. These allotments were non–lapsing and carried forward into the next fiscal year.

Capital Asset and Debt Administration

Capital Assets

The State's investment in capital assets at June 30, 2010, of $24 billion, net of $1.38 billion accumulated depreciation, consisted of the following:

Capital Assets—Primary Government
(Expressed in Thousands)

	Governmental Activties		Business-Type Activties		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	$ 1,699,404	$ 1,549,073			$ 1,699,404	$ 1,549,073
Infrastructure	19,408,072	19,046,790			19,408,072	19,046,790
Construction in progress	1,304,279	946,886			1,304,279	946,886
Structures and improvements	2,205,722	2,116,399			2,205,722	2,116,399
Machinery and equipment	767,950	732,391	$ 16	$ 16	767,966	732,407
Software in development	37,335				37,335	
Subtotal	25,422,762	24,391,539	16	16	25,422,778	24,391,555
Accumulated depreciation	(1,376,622)	(1,282,711)	(16)	(16)	(1,376,638)	(1,282,727)
Total	$ 24,046,140	$ 23,108,828	$	$	$ 24,046,140	$ 23,108,828

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

Capital assets, including those under construction, increased from fiscal year 2009 to 2010 by approximately 4.06 percent. The change was primarily due to purchases of land for highway right-of-ways and completion of segments of infrastructure (highways and bridges). Infrastructure increased in total by $361 million, the majority of which resulted from highway and bridge projects completed and capitalized. Construction in progress for highways and bridges increased by $719.5 million and decreased (projects completed and capitalized) by $362.9 million. Infrastructure right-of-way acreage increased the land classification by $98.4 million. The structures and improvements increase of $89.3 million consisted largely of the completion of a new Mental Health facility in West Tennessee for approximately $41.9 million and $12.4 million for a new welcome center and rest area. The net change in machinery and equipment of $35.58 million resulted primarily from $17.9 million in purchases by the Department of Transportation for the purchase of light duty vehicles and $5.9 million to equip the new Data Center South in Murfreesboro. The state had several systems projects in the application development stage, accounting for the capitalization of $37.3 million in software in development.

In accordance with generally accepted accounting standards, the State is eligible for and has adopted an alternative approach to depreciating its roadways and bridges. Under the *modified approach*, governments are permitted to expense the cost of preserving roadways and bridges rather than to record a periodic charge for depreciation expense. Under the depreciation method, preservation expenses are capitalized. The State is responsible for approximately 14,000 miles of roadway and 8,163 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 109), indicated that bridges were rated at 7 points above the State's established condition level and roadways were 14 points above the State's benchmark level. Bridges are assessed biennially and roadways annually.

The State's capital outlay budget for the 2009-2010 fiscal year reflects a $73 million decline from previous years. The capital outlay budget included funding for both capital outlay projects and capital maintenance projects. A significant portion of the budgeted amounts included allocations for the maintenance of higher education and correctional facilities. Other new projects included Infrastructure and Land and Right of Way expenses for the Wacker Chemie AG and West TN Mega-site projects.

Debt Administration

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

Purpose	Unissued June 30, 2010
Highway	$ 998,400
Higher Education	46,344
Environment and Conservation	77
General Government	961,235
Total	$ 2,006,056

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

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

	Governmental Activities	
	June 30, 2010	June 30, 2009
Bonds, net	$ 1,688,820	$ 1,538,942
Commercial Paper	241,390	176,308
Total	$ 1,930,210	$ 1,715,250

The State issued $246.015 million in tax-exempt and taxable 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 $43.985 million of tax-exempt general obligation refunding bonds to provide for the current refunding of $42.95 million of general obligation bonds. Nearly two-thirds of the outstanding debt has been issued either for capital projects of two of the State's major Component Units-University of Tennessee and Tennessee Board of Regents-or provided to local governments as capital grants; assets acquired with this debt belong to those entities. The State has not issued bonds to fund infrastructure since 1976; infrastructure has been funded on a pay-as-you-go basis. Additional information on long-term obligations is presented in Note 5H to the financial statements.

The State's bonds are rated AAA, Aaa, and AA+ by Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, respectively. Under current State statutes, the general obligation debt issuances are subject to an annual legal debt service limitation based on a pledged portion of certain current year revenues. As of June 30, 2010, the State's annual debt service limit of $489.1 million was well above the debt service required $186.7 million, with a legal debt service margin of $302.4 million.

FACTORS THAT WILL AFFECT THE FUTURE

Tennessee continues to be one of the most business-friendly states in the nation. Economic development trade publications have recognized that Tennessee has a business climate that encourages business expansion and relocation. In 2010, the editors of publications, such as *Site Selection*, *Southern Business and Development*, *Chief Executive Officer*, and *Business Facilities*, ranked Tennessee within the top three states in the nation for economic development, growth potential and doing business. Significant expansions and relocations that have occurred recently are discussed below.

In July 2010, NHK Seating of America announced plans to locate a $54 million manufacturing facility for automotive parts in Murfreesboro, Tennessee.

In August 2010, SMW Automotive, a Tier 1 supplier of automotive chassis, suspension parts and subassemblies, will open a production facility in Shelbyville, Tennessee. The $26 million facility will supply safety-critical parts such as brake and chassis components for a broad range of vehicles manufactured by companies such as Nissan and Volkswagen.

In September 2010, several companies announced expansions. Whirlpool Corporation is investing $120 million in a new manufacturing facility to produce premium built-in cooking products in Cleveland, Tennessee. IB-Tech will invest $50 million to manufacture high quality seat adjusters in Maury County, Tennessee. General Motors announced plans to expand the production of the next generation of its 4-cylinder engines at the company's Spring Hill plant, spending approximately $483 million to install a third engine manufacturing line. General Mills announced its decision to invest $100 million to expand the company's production facility in Murfreesboro, Tennessee. The plant manufactures products of General Mill's Yoplait brand.

In November 2010, Koyo Corporation announced the company's plan to invest $30 million in its Washington County plant. Koyo is a Tier 1 and Tier 2 supplier of steering systems and drivelines for Toyota, Honda, Ford, GM and BMW.

Other major corporations also announced plans for increased investments and expansions. In December 2010, Olin Corporation announced their decision to invest $160 million in new technology in its Charleston, Tennessee, plant. Olin will expand the production of potassium hydroxide and end its use of mercury cell technology in 2012 with this investment. Electrolux announced its decision to locate a $190 million facility for the manufacture of major cooking appliances in Memphis, Tennessee. The plant will manufacture the company's Electrolux, and Frigidaire product lines, including ranges, wall ovens and cooktops. Amazon.com has finalized its commitment to establish two fulfillment centers in Tennessee, one in Chattanooga and one in Bradley County. Amazon.com plans to invest $139 million to construct the two new facilities.

In March 2010, the Tennessee Department of Education won a four-year $501.8 million grant from the federal government in its first phase of the Race to the Top competition to reform education. Each of Tennessee's 136 individual school districts submitted an individual budget plan, spanning the four years of the Race to the Top grant and outlining detailed reform efforts. The department is working with them to identify growth measures in untested subjects and grades to comply with the state's new evaluation requirements. The TN Department of Education proposed 15 student performance indicators that will be used to track progress toward meeting goals, along with ambitious targets for the level of student performance by 2019-20. As the result of the reforms, the state expects to see strong improvement in young students' academic readiness for school, high school graduates' readiness for college and careers, and higher rates of graduates' enrollment and success in postsecondary education. As part of this initiative, Tennessee has also placed its focus on recruiting and retaining top talent in schools across the state. In January 2011, several school systems were awarded competitive funds to assist in teacher recruitment and retention efforts.

Although sales tax revenues declined in fiscal years 2009 and 2010, beginning in April 2010 positive sales tax growth was recorded. Modest positive growth has been recorded since then through January 2011. The 2010 appropriations act included the use of $195.8 million from the reserve in fiscal year 2010-2011, leaving an estimated balance of $257.3 million in the reserve at June 30, 2011.

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 1400, Nashville, TN 37243.

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BASIC FINANCIAL STATEMENTS

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State of Tennessee
Statement of Net Assets
June 30, 2010

(Expressed in Thousands)

	Primary Government			Total
Assets	Governmental Activities	Business-Type Activities	Total	Component Units
Cash and cash equivalents	$ 2,642,171	$ 419,522	$ 3,061,693	$ 2,026,921
Cash on deposit with fiscal agent		228,633	228,633	
Investments	597,530		597,530	1,163,828
Investments with fiscal agent				14
Receivables, net	3,061,760	217,142	3,278,902	643,959
Internal balances	15,766	(15,766)		
Due from primary government				26,679
Due from component units	87,750	6	87,756	
Inventories, at cost	27,723	39	27,762	12,629
Prepayments	222		222	13,160
Loans receivable, net	18,659	652,278	670,937	3,328,743
Lease receivable	3,349		3,349	
Deferred charges and other	1,799		1,799	39,925
Deferred outflow- derivatives				1,613
Restricted assets:				
Cash and cash equivalents	73,435		73,435	426,131
Investments				220,888
Receivables, net				2,169
Capital assets:				
Land, at cost	1,699,404		1,699,404	169,759
Infrastructure	19,408,072		19,408,072	336,062
Structures and improvements, at cost	2,205,722		2,205,722	4,018,736
Machinery and equipment, at cost	767,950	16	767,966	978,771
Less-Accumulated depreciation	(1,376,622)	(16)	(1,376,638)	(2,238,920)
Construction in progress	1,304,279		1,304,279	428,439
Software in development	37,335		37,335	
Total assets	30,576,304	1,501,854	32,078,158	11,599,506
Liabilities				
Accounts payable and other current liabilities	1,657,678	92,866	1,750,544	409,195
Due to primary government				87,756
Due to component units	26,632	47	26,679	
Unearned revenue	313,839	16,550	330,389	158,914
Payable from restricted assets	40,803		40,803	
Advance from federal government	126,939		126,939	
Fair value of derivatives				1,613
Other	3,130		3,130	33,917
Noncurrent liabilities:				
Due within one year	255,729	28	255,757	335,165
Due in more than one year	2,582,453	6,578	2,589,031	4,994,302
Total liabilities	5,007,203	116,069	5,123,272	6,020,862
Net assets				
Invested in capital assets, net of related debt	23,360,007		23,360,007	2,542,762
Restricted for:				
Wildlife Resources	37,649		37,649	
Capital projects	32,631		32,631	106,456
Lottery scholarships	401,957		401,957	
Single family bond programs				504,955
Sewer loans		759,183	759,183	
Unemployment compensation		357,390	357,390	
Drinking water loans		118,512	118,512	
Other	190,628		190,628	542,855
Permanent:				
Expendable	117,839		117,839	62,022
Nonexpendable	144,198		144,198	742,080
Unrestricted	1,284,192	150,700	1,434,892	1,077,514
Total net assets	$ 25,569,101	$ 1,385,785	$ 26,954,886	$ 5,578,644

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, 2010

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	$ 1,078,294	$ 778,352	$ 176,073	$ 234
Education	6,893,801	44,813	1,850,800	
Health and social services	12,849,335	499,694	9,596,430	1,402
Law, justice and public safety	1,365,134	121,201	190,122	20
Recreation and resources development	499,080	141,278	125,050	1,935
Regulation of business and professions	132,784	148,788	839	
Transportation	1,010,029	28,322	137,265	778,597
Intergovernmental revenue sharing	874,094			
Interest on long-term debt	60,566			
Payments to fiduciary fund	19,747			
Total governmental activities	24,782,864	1,762,448	12,076,579	782,188
Business-type activities:				
Employment security	2,135,537	710,113	1,458,523	
Insurance programs	557,371	525,662	576	
Loan programs	1,406	16,584	23,006	
Other	1,385	1,043	8	
Total business-type activities	2,695,699	1,253,402	1,482,113	
Total primary government	$ 27,478,563	$ 3,015,850	$ 13,558,692	$ 782,188
Component units:				
Higher education institutions	$ 3,983,869	$ 1,327,356	$ 1,578,057	$ 246,624
Loan programs	524,775	197,737	287,795	
Lottery program	1,064,216	1,063,967	45	
Other	88,571	54,784	8,751	326
Total component units	$ 5,661,431	$ 2,643,844	$ 1,874,648	$ 246,950

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

Total general revenues, contributions, and transfers

Change in net assets
Net assets, July 1

Net assets, June 30

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

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (123,635)		$ (123,635)	
(4,998,188)		(4,998,188)	
(2,751,809)		(2,751,809)	
(1,053,791)		(1,053,791)	
(230,817)		(230,817)	
16,843		16,843	
(65,845)		(65,845)	
(874,094)		(874,094)	
(60,566)		(60,566)	
(19,747)		(19,747)	
(10,161,649)		(10,161,649)	
	$ 33,099	33,099	
	(31,133)	(31,133)	
	38,184	38,184	
	(334)	(334)	
	39,816	39,816	
(10,161,649)	39,816	(10,121,833)	
			$ (831,832)
			(39,243)
			(204)
			(24,710)
			(895,989)
6,170,977		6,170,977	
874,511		874,511	
2,944,465		2,944,465	
504,750		504,750	
			1,211,144
			143,519
7,245		7,245	24,896
195,414		195,414	9,024
196		196	44,313
(3,608)	3,608		
10,693,950	3,608	10,697,558	1,432,896
532,301	43,424	575,725	536,907
25,036,800	1,342,361	26,379,161	5,041,737
$ 25,569,101	$ 1,385,785	$ 26,954,886	$ 5,578,644

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GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

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

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

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

State of Tennessee
Balance Sheet
Governmental Funds
June 30, 2010

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 1,199,295	$ 8	$ 292,817	$ 667,350	$ 2,159,470
Investments		387,348		210,182	597,530
Receivables, net	2,095,775	609,157	314,296	29,107	3,048,335
Due from other funds	250,679	105		1	250,785
Due from component units	347	85,524		1,875	87,746
Inventories, at cost	13,488	78	8,407		21,973
Prepayments	7				7
Deferred charges and other	3,277				3,277
Loans receivable, net	70		2,091	16,498	18,659
Leases receivable	1,289				1,289
Restricted assets:					
Cash and cash equivalents				73,435	73,435
Total assets	$ 3,564,227	$ 1,082,220	$ 617,611	$ 998,448	$ 6,262,506
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 1,227,788	$ 178,136	$ 100,934	$ 41,179	$ 1,548,037
Due to other funds	10,898	234,797	811	313	246,819
Due to component units	2,037	22,756		1,839	26,632
Deferred revenue	366,797	99,003	10,271	15,982	492,053
Advance from federal government	89,296	2,480		35,163	126,939
Payable from restricted assets				40,803	40,803
Other	419		2,285	426	3,130
Total liabilities	1,697,235	537,172	114,301	135,705	2,484,413
Fund balances:					
Reserved for:					
Related assets	20,243	78	8,407	3,719	32,447
Contracts			204,695		204,695
Continuing appropriations	950,235	37,812			988,047
Statutory and other legal requirements	203,657	506,836	4,339	262,037	976,869
Unreserved, undesignated reported in:					
General fund	357				357
Special revenue funds		322	285,869	245,597	531,788
Debt service fund				6,715	6,715
Capital projects fund				344,675	344,675
Unreserved, designated for:					
Revenue fluctuations	453,100				453,100
Other specific purposes	239,400				239,400
Total fund balances	1,866,992	545,048	503,310	862,743	3,778,093
Total liabilities and fund balances	$ 3,564,227	$ 1,082,220	$ 617,611	$ 998,448	

Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	23,483,922
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	219,363
Internal service funds are used by management to charge the costs of various internal operations to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	561,942
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,474,219)
Net assets of governmental activities	$ 25,569,101

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, 2010

(Expressed in Thousands)

	General	Education	Highway	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Sales	$ 2,525,347	$ 3,550,160	$ 37,203	$ 43,794	$ 6,156,504
Fuel	15,389		733,623	125,499	874,511
Business	2,368,579	294,570	6,725	231,799	2,901,673
Other	499,181	123		13,371	512,675
Licenses, fines, fees, and permits	286,619	1,627	207,806	178,957	675,009
Investment income	12,875	324		23,244	36,443
Federal	10,019,856	1,494,098	911,897	45,791	12,471,642
Departmental services	2,057,329	30,512	32,726	75,140	2,195,707
Other	189,612	326,619	3,685	20	519,936
Total revenues	17,974,787	5,698,033	1,933,665	737,615	26,344,100
Expenditures					
Current:					
General government	534,660			23,353	558,013
Education		6,674,516		7,657	6,682,173
Health and social services	14,017,403				14,017,403
Law, justice and public safety	1,296,173			6,079	1,302,252
Recreation and resources development	391,525			164,192	555,717
Regulation of business and professions	84,228			54,972	139,200
Transportation			1,815,822		1,815,822
Intergovernmental revenue sharing	538,867		335,227		874,094
Debt service:					
Principal				101,804	101,804
Interest				64,344	64,344
Debt issuance costs				4,837	4,837
Capital outlay				485,937	485,937
Total expenditures	16,862,856	6,674,516	2,151,049	913,175	26,601,596
Excess (deficiency) of revenues over (under) expenditures	1,111,931	(976,483)	(217,384)	(175,560)	(257,496)
Other financing sources (uses)					
Bonds and commercial paper issued				415,033	415,033
Commercial paper redeemed				(155,973)	(155,973)
Refunding bond proceeds				43,985	43,985
Refunding payment to escrow				(43,985)	(43,985)
Bond premium				26,358	26,358
Other	20,978			168	21,146
Transfers in	119,563	997,768	108,600	106,916	1,332,847
Transfers out	(1,132,174)	(402)	(1,336)	(245,685)	(1,379,597)
Total other financing sources (uses)	(991,633)	997,366	107,264	146,817	259,814
Net change in fund balances	120,298	20,883	(110,120)	(28,743)	2,318
Fund balances, July 1	1,746,694	524,165	613,430	891,486	3,775,775
Fund balances, June 30	$ 1,866,992	$ 545,048	$ 503,310	$ 862,743	$ 3,778,093

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

State of Tennessee
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2010

(Expressed in Thousands)

Net changes in fund balances - total governmental funds	$	2,318
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.		840,233
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		34,240
The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		(183,614)
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.		(134,912)
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.		(25,964)
Changes in net assets of governmental activities	$	532,301

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 Assets
Proprietary Funds
June 30, 2010

(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	$ 205,813		$ 213,709	$ 419,522	$ 482,701
Cash on deposit with fiscal agent		$ 228,633		228,633	
Receivables:					
Accounts receivable, net		210,775	2,123	212,898	4,427
Interest	113	4,122	9	4,244	
Loans receivable	30,231		6,542	36,773	
Due from other funds		336		336	1,947
Due from component units		1	5	6	4
Inventories, at cost			39	39	5,750
Prepaid expenses					215
Total current assets	236,157	443,867	222,427	902,451	495,044
Noncurrent assets:					
Accounts receivable					8,998
Deferred charges					246
Due from other funds					1,350
Loans receivable	527,926		87,579	615,505	
Lease receivable					2,060
Capital assets:					
Land, at cost					66,327
Structures and improvements, at cost					525,821
Machinery and equipment, at cost			16	16	356,790
Less-accumulated depreciation			(16)	(16)	(429,229)
Construction in progress					42,509
Total capital assets, net of accumulated depreciation			-	-	562,218
Total noncurrent assets	527,926		87,579	615,505	574,872
Total assets	764,083	443,867	310,006	1,517,956	1,069,916
Liabilities					
Current liabilities:					
Accounts payable and accruals	567	53,832	38,492	92,891	85,489
Due to other funds		16,050	55	16,105	203
Due to component units		47		47	
Lease obligations payable					139
Bonds payable					17,312
Unearned revenue		16,548	2	16,550	40,951
Other					35,226
Total current liabilities	567	86,477	38,549	125,593	179,320
Noncurrent liabilities:					
Lease obligations payable					670
Commercial paper payable					70,107
Bonds payable, net					178,908
Other noncurrent liabilities	4,333		2,245	6,578	78,969
Total noncurrent liabilities	4,333		2,245	6,578	328,654
Total liabilities	4,900	86,477	40,794	132,171	507,974
Net assets					
Invested in capital assets, net of related debt					295,083
Unrestricted	759,183	357,390	269,212	1,385,785	266,859
Total net assets	$ 759,183	$ 357,390	$ 269,212	$ 1,385,785	$ 561,942

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

State of Tennsssee
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

(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	$ 15,087		$ 2,715	$ 17,802	$ 450,404
Investment income	724		192	916	
Premiums		$ 710,113	525,487	1,235,600	591,710
Total operating revenues	15,811	710,113	528,394	1,254,318	1,042,114
Operating expenses					
Personal services			851	851	61,763
Contractual services	1,049		25,969	27,018	205,090
Materials and supplies			102	102	109,682
Rentals and insurance			3	3	46,483
Depreciation and amortization					42,987
Benefits		2,049,774	528,146	2,577,920	708,283
Other		85,763	4,042	89,805	6,579
Total operating expenses	1,049	2,135,537	559,113	2,695,699	1,180,867
Operating income (loss)	14,762	(1,425,424)	(30,719)	(1,441,381)	(138,753)
Nonoperating revenues (expenses)					
Taxes					2
Operating grants	21,149	1,449,854	11,125	1,482,128	5,850
Interest income		8,669	584	9,253	1,192
Interest expense					(8,702)
Other	(5,609)		(4,575)	(10,184)	
Total nonoperating revenues (expenses)	15,540	1,458,523	7,134	1,481,197	(1,658)
Income (loss) before contributions and transfers	30,302	33,099	(23,585)	39,816	(140,411)
Capital contributions					91,052
Transfers in	471		3,537	4,008	32,240
Transfers out			(400)	(400)	(8,845)
Change in net assets	30,773	33,099	(20,448)	43,424	(25,964)
Net assets, July 1	728,410	324,291	289,660	1,342,361	587,906
Net assets, June 30	$ 759,183	$ 357,390	$ 269,212	$ 1,385,785	$ 561,942

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, 2010

(continued on next page)

(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		$ 773,574	$ 533,638	$ 1,307,212	$ 270,129
Receipts from interfund services provided		4,802	161	4,963	811,164
Payments to suppliers			(557,043)	(557,043)	(1,031,956)
Payments to employees			(856)	(856)	(59,382)
Payments for unemployment benefits		(2,043,109)		(2,043,109)	
Payments for interfund services used	$ (1,049)	(87,473)	(4,679)	(93,201)	(61,588)
Net cash from (used for) operating activities	(1,049)	(1,352,206)	(28,779)	(1,382,034)	(71,633)
Cash flows from noncapital financing activities					
Operating grants received	21,149	1,429,694	11,150	1,461,993	
Negative cash balance implicitly financed			53	53	
Negative cash balance implicitly repaid		(20,405)		(20,405)	
Transfers in	471		3,537	4,008	32,240
Transfers out			(400)	(400)	(8,845)
Payments to component units			(25)	(25)	
Tax revenues received					2
Subsidy to borrowers			(5)	(5)	
Net cash from (used for) noncapital financing activities	21,620	1,409,289	14,310	1,445,219	23,397
Cash flows from capital and related financing activities					
Purchase of capital assets					(53,863)
Bond and commercial paper proceeds					70,902
Proceeds from sale of capital assets					1,053
Principal payments					(35,277)
Interest paid					(8,951)
Net cash from (used for) capital and related financing activities					(26,136)
Cash flows from investing activities					
Loans issued	(66,992)		(13,147)	(80,139)	
Collection of loan principal	22,805		3,834	26,639	
Interest received	15,661	8,669	2,244	26,574	1,192
Net cash from (used for) investing activities	(28,526)	8,669	(7,069)	(26,926)	1,192
Net increase (decrease) in cash and cash equivalents	(7,955)	65,752	(21,538)	36,259	(73,180)
Cash and cash equivalents, July 1	213,768	162,881	235,247	611,896	555,881
Cash and cash equivalents, June 30	$ 205,813	$ 228,633	$ 213,709	$ 648,155	$ 482,701

(continued from previous page)

State of Tennessee
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Business Type Activities - Enterprise Funds				
	Sewer Treatment Loan	Employment Security	Nonmajor Enterprise Funds	Total	Governmental Activities- Internal Service Funds
Reconciliation of operating income to net cash provided (used) by operating activities					
Operating income (loss)	$ 14,762	$ (1,425,424)	$ (30,719)	$ (1,441,381)	$ (138,753)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization					42,987
Loss on disposal of capital assets					1,038
Bond issuance cost					15
Capital lease executory costs paid					28
Investment income			(1,631)	(1,631)	
Charges for services			(58)	(58)	
Interest income	(15,811)			(15,811)	
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable		62,229	2,130	64,359	2,565
(Increase) decrease in due from other funds		332		332	2,507
(Increase) decrease in due from component units		22	(5)	17	4
(Increase) decrease in inventories			(39)	(39)	(52)
(Increase) decrease in prepaid expenses					(77)
Increase (decrease) in accounts payable		9,846	1,544	11,390	16,903
Increase (decrease) in due to other funds		(1,710)	(2)	(1,712)	(12)
Increase (decrease) in due to component units		8		8	
Increase (decrease) in unearned revenue		2,491	1	2,492	1,214
Total adjustments	(15,811)	73,218	1,940	59,347	67,120
Net cash provided by (used for) operating activities	$ (1,049)	$ (1,352,206)	$ (28,779)	$ (1,382,034)	$ (71,633)
Noncash investing, capital and financing activities					
Contributed capital assets					$ 91,052
Total noncash investing, capital and financing activities					$ 91,052

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

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

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

State of Tennessee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund	Private-Purpose Trust Funds	Agency Funds
Assets				
Cash and cash equivalents	$ 439,021	$ 1,184,519	$ 27,393	$ 422,270
Receivables:				
Accounts				1,204
Taxes			43	366,726
Interest and dividends	138,407	1,156	626	
Due from sale of investments	1,186,679			
Derivative instruments	674,884			
Due from other governments	45,777			
Real estate income	91			
Other	26,963		60	
Total receivables	2,072,801	1,156	729	367,930
Due from other funds	8,700		9	
Due from component units	8,169			
Investments, at fair value:				
Short-term securities		1,248,873		
Government bonds	8,642,163			
Corporate bonds	5,331,082			
Corporate stocks	12,933,915			
Mutual funds			77,526	
Derivative instruments	4,264			
Private equities	26,613			
Real estate	973,245			
Total investments	27,911,282	1,248,873	77,526	
Total assets	30,439,973	2,434,548	105,657	790,200
Liabilities				
Accounts payable and accruals	1,186,481		664	682,261
Derivative instruments	678,248			
Amounts held in custody for others				107,939
Total liabilities	1,864,729		664	790,200
Net assets				
Held in trust for:				
Pension benefits	28,574,195			
Employees' flexible benefits	1,049			
Pool participants		2,434,548		
Individuals, organizations and other governments			104,993	
Total net assets	$ 28,575,244	$ 2,434,548	$ 104,993	$ -

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

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust	Private-Purpose Trust Funds
Additions			
Contributions:			
Members	$ 263,774		
Employers	836,727		
Federal			$ 6,753
Private			23,843
Other			46,056
Total contributions	1,100,501		76,652
Investment income:			
Net increase in fair value of investments	1,802,314		5,944
Interest	581,684	$ 9,694	2,395
Dividends	273,297		
Real estate income	63,862		
Total investment income	2,721,157	9,694	8,339
Less: Investment expenses	28,811		
Administrative fee		1,240	
Net investment income	2,692,346	8,454	8,339
Capital share transactions:			
Shares sold		4,179,734	
Less: Shares redeemed		4,445,721	
Net capital share transactions		(265,987)	
Total additions	3,792,847	(257,533)	84,991
Deductions			
Annuity benefits:			
Retirement benefits	1,266,594		
Cost of living	261,479		
Death benefits	7,114		
Other	8,660		62,617
Refunds	36,423		2,820
Administrative expenses	7,543		5,366
Total deductions	1,587,813		70,803
Change in net assets held in trust for:			
Pension benefits	2,204,969		
Employees' flexible benefits	65		
Individuals, organizations and other governments		(257,533)	14,188
Net assets, July 1	26,370,210	2,692,081	90,805
Net assets, June 30	$ 28,575,244	$ 2,434,548	$ 104,993

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

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State of Tennessee
Comprehensive Annual Financial Report
For the Year Ended June 30, 2010
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NOTE 1 – **Summary of significant accounting policies**

A. **Financial reporting entity**

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

Discretely presented component units

1. The Tennessee Student Assistance Corporation (TSAC) (Governmental Fund Type) is responsible for guaranteeing student loans under federal programs and administering federal and state grants and loans to students. The majority of the Board is either appointed by the Governor or are state officials. TSAC's budget is approved by the State.

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

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

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

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

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

7. The Tennessee Local Development Authority (Proprietary Fund Type) provides financing assistance to local governments through the issuance of bonds and notes. In addition, the Authority assists non-profit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. The majority of the Board consists of state officials; therefore, the State can impose its will on the Authority.

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

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

10. The Tennessee Certified Cotton Growers' Organization (Proprietary Fund Type) was formed to aid in the eradication of the Boll Weevil. The majority of the Board is appointed by the Commissioner of the Department of Agriculture, and the State provides a substantial amount of funding.

11. The Access Tennessee (Proprietary Fund Type) health insurance pool was established to offer health insurance coverage to eligible citizens of the state who are considered uninsurable because of health conditions. 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
1114 Parkway Towers
404 James Robertson Parkway
Nashville, TN 37243

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

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

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

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

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

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

All others may be obtained at the following:
Finance & Administration
Division of Accounts
Suite 1400, William R. Snodgrass Tennessee Tower
312 Rosa L. Parks Avenue
Nashville, TN 37243

B. Government-wide and fund financial statements

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

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

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

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

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

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

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major proprietary funds:

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

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

Additionally, the State reports the following fund types:

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

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

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

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

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

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

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

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

D. Assets, liabilities, and net assets or equity

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

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

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

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

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

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

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

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

5. Capital assets—Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, with the exception of

infrastructure, are defined by the State as assets with an initial individual cost of $5,000 or more and an estimated useful life in excess of two years. Infrastructure assets are capitalized regardless of cost or useful life. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capitalized assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capitalized assets, except for land and infrastructure, are depreciated over their useful lives.

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

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

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

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

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

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

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

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

8. Net assets—consists of three components: *Invested in capital assets, net of related debt* consists of capital assets (including restricted capital assets), net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or commercial paper, and leases that are attributable to the acquisition,

construction, or improvement of those assets. Unspent debt proceeds at year end are not included in this calculation.

Restricted net assets consist of net assets in which constraints are placed on the use of those net assets either by external entities, such as creditors (debt covenants), grantors, contributors, and laws or regulations of other governments; or by constitutional provisions or enabling legislation of the State. Restrictions imposed by enabling legislation could be changed by future legislative action. Of the $2.2 billion restricted by the primary government, $444.1 million was by enabling legislation.

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

9. Fund equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Reserves for statutory and other legal requirements include amounts reserved in connection with enabling legislation, constitutional provisions and other legal requirements. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

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

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $2,474.219 million difference are as follows (expressed in thousands):

Bonds payable	$	1,424,832
Plus: Premium on bonds issued (to be amortized as interest expense)		91,701
Less: Deferred charge for issuance costs (to be amortized over life of debt)		(1,353)
Less: Deferred charge for bond refundings (to be amortized as interest expense)		(23,933)
Commercial paper payable		171,283
Accrued interest payable		17,705
Capital leases payable		15,492
Claims and judgments		173,874
Compensated absences		231,330
Other post employee benefits		296,362
Pollution remediation		53,901
Other long-term liabilities and accounts payable		23,025
Net adjustment to reduce *fund balance—total governmental funds* to arrive at *net assets—governmental activities*	$	2,474,219

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

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense." The details of this $840.233 million difference are as follows (expressed in thousands):

Capital outlay	$ 909,462
Depreciation expense	(69,229)
Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 840,233

Another element of that reconciliation states that "The issuance of long-term debt (e.g., bonds, commercial paper) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $183.614 million difference are as follows (expressed in thousands):

Debt issued or incurred:	
Issuance of general obligation refunding bonds	$ 43,985
Issuance of general obligation bonds	215,369
Issuance of commercial paper	199,663
Bond premium capitalized	26,359
Debt reduced:	
General obligation bonds/payments to escrow	(43,985)
General obligation debt	(101,804)
Commercial paper redeemed	(155,973)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 183,614

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 $134.912 million difference are as follows (expressed in thousands):

Compensated absences	$ (5,498)
Claims and judgments	47,316
Accrued interest	146
Capital lease	(685)
Other postemployment benefits	91,418
Pollution remediation	2,064
Amortization of deferred charge	40
Loss on disposal of capital assets	3,822
Amortization of issuance costs	180
Amortization of bond premiums	(6,303)
Amortization of deferred amount on bond refunding	2,412
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 134,912

NOTE 3 – **Deficit fund equity**

The Purchasing fund, an internal service fund, has a total net asset deficit of $118 thousand. The Property Utilization fund, an enterprise fund, has a total net asset deficit of $109 thousand. Both deficits occurred primarily as a result of the reporting of other post employment benefits at the fund level in accordance with GASB 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

NOTE 4 – **Accounting changes**

The following schedule enumerates adjustments for the fiscal year ended June 30, 2010, (expressed in thousands):

	6/30/2009 Net Assets As Reported	Adjustments to Net Assets	6/30/2009 Net Assets As Restated
Government-wide statements:			
Component Units	$ 5,030,034	$ 11,703	$ 5,041,737
Total component units	$ 5,030,034	$ 11,703	$ 5,041,737

Adjustments to Net Assets

Component Units

- The University of Tennessee—$9.795 million represents net assets of the University of Tennessee Research Foundation which is reported as a component unit of the University in this year's statements.
- Tennessee Housing Development Agency—$1.908 million represents revenue earned on or before June 30, 2009, but received on or after July 1, 2009.

Changes in Accounting Principle

The state has implemented Governmental Accounting Standards Board's Statement 51, *Accounting and Financial Reporting for Intangible Assets.* The statement establishes accounting and financial reporting requirements for

intangible assets to reduce inconsistencies that have occurred in practice, thereby enhancing the comparability of such assets among state and local governments. Retroactive reporting is required for intangible assets acquired in fiscal years ending after June 30, 1980, except for those considered to have indefinite useful lives and those that would be considered internally generated. As of June 30, 2010, the state did not have any intangible assets that required retroactive reporting.

In addition, the state has also implemented Governmental Accounting Standards Board's Statement 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement requires that the fair value of derivative instruments be reported in the financial statements of the state and local governments. The statement further requires that derivatives be categorized as either a hedging derivative or an investment derivative. All of the State's derivative exposures at June 30, 2010, are categorized as investment derivatives and therefore the hedge accounting provisions of the GASB Statement No. 53 are not applicable. Changes in fair values of investment derivative instruments have been reported within the investment revenue classification of the State's financial statements.

Reclassification

The state reclassified the Community Development Fund, previously reported as a nonmajor special revenue fund, to the General Fund. As a result, fund balance of $10.176 million was reclassified to the General Fund.

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

A. **Deposits and investments**

Primary Government

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

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

In addition to the funds in the State Pooled Investment Fund, the Tennessee Consolidated Retirement System (TCRS), a pension trust fund; the Baccalaureate Education System Trust (BEST), a private-purpose trust; the Lottery for Education 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.

As of June 30, 2010, the State's investments for all funds were as follows (expressed in thousands):

PENSION TRUST, POOLED INVESTMENT, AND OTHER FUNDS
INVESTMENTS

Investment Type	Fair Value	United States[1] Treasury/Agency
Debt Investments		
U.S. Government		
U.S. Government Treasuries, Notes, Bonds	$ 1,341,360	$ 1,331,321
U.S. Government STRIPS	2,357,182	2,357,182
U.S. Government Agencies	4,418,953	1,644
U.S. Government Asset-Backed	141,609	141,609
Municipal Bonds	104,066	
Mortgage-Backed		
Government Pass-through	3,369,751	521,007
Corporate Pass-through	471,001	
Collateralized Mortgage Obligations		
Corporate CMO's	410,479	
Corporate		
Corporate Bonds	3,637,501	
Corporate Asset-Backed	960,679	
Non-U.S. - Government/Sovereign	1,108,361	
Short Term		
Commercial Paper	1,276,739	
Agencies	160,997	
Total Debt Investments	19,758,678	$ 4,352,763
Other Investments		
Equity		
U.S.	8,780,486	
Non-U.S.	4,179,865	
Derivatives	4,264	
Real Estate	973,245	
Private Equities	26,613	
Commingled Funds		
U.S. Equity	73,926	
U.S. Fixed Income	35,659	
Non-U.S. Equity	64,994	
Money Market Funds (rated AAA)	9,899	
Total Other Investments	14,148,951	
Total Investments	$ 33,907,629	

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

Credit Quality Rating										
AAA	AA	A	BBB	BB	B	CCC	CC	A1[2]	Not Rated[3]
$ 10,039									
1,301,934									$ 3,115,375
	$ 42,709	$ 61,357							
									2,848,744
398,619	51,718	18,782				$ 1,882			
63,468				$ 18,065	$ 90,299	217,956	$ 11,783		8,908
104,900	442,005	1,147,627	$ 1,743,875	142,240	34,994		414		21,446
657,380	142,133	43,677	65,621			15,580			36,288
441,896	595,060								71,405
								$ 1,276,739	
									160,997
$ 2,978,236	$ 1,273,625	$ 1,271,443	$ 1,809,496	$ 160,305	$ 125,293	$ 235,418	$ 12,197	$ 1,276,739	$ 6,263,163

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

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1. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the State's investments in debt securities as of June 30, 2010, are included in the previous schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. State statutes provide a process for financial institutions desiring to act as state depositories to be approved by the State Treasurer. Statutes also provide for the Commissioner of Financial Institutions to advise, on a timely basis, the Treasurer and the Commissioner of Finance and Administration of the condition of each state bank and state chartered savings and loan association, including his recommendations regarding its condition and safety as a state depository. Similar provisions apply to federally chartered banks and savings and loan associations designated as state depositories. This process ensures that institutions whose financial status is uncertain are monitored for collateral sufficiency. All certificates of deposit are required by policy to be placed directly with state depositories. All repurchase agreements are done with primary dealers in government securities which have executed a master repurchase agreement with the State. The SPIF's investment policy requires an AAA credit quality rating for the purchase of obligations of instrumentalities that are not fully guaranteed by the United States government. Prime banker's acceptances must be issued by domestic banks with a minimum AA long-term debt rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short-term debt rating must be at least A1 or the equivalent by all of the rating services that rate the issuer. Commercial paper should be rated in the highest tier by all rating agencies that rate the paper. Commercial paper on a credit rating agency's negative credit watch list cannot be purchased under the SPIF's investment policy. The policy requires that a credit analysis report on the corporation be prepared prior to acquisition of the commercial paper.

The SPIF is not registered with the Securities and Exchange Commission (SEC) as an investment company but, through its investment policy adopted by the Funding Board, operates in a manner consistent with the SEC's Rule 2a7 of the *Investment Company Act of 1940*. Rule 2a7 allows SEC registered mutual funds to use amortized cost to report net assets in computing share prices. Likewise, the SPIF uses amortized cost accounting measures to report investments and share prices. During the fiscal year ended June 30, 2010, the State had not obtained or provided any legally binding guarantees to support the value of participant shares. The State of Tennessee has not obtained a credit quality rating for the SPIF from a nationally recognized credit ratings agency.

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

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

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

The Lottery for Education Fund investment policy states that the fund may acquire securities which are rated within the four highest grades at the time of acquisition by any of the recognized rating agencies. Commercial

paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required.

2. Concentration of Credit Risk

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

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

As of June 30, 2010, the combined SPIF, TCRS, COE Trust, BEST, Lottery for Education Fund, and other State funds held debt investments in certain organizations representing five percent (5%) or more of total investments, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments (expressed in thousands):

Issuer Organization		Fair Value	Percentage
Federal National Mortgage Association	$	2,959,939	8.73

3. Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The SPIF's investment policy with respect to maturity states that the dollar weighted average maturity of the pool shall not exceed ninety (90) days and that no investment may be purchased with a remaining maturity of greater than three hundred ninety-seven (397) calendar days. In addition, it is the intent of the Funding Board that the market value of the SPIF not deviate more than 0.5 percent from amortized cost. If it does, actions may include, but not be limited to, selling securities whose market value substantially deviates from amortized cost, and investing in securities with ninety (90) days or less to maturity. Agency variable rate notes are permitted by investment policy provided they are indexed to treasury bill, commercial paper, federal funds, LIBOR or the prime rates. It is the intent of the Funding Board that variable rate notes must move in the same direction as general money market rates. Prime banker's acceptances must have an original maturity of not more than two hundred seventy (270) days to be eligible for purchase, with the intent to hold to maturity. Prime commercial paper shall not have a maturity that exceeds one hundred eighty (180) days, and individual repurchase agreement transactions shall not have a maturity that exceeds ninety (90) days. The days to maturity on certificates of deposit ranged from 7 to 275 days at June 30, 2010. Interest rates on certificates of deposit held at June 30, 2010, ranged from .30% to .50%. The days to maturity on U.S. Government Agencies ranged from 7 to 397 days at June 30, 2010. Interest rates on U.S.

Government Agencies held at June 30, 2010, ranged from 0% to 1.75%. The days to maturity on commercial paper ranged from 1 to 43 days at June 30, 2010. Interest rates on commercial paper held at June 30, 2010, ranged from .01% to .33%.

As of June 30, 2010, 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	Fair Value	Weighted Average Maturity (Months)
U.S. Government Agencies/Treasuries	$ 3,899,062	4.27
Commercial paper	1,025,638	0.17

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

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 526,862	5.29
Government Bonds	2,287,577	7.03
Government Inflation Indexed	2,331,362	4.13
Government Mortgage-Backed	3,227,126	1.93
Government Asset-Backed	141,172	5.75
Municipal Bonds	118,024	9.00
Corporate Fixed Income		
Collateralized Mortgage Obligations	410,479	3.44
Commercial Mortgage Backed	454,043	2.31
Asset Backed Securities	959,443	0.55
Corporate Bonds	3,480,681	5.32
Guaranteed Fixed Income	10,039	0.25
Short Term		
Commercial Paper	251,101	0.02
Agencies	160,997	0.02
Total Debt Investments	$ 14,358,906	

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

CHAIRS OF EXCELLENCE
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (Years)
Debt Investments		
U.S. Government		
U.S. Government Treasuries	$ 16,077	8.51
U.S. TIPS	25,820	3.87
U.S. Agencies	6,319	3.54
Government Mortgage-Backed	26,555	1.35
Government Asset-Backed	437	6.24
Corporate Fixed Income		
Corporate Mortgage-Backed	11,272	2.80
Corporate Bonds	28,690	5.32
Corporate Asset-Backed	1,236	0.85
Total Debt Investments	$ 116,406	

The investment policy of the Lottery for Education fund recommends a mix of investment grade fixed income securities of the Long and Intermediate Term Portfolio that, when combined with income earned from amounts allocated to meet liquidity needs, has a high probability of meeting such scholarship objectives.

LOTTERY FOR EDUCATION
DEBT INVESTMENTS
(expressed in thousands)

Investment Type	Fair Value as of June 30, 2010	Effective Duration (Years)
Debt Investments		
Government Fixed Income		
Government Agencies	$ 63,592	7.11
U.S. Government Treasuries	45,188	8.87
Government Mortgage-Backed	116,070	1.31
Corporate Fixed Income		
Commercial Mortgage Backed	5,686	8.17
Corporate Bonds	128,130	5.17
Total Debt Investments	$ 358,666	

The investment policy for BEST states that bonds generally will be purchased and held to maturity, but when necessary, the portfolio will be actively managed in times of volatile interest rate swings to shorten the average maturity and protect principal value. The effective duration for the SSgA Aggregate Bond Index Fund that BEST utilizes was 4.56 years at June 30, 2010.

Asset-Backed Securities-The TCRS invests in collateralized mortgage obligations which are mortgage-backed securities that are based on cash flows from interest and principal payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

4. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2010, was as follows (expressed in thousands):

Currency	Total Fair Value	Fixed Income	Equity	Cash
Australian Dollar	$ 211,803	$ 13,958	$ 195,247	$ 2,598
British Pound Sterling	854,109	105,779	746,819	1,511
Canadian Dollar	377,014	118,842	257,339	833
Danish Krone	57,646		57,479	167
Euro Currency	1,144,340	263,623	853,859	26,858
Hong Kong Dollar	116,389		115,557	832
Japanese Yen	1,445,642	595,061	851,743	(1,162)
New Zealand Dollar	5,809		5,809	
Norwegian Krone	56,697	11,098	45,273	326
Singapore Dollar	58,583		57,470	1,113
Swedish Krona	67,405		67,393	12
Swiss Franc	241,077		240,991	86
Total	$ 4,636,514	$ 1,108,361	$ 3,494,979	$ 33,174

5. Derivatives

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

The TCRS may buy or sell equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2010, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

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

securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in the derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statements. The TCRS did have option contract activity during the year ending June 30, 2010; however, there were no option contracts outstanding at June 30, 2010.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, 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, 2010			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Fiduciary Funds:						
Foreign Currency Forward Contracts						
		$ 2,575		$ 2,575	99,000	CAD
		185		185	19,030	EUR
		73		73	8,270	GBP
		(536)		(536)	6,287,850	JPY
	Investment Income	$ 2,297	Derivative Instruments	$ 2,297		
Future Contracts	Investment Income	$ (23,484)	Derivative Instruments Payable	$ (3,364)	$ 105,747	
TBA Mortgage-Backed Securities	Investment Income	$ 1,967	Derivative Instruments	$ 1,967	$ 474,634	

Component Units

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

1. University of Tennessee

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

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, 2010, the University's investments were rated as follows (expressed in thousands):

		Credit Quality Rating					
Rated Debt Instruments	Fair Value	US Treasury/ Agency	Aaa	Aa1	Aa2	Aa3	A1
U.S. Treasuries	$ 2,993	$ 2,993					
U.S. Agencies	7,139		$ 7,139				
Corporate Bonds	20,455		1,041		$ 1,346	$ 678	$ 2,637
Municipal Bonds	3,664			$ 444	1,309	777	188
Mutual Funds – Bonds	32,350		20,485		9,377		
Mortgages and Notes	299						
Money Market Mutual Fund	742		742				
	$ 67,642	$ 2,993	$ 29,407	$ 444	$ 12,032	$ 1,455	$ 2,825

(Continued)	Credit Quality Rating						
Rated Debt Instruments	A2	A3	Baa1	Baa2	Baa3	Ba2	Unrated
U.S. Treasuries							
U.S. Agencies							
Corporate Bonds	$ 4,986	$ 3,222	$ 2,103	$ 3,347	$ 1,018		$ 77
Municipal Bonds			430				516
Mutual Funds – Bonds	473			1,897		$ 118	
Mortgages and Notes							299
Money Market Mutual Fund							
Total	$ 5,459	$ 3,222	$ 2,533	$ 5,244	$ 1,018	$ 118	$ 892

Interest Rate Risk

The University does not have a formal policy that addresses interest rate risk. As of June 30, 2010, 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
Investments					
U.S. Treasuries	$ 2,993	$ 592	$ 912	$ 625	$ 864
U.S. Agencies	7,139	78	1,751	3,378	1,932
Corporate Bonds	20,455	2,647	8,973	8,835	
Municipal Bonds	3,664		1,214	711	1,739
Mortgages and Notes	299		299		
Bond Mutual Funds	32,350			27,203	5,147
	$ 66,900	$ 3,317	$ 13,149	$ 40,752	$ 9,682

University foundations' investments in the amount of $109.296 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 eighty-one limited partnerships, limited companies, corporations, and limited liability corporations. At June 30, 2010, the estimated fair value of these assets is $301.3 million and total capital contributions, less returns of capital, equal $332.3 million. These investments are not readily marketable, therefore, the estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market existed; such differences could be material. The university's investment policy permits investment in various asset classes, such as these alternative investments, to ensure portfolio diversity. The fair values were estimated by the general partner of each limited partnership or manager of each corporate entity using various valuation techniques.

2. Tennessee Board of Regents System

Credit Risk

The System is authorized by statute to invest funds in accordance with the Tennessee Board of Regents' investment policies. Funds, other than endowment, invest similarly to the State policies. Endowment funds can be invested in equity securities and various other securities given prudent diversification. The System has no formal investment policy that limits its investment choices based on ratings issued by rating agencies. As of June 30, 2010, 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/ Agency	AAA	AA	A	BBB	BB	CCC	Not Rated
U.S. Treasuries	$ 43,497	$ 43,497							
U. S. Agencies	77,785	2,633	$ 74,724						$ 428
Corporate Bonds	19,558		444	$ 2,261	$ 12,023	$ 2,761		$ 313	1,756
Municipal Bonds	636		36	572	28				
Mutual Funds—Bonds	19,153		11,711	824	2,286	1,168	$ 1,129		2,035
Collateralized Mortgage Obligation	1,877		623						1,254
Money Market Mutual Fund	1,631								1,631
Total Debt Instruments	$ 164,137	$ 46,130	$ 87,538	$ 3,657	$ 14,337	$ 3,929	$ 1,129	$ 313	$ 7,104

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, 2010, debt investments and maturities of the system and its foundations (that utilize governmental accounting standards) follow (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasuries	$ 43,497	$ 21,269	$ 21,019	$ 1,182	$ 27
U.S. Agencies	77,785	1,645	68,857	5,124	2,159
Corporate Bonds	19,558	539	12,768	6,227	24
Municipal Bonds	636		311	325	
Mutual Funds—Bonds	19,153	360	5,536	5,475	7,782
Mortgage Backed Securities	1,250			61	1,189
Collateralized Mortgage Obligation	627			429	198
Total Debt Investments	$ 162,506	$ 23,813	$ 108,491	$ 18,823	$ 11,379

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 $184.249 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 one hundred percent of its portfolio in U.S. government securities due to the absence of credit risk. A minimum of five percent of the par value of total investments must mature within five years. No more than fifty percent of the par value of the combined portfolios can be invested in maturities greater than 15 years without approval of the Bond Finance Committee.

Credit Risk

The Agency's investments as of June 30, 2010, were rated by Standard and Poor's as follows (expressed in thousands):

			Credit Quality Rating			
Rated Debt Instruments	Fair Value	U.S. Treasury/ Agency	AAA	A-1+	AA-2	Not Rated
U.S. Agencies	$ 150,758		$ 104,877	$ 40,000	$ 5,226	$ 655
U.S. Treasuries	305,983	$ 305,983				
Repurchase Agreements	124,000					124,000
Total Debt Instruments	$ 580,741	$ 305,983	$ 104,877	$ 40,000	$ 5,226	$ 124,655

Concentration of Credit Risk

At June 30, 2010, more than five percent of the Agency's investments are invested in the following single issuers (expressed in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 51,166	8.81
Federal National Mortgage Association	73,223	12.61
Repurchase Agreements – U.S. Agency	124,000	21.35

Interest Rate Risk

As of June 30, 2010, the Agency had the following debt investments and effective duration (expressed in thousands):

Investment Type	Fair Value	Effective Duration (Years)
U.S. Agency Coupon	$ 110,758	1.464
U.S. Agency Discount	40,000	0.000
U.S. Treasury Coupon	91,214	5.898
U.S. Treasury Discount	214,769	0.000
Repurchase Agreements	124,000	0.005
Total	$ 580,741	

B. Accounts and notes receivable

Receivables at June 30, 2010, for the State's individual major funds and non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Due From Other Government	Other	Total Receivables	Allowance for Uncollectibles	Net Total Receivables
Governmental Activities:							
General	$ 199,754	$ 762,994	$ 1,272,603	$ 1,807	$ 2,237,158	$ (141,383)	$ 2,095,775
Education	3,589	525,332	144,551		673,472	(64,315)	609,157
Highway	484	62,409	251,403		314,296		314,296
Nonmajor governmental	654	9,993	15,627	3,733	30,007	(900)	29,107
Internal Service	4,407		8,998	2	13,407	(121)	13,286
Total—governmental activities	$ 208,888	$ 1,360,728	$ 1,693,182	$ 5,542	$ 3,268,340	$ (206,719)	$ 3,061,621
Amounts not expected to be collected within one year		$ 33,130	$ 8,998				$ 42,128
Business-type Activities:							
Employment Security	$ 54,108	$ 156,057	$ 37,283	$ 4,122	$ 251,570	$ (36,673)	$ 214,897
Sewer Treatment Loan				113	113		113
Nonmajor enterprise	2,289			9	2,298	(166)	2,132
Total—business-type activities	$ 56,397	$ 156,057	$ 37,283	$ 4,244	$ 253,981	$ (36,839)	$ 217,142

C. Capital assets

Capital asset activity for the year ended June 30, 2010, was as follows (expressed in thousands):

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 1,549,073	$ 150,405	$ (74)	$ 1,699,404
Infrastructure	19,046,790	362,912	(1,630)	19,408,072
Construction in progress	946,886	794,742	(437,349)	1,304,279
Software in development		37,335		37,335
Total capital assets, not being depreciated	21,542,749	1,345,394	(439,053)	22,449,090
Capital assets, being depreciated:				
Structures and improvements	2,116,399	92,951	(3,628)	2,205,722
Machinery and equipment	732,391	59,118	(23,559)	767,950
Total capital assets being depreciated	2,848,790	152,069	(27,187)	2,973,672
Less accumulated depreciation for:				
Structures and improvements	(849,112)	(51,356)	2,012	(898,456)
Machinery and equipment	(433,599)	(61,372)	16,805	(478,166)
Total accumulated depreciation	(1,282,711)	(112,728)	18,817	(1,376,622)
Total capital assets, being depreciated, net	1,566,079	39,341	(8,370)	1,597,050
Governmental activities capital assets, net	$ 23,108,828	$ 1,384,735	$ (447,423)	$ 24,046,140
Business Type activities:				
Capital assets, being depreciated:				
Machinery and equipment	$ 16			$ 16
Less accumulated depreciation for:				
Machinery and equipment	(16)			(16)
Business Type activities capital assets, net	$ -			$ -

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

Governmental activities:	
General Government	$ 3,265
Education	1,269
Health and Social Services	8,650
Law, Justice and Public Safety	26,758
Recreation and Resource Development	11,047
Regulation of Business and Professions	610
Transportation	17,630
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	43,499
Total depreciation expense – governmental activities	$ 112,728

Highway Construction Commitments — At June 30, 2010, the Department of Transportation had contractual commitments of approximately $863.5 million for construction of various highway projects. Funding of these future expenditures is expected to be provided from federal grants ($731.7 million) and general obligation bond proceeds ($131.8 million).

Discretely Presented Component Units

Capital asset activity for the year ended June 30, 2010, for the discretely presented component units was as follows (expressed in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 159,847	$ 6,457	$ (9,121)	$ 157,183
Construction in progress	512,628	282,592	(371,728)	423,492
Total capital assets, not being depreciated	672,475	289,049	(380,849)	580,675
Capital assets, being depreciated:				
Infrastructure	290,839	44,666	(452)	335,053
Structures and improvements	3,503,512	391,323	(8,351)	3,886,484
Machinery and equipment	914,870	96,545	(53,937)	957,478
Total capital assets being depreciated	4,709,221	532,534	(62,740)	5,179,015
Less accumulated depreciation for:				
Infrastructure	(150,072)	(13,093)	298	(162,867)
Structures and improvements	(1,402,615)	(97,549)	4,684	(1,495,480)
Machinery and equipment	(520,476)	(82,234)	50,454	(552,256)
Total accumulated depreciation	(2,073,163)	(192,876)	55,436	(2,210,603)
Total capital assets, being depreciated, net	2,636,058	339,658	(7,304)	2,968,412
Total capital assets, net	$ 3,308,533	$ 628,707	$ (388,153)	$ 3,549,087

The University of Tennessee Foundations, and certain Tennessee Board of Regents Foundations utilize FASB standards; therefore, only the June 30, 2010, balances are available as follows (expressed in thousands):

	Ending Balance
Capital assets, not being depreciated:	
Land	$ 12,576
Construction in progress	4,947
Total capital assets, not being depreciated	17,523
Capital assets, being depreciated:	
Infrastructure	1,009
Structures and improvements	132,252
Machinery and equipment	21,293
Total capital assets being depreciated	154,554
Less: Total accumulated depreciation	(28,317)
Total capital assets, being depreciated, net	126,237
Total capital assets, net	$ 143,760

D. Interfund balances

1. Interfund balances at June 30, 2010, consisted of the following (expressed in thousands):

DUE FROM

		General	Education	Highway	Employment Security	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service Funds	Total
D	General		$ 234,518		$ 16,049	$ 59	$ 53		$ 250,679
U	Education	$ 105							105
E	Employment Security	336							336
T	Nonmajor Governmental Funds				1				1
O	Internal Service Funds	3,277				20			3,297
	Fiduciary Funds	7,180	279	$ 811		234	2	$ 203	8,709
	Total	$ 10,898	$ 234,797	$ 811	$ 16,050	$ 313	$ 55	$ 203	$ 263,127

Of the $234.518 million due to the General Fund from the Education Fund, $234.486 million resulted from a time lag between the dates the payments to local education agencies occurred and taxes are received in the Education Fund. The $16.049 million due to the General Fund from Employment Security resulted from a time lag between the dates the funds are drawn and received from the Federal government. The amounts due to Fiduciary Funds resulted from a time lag in payment of payroll tax liabilities. The Office for Information Resources, an internal service fund, made loans of $3.277 million to various general fund agencies for computer systems development. Of this amount, $1.35 million is considered long term and not expected to be repaid within one year.

2. COMPONENT UNITS PAYABLES

Component Units accounts payable to the Primary Government at June 30, 2010, consisted of the following (expressed in thousands):

PAYABLE FROM
COMPONENT UNITS

	Tennessee Housing Development Agency	Tennessee Education Lottery	Tennessee Board of Regents	University of Tennessee	Nonmajor Component Units	Total
PRIMARY GOVERNMENT:						
General			$ 202	$ 6	$ 139	$ 347
Education		$ 84,560	93	871		85,524
Employment Security					1	1
Nonmajor Governmental Funds			1,267	500	108	1,875
Nonmajor Enterprise Funds			5			5
Internal Service Funds			1	3		4
Fiduciary Funds	$ 57		4,138	3,954	20	8,169
Total	$ 57	$ 84,560	$ 5,706	$ 5,334	$ 268	$ 95,925

3. COMPONENT UNITS RECEIVABLES

Component Units accounts receivable from the Primary Government at June 30, 2010, consisted of the following (expressed in thousands):

RECEIVABLE FROM
PRIMARY GOVERNMENT

	General	Education	Employment Security	Nonmajor Governmental Funds	Total
COMPONENT UNITS:					
Tennessee Board of Regents		$ 14,900		$ 821	$ 15,721
University of Tennessee		7,856		1,018	8,874
Nonmajor Component Units	$ 2,037		$ 47		2,084
Total	$ 2,037	$ 22,756	$ 47	$ 1,839	$ 26,679

E. Transfers

Transfers between the various primary government funds for fiscal year ended June 30, 2010, are as follows (expressed in thousands):

Transfers In

Transfers Out	General	Education	Highway	Nonmajor Governmental Funds	Sewer Treatment	Nonmajor Enterprise Funds	Internal Service Funds	Private Purpose Trust Funds	Total
General		$ 997,600		$ 78,728	$ 471	$ 3,537	$ 32,091	$ 19,747	$ 1,132,174
Education				402					402
Highway	$ 1,336								1,336
Nonmajor Governmental Funds	109,150		$ 108,600	27,786			149		245,685
Nonmajor Enterprise Funds	400								400
Internal Service Funds	8,677	168							8,845
Totals	$ 119,563	$ 997,768	$ 108,600	$ 106,916	$ 471	$ 3,537	$ 32,240	$ 19,747	$ 1,388,842

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, 2010, the general fund transferred $1.132 billion to other funds in accordance with statute or budgetary authorizations for the following purposes: $997.6 million to subsidize the activities of the education fund, $70.4 million for capital outlay expenditures, $56.5 million to provide appropriations to finance various programs in other funds, $4.1 million for payments for interfund services used, and $3.4 million to provide for debt service payments.

The highway fund received a transfer from the debt service fund for $108.6 million to cancel authorized and unissued highway bonds. These authorizations were originally recorded in the highway fund to fund a portion of their budget.

F. Lease obligations

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

For the Year(s) Ended June 30		Noncancelable Operating Leases
2011	$	23,817
2012		18,658
2013		14,607
2014		9,101
2015		6,005
2016-2020		16,172
2021-2022		5,675
Total Minimum Payments Required	$	94,035

Expenditures for rent under leases for the years ended June 30, 2010 and 2009, amounted to $59.5 million and $61.8 million, respectively.

Capital Lease Obligations – The State leases office buildings and equipment that in substance are purchases and are reported as capital lease obligations. These leases are recorded as assets and liabilities at either the lower of fair value or the present value of the future minimum lease payments in the government-wide and proprietary fund statements. For capital leases reported in governmental funds, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function. The office building leases expire over the next 17 years. The effective interest rates for these leases range from 4.48% to 5%. 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		$	350
Buildings	$ 31,110		
Less: Accumulated Depreciation	(2,086)		29,024
		$	29,374

At June 30, 2010, minimum annual lease payments are as follows (expressed in thousands):

For the Year(s) Ended June 30		Governmental Activities Lease Obligation Payable
2011	$	1,558
2012		1,560
2013		1,561
2014		1,562
2015		1,522
2016-2020		6,890
2021-2025		6,869
2026-2027		1,685
Total		23,207
Less - Interest		(6,779)
Less - Executory Costs		(128)
Present value of net minimum lease payments	$	16,300

G. Lease receivables

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

The State, as lessor, entered into a lease agreement with the Nashville/Davidson County Metropolitan Government (lessee) for the Post-Mortem Facility. The lease term is 20 years beginning July 15, 2001, with an option to renew the lease for an unlimited period of time for a nominal amount. The State is subsidizing a part of the cost of this building. Minimum future lease payments to be received as of June 30, 2010 (expressed in thousands):

Year Ended June 30		Total
2011	$	459
2012		458
2013		461
2014		458
2015		460
2016-2021		1,208
Total minimum future lease payments	$	3,504
Net investment in direct financing leases at June 30:		
Minimum lease payments receivable	$	3,504
Plus: deferred charges		372
Net investment in direct financing lease	$	3,876

H. Long term debt

1. General Obligation Bonds – Bonds Payable at June 30, 2010, are shown below (expressed in thousands):

	Amount
Governmental Activities:	
General obligation bonds, 1.865% to 6.5%, due in generally decreasing amounts of principal and interest from $120.571 million in 2011 to $12.385 million in 2030	$ 1,167,670
General obligation refunding bonds, 1999 Series A, 4.25% to 5%, principal and interest due in amounts from $23.376 million in 2011 to $5.398 million in 2015	77,401
General obligation refunding bonds, 2004 Series A, 4.91% to 5.1%, principal and interest due in amounts from $1.632 million in 2011 to $1.629 million in 2012	3,030
General obligation refunding bonds, 2004 Series C, 3.25% to 5.25%, principal and interest due in amounts from $37.563 million in 2011 to $11.388 million in 2018	208,594
General obligation refunding bonds, 2005 Series A, 3.5% to 5.25%, principal and interest due in amounts from $10.631 million in 2011 to $7.628 million in 2020	111,026
General obligation refunding bonds, 2009 Series B, 3% to 5%, principal and interest due in amounts from $8.09 million in 2011 to $7.544 million in 2022	104,183
General obligation refunding bonds, 2009 Series D, 1.865% to 5.589%, principal and interest due in amounts from $2.001 million in 2011 to $3.889 million in 2029	43,985
	1,715,889
Less: Unamortized bond refunding costs	(27,069)
Total Governmental Activities	$ 1,688,820

General obligation bonds issued during the year ended June 30, 2010:

December 2009	Bond Series 2009C in the amount of $235.89 million
	Bond Series 2009D in the amount of $10.125 million
	Refunding Bond Series 2009D in the amount of $43.985 million

The December 2009, bond series 2009C, general obligation bond issuance in the amount of $235.89 million represents tax-exempt bonds maturing serially through 2030 at interest rates ranging from 2.5 percent to 5 percent. The bonds were sold at a premium of $26.358 million. Proceeds of the bond issue and premium were used to redeem commercial paper and to directly finance other projects.

The December 2009, bond series 2009D, general obligation bond issuance in the amount of $10.125 million represents taxable bonds maturing serially through 2029 at interest rates ranging from 1.865 percent to 5.589 percent. The bonds were not sold at a premium. Proceeds of the bond issue were used to redeem commercial paper.

In December 2009, the state issued general obligation refunding bonds, series 2009D, in the amount of $43.985 million to provide for the current refunding of $42.95 million of general obligation bonds issued in series 2004B. Proceeds from the current 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 assets. The refunding bonds were not sold at a premium.

The net carrying amount of the refunded bonds was $39.26 million. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4.725 million. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to

operations through 2029 using the straight line method. The state completed the refunding to eliminate the possibility of higher interest rates due to the variable rate attached to the refunded bonds and to obtain a fixed interest rate going forward. As of the sale date, the refunding will increase the total debt service payments over the next 20 years by $2.366 million and results in an economic loss (difference between present values of the old and new debt service payments) of $1.361 million. However, if interest rates rise as expected, the loss may turn into a gain over the life of the new debt.

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, 2010, $139.865 million of bonds outstanding are considered defeased.

2. General Obligation Commercial Paper – Governmental Activities Commercial Paper Payable at June 30, 2010, is shown below (expressed in thousands).

	Commercial Paper
General obligation commercial paper, interest rates ranging from .28% to .4% for tax exempt and .29% to .72% for taxable, varying maturities	$ 241,390

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

In March 2000, the State instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper may be issued as federally taxable or tax exempt and constitute bond anticipation notes. The commercial paper is sold at par as interest-bearing obligations in minimum denominations of $100 thousand and integral multiples of one thousand in excess of such amount, with interest payable at maturity. The commercial paper has varying maturities of not more than 270 days from their respective dates of issuance. Interest rates vary depending on the market. The amount of principal outstanding may not exceed $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 April 1, 2015. At June 30, 2010, $241.39 million of commercial paper was outstanding ($214.463 million tax exempt and $26.927 million federally taxable). Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

3. Debt Service Requirements to Maturity - Debt Service requirements to maturity for all general obligation bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	General Obligation Bonds Principal	General Obligation Bonds Interest	Total Requirements
2011	$ 137,093	$ 66,773	$ 203,866
2012	132,791	61,287	194,078
2013	133,423	55,424	188,847
2014	127,193	49,610	176,803
2015	119,093	43,703	162,796
2016-2020	496,649	152,040	648,689
2021-2025	355,002	70,761	425,763
2026-2030	214,645	10,210	224,855
	$ 1,715,889	$ 509,808	$ 2,225,697

The above principal for bonds does not reflect a $27.069 million deduction from bonds payable for the deferred amount on refunding.

4. General Obligation Bonds Authorized and Unissued - A summary of general obligation bonds authorized and unissued at June 30, 2010, is shown below (expressed in thousands). It is anticipated that a significant amount of these bonds will not be issued but will be canceled because of sufficient fund balances.

Purpose	Unissued July 1, 2009	Authorized	Canceled	Unissued June 30, 2010
Highway	$ 942,500	$ 164,500	$ 108,600	$ 998,400
Higher Education	55,892		9,548	46,344
Environment and Conservation	77			77
General Government	1,215,056	29,600	283,421	961,235
Totals	$ 2,213,525	$ 194,100	$ 401,569	$ 2,006,056

5. Changes in Long-Term Obligations - A summary of changes in long-term obligations for the year ended June 30, 2010, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Bonds and Commercial Paper Payable:					
General Obligation Debt	$ 1,743,893	$ 560,658	$ (347,272)	$ 1,957,279	$ 129,510
Less Deferred Amount on Refundings	(28,643)	(4,725)	6,299	(27,069)	
Total Bonds and Commercial Paper Payable	1,715,250	555,933	(340,973)	1,930,210	129,510
Capital Leases	17,088		(788)	16,300	798
Compensated Absences	240,963	152,765	(156,706)	237,022	88,452
Claims and Judgments	195,548	64,072	(41,431)	218,189	35,226
Pollution Remediation	81,685	40,110	(5,579)	116,216	1,743
Other Post Employment Benefits	207,942	92,555		300,497	
Other Long-Term Liabilities		19,748		19,748	
Governmental Activities Long-Term Obligations	$ 2,458,476	$ 925,183	$ (545,477)	$ 2,838,182	$ 255,729
BUSINESS-TYPE ACTIVITIES					
Deposits Payable	$ 5,779	$ 660	$ (5)	$ 6,434	
Compensated Absences	94	47	(85)	56	$ 28
Other Post Employment Benefits	73	43		116	
Business-Type Activities Long-Term Obligations	$ 5,946	$ 750	$ (90)	$ 6,606	$ 28

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

I. Payables

Payables as of June 30, 2010, were as follows (expressed in thousands):

	Vendors	Salaries and Benefits	Accrued Interest	Other	Total Payables
Governmental Activities:					
General	$ 1,037,225	$ 75,769		$ 121,975	$ 1,234,969
Education	140,399	3,679		34,337	178,415
Highway	95,590	6,155			101,745
Nonmajor governmental	35,823	1,787	$ 17,733	3,775	59,118
Internal Service	81,217	2,214			83,431
Total— governmental activities	$ 1,390,254	$ 89,604	$ 17,733	$ 160,087	$ 1,657,678
Business-Type Activities:					
Employment Security	$ 95			$ 53,737	$ 53,832
Sewer Treatment Loan	567				567
Other Proprietary	38,440	$ 20		7	38,467
Total—business-type activities	$ 39,102	$ 20		$ 53,744	$ 92,866

J. Component units – condensed financial statements

Below are the condensed financial statements of the component units for the State of Tennessee as of June 30, 2010 (expressed in thousands):

Condensed Statement of Net Assets
Component Units

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total Component Units
Assets						
Cash, Investments, and Other Assets	$ 2,496,665	$ 122,564	$ 1,401,072	$ 1,836,795	$ 301,512	$ 6,158,608
Due from Primary Government			15,721	8,874	2,084	26,679
Due from Other Component Units					1,072,184	1,072,184
Restricted Assets	418,188	2,248			228,752	649,188
Capital Assets, Net	79	1,359	1,930,886	1,732,279	28,244	3,692,847
Total Assets	2,914,932	126,171	3,347,679	3,577,948	1,632,776	11,599,506
Liabilities						
Accounts Payable and Other Current Liabilities	64,429	38,147	201,719	237,078	53,641	595,014
Due to Primary Government	57	84,561	5,706	5,334	268	95,926
Due to Other Component Units			526,736	545,448		1,072,184
Long-Term Liabilities	2,331,684	3,456	161,022	295,214	1,466,362	4,257,738
Total Liabilities	2,396,170	126,164	895,183	1,083,074	1,520,271	6,020,862
Net Assets						
Invested in Capital Assets, Net of Related Debt	79	1,359	1,406,876	1,112,139	22,309	2,542,762
Restricted	514,383	7	447,833	992,700	3,445	1,958,368
Unrestricted	4,300	(1,359)	597,787	390,035	86,751	1,077,514
Total Net Assets	$ 518,762	$ 7	$ 2,452,496	$ 2,494,874	$ 112,505	$ 5,578,644

Condensed Statement of Activities
Component Units

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Component Units:				
Housing Development Agency	$ 396,305	$ 136,160	$ 268,805	
Tennessee Education Lottery	1,064,216	1,063,967	45	
Board of Regents	2,253,852	784,612	803,378	$ 101,569
University of Tennessee	1,730,017	542,744	774,679	145,055
Nonmajor Component Units	217,041	116,361	27,741	326
Total	$ 5,661,431	$ 2,643,844	$ 1,874,648	$ 246,950

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

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

State appropriations from the Education Fund in the amount of $769.6 million were made to the TBR and $517.2 million to the UT.

Capital project expenditures in the amount of $131 million were made for the TBR and $90 million to the UT in the form of expenditures in the capital projects fund for projects at these school systems.

The TBR paid the primary government $42 million to reimburse the state for projects that were not a part of the capital appropriations.

The TELC generated net lottery proceeds of $276 million for the State's Lottery for Education Account.

Net (Expense) Revenue and Changes in Net Assets					
Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Nonmajor Component Units	Total
$ 8,660					$ 8,660
	$ (204)				(204)
		$ (564,293)			(564,293)
			$ (267,539)		(267,539)
				$ (72,613)	(72,613)
8,660	(204)	(564,293)	(267,539)	(72,613)	(895,989)
		665,212	471,937	73,995	1,211,144
		142,702	797	20	143,519
129	211	7,066	17,325	165	24,896
		9,024			9,024
129	211	824,004	490,059	74,180	1,388,583
		7,253	37,060		44,313
8,789	7	266,964	259,580	1,567	536,907
509,973		2,185,532	2,235,294	110,938	5,041,737
$ 518,762	$ 7	$ 2,452,496	$ 2,494,874	$ 112,505	$ 5,578,644

The most significant transaction among component units is that in which the Tennessee State School Bond Authority, a nonmajor component unit, makes loans to the University of Tennessee and the Tennessee Board of Regents to finance certain capital projects. At June 30, 2010, the Authority's loan receivable (expressed in thousands) consisted of:

	Current	Noncurrent
Tennessee Board of Regents	$ 16,551	$ 510,022
University of Tennessee	17,077	528,079
Total	$ 33,628	$ 1,038,101

K. Major component units – long term debt

Tennessee Housing Development Agency (THDA)

Bonds Payable and Notes Payable at June 30, 2010, are shown below (expressed in thousands):

Mortgage finance program revenue bonds, homeownership program, and housing program finance bonds, various Series, .6% to 7.93%, due in amounts of principal and interest ranging from $362.922 million in 2011 to $305.1 million in 2041	$ 2,322,679
Less: Unamortized bond refunding costs	(5,931)
Net Bonds Payable	$ 2,316,748
Preserve Loan Program Note, 3% interest with principal maturing in December 2011 and August 2012	$ 3,672

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

Bond sales during the year ended June 30, 2010, included the following issues:

June 2010—Program bonds of $74.71 million

On June 17, 2010, the agency issued $74.71 million in Housing Finance Program Bonds, Issue 2010-A. The agency used $20.595 million of these bonds to refund bonds.

Current Refundings

During the year ended June 30, 2010, bonds were retired at par before maturity in the Mortgage Finance Program in the amount of $10.695 million and in the Homeownership Program in the amount of $168.625 million. The respective carrying values of the bonds were $10.652 million and $170.94 million. This resulted in an expense to the Mortgage Finance Program of $43 thousand and in income to the Homeownership Program of $2.315 million.

On June 17, 2010, the agency used $20.595 million in Housing Program bonds, 2010-A, to refund bonds previously issued in the Homeownership Program (this amount consists of $20.595 million early redemption.) The carrying amount of these bonds was $20.479 million. The refunding resulted in a difference of $116 thousand between the reacquisition price and the net carrying amount of the old debt. The refunding reduced the agency's debt service by $5.9 million over the next 15 years, and the agency realized an economic gain (difference between present values of old and new debt service payments) of $2.8 million.

Debt Service requirements to maturity for revenue bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2011	$ 269,962	$ 92,960	$ 362,922
2012	45,635	86,458	132,093
2013	42,210	84,986	127,196
2014	43,245	83,499	126,744
2015	44,640	81,861	126,501
2016-2020	197,848	381,358	579,206
2021-2025	249,383	336,647	586,030
2026-2030	273,457	270,967	544,424
2031-2035	270,933	208,491	479,424
2036-2040	585,366	97,301	682,667
2041	300,000	5,066	305,066
	$ 2,322,679	$ 1,729,594	$ 4,052,273

The debt principal in the preceding table is $5.931 million more than that presented in the accompanying financial statements. This amount, which is a deduction from bonds payable for the deferred amount on refundings, is not reflected in the above presentation.

Notes Program

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

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

In October 2008, the Internal Revenue Service issued Notice 2008-88, amending Notice 2008-41. With an effective date of March 28, 2008, this notice provides temporary relief to issuers by allowing them to purchase their own bonds and commercial paper without causing an extinguishment of the debt for tax purposes. Therefore, on October 9, 2008, due to unstable credit markets, the agency purchased at par $83.05 million of its Single Family Mortgage Notes Trust Indenture from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2009, after which the notes will be available to reissue. However, in accordance with Financial Accounting Standards Board Statement No. 76, Paragraph 3, the outstanding notes are not recorded for financial reporting purposes.

Due to continuing unstable credit markets, on December 31, 2009, the Internal Revenue Service extended the amount of time the agency is allowed to hold its outstanding notes purchased from Morgan Keegan. The agency is allowed to hold the outstanding notes through December 31, 2010, after which the notes will be available to reissue.

On August 3, 2009, the agency borrowed $500 thousand for the Preserve Loan Program, which is part of the Housing Trust Fund. Principal and interest are charged monthly with the principal maturing on August 4, 2012.

The following table is a summary of the note activity for the year ended June 30, 2010 (expressed in thousands).

Beginning Balance	Additions	Reductions	Ending Balance
$ 3,250	$ 500	$ 78	$ 3,672

The $3.672 million of notes outstanding at year end consist of Preserve Loan Program notes, $3.25 million will mature on December 22, 2011, and $500 thousand will mature on August 4, 2012. Interest rates are 3% and are charged quarterly for the $3.25 million and monthly for the $500 thousand.

L. Nonmajor component units – long term debt

Tennessee Local Development Authority (TLDA)

Bonds Payable and Notes Payable at June 30, 2010, are shown below (expressed in thousands):

Revenue bonds, 3.3% to 5%, due in generally decreasing amounts of principal and interest from $5.58 million in 2011 to $26 thousand in 2034	$ 49,482
Less: Unamortized bond refunding costs	(1,240)
Net Bonds Payable	$ 48,242
Revenue bond anticipation notes, $53.92 million at 2% due June 24, 2011	$ 53,919

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

Debt Service requirements to maturity for TLDA's revenue bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Revenue Bonds Principal	Revenue Bonds Interest	Total Requirements
2011	$ 3,592	$ 1,988	$ 5,580
2012	3,367	1,865	5,232
2013	3,247	1,740	4,987
2014	3,377	1,602	4,979
2015	3,306	1,459	4,765
2016-2020	12,208	5,337	17,545
2021-2025	8,727	3,624	12,351
2026-2030	9,504	1,764	11,268
2031-2034	2,154	128	2,282
	$ 49,482	$ 19,507	$ 68,989

The above principal for revenue bonds does not reflect a $1.24 million deduction from bonds payable for the deferred amount on refunding.

Tennessee State School Bond Authority (TSSBA)

Bonds and Commercial Paper Payable at June 30, 2010, are shown below (expressed in thousands):

Revenue bonds, various Series, 0% to 5.66%, due in decreasing amounts of principal and interest from $93.592 million in 2011 to $2.137 million in 2039	$ 1,093,370
Less: Unamortized bond refunding costs	(18,366)
Net Bonds Payable	$ 1,075,004
Commercial paper, interest rates ranging from .15% to .55%, varying maturities	$ 281,782

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

On December 17, 2009, the authority issued 2009 Qualified School Construction Bonds ("2009 QSCB"). The 2009 QSCB proceeds in the amount of $177 million were issued for the purposes of financing various qualifying QSCB projects and to pay the costs of issuance of the 2009 QSCBs.

Prior-Year Defeasance of Debt. In prior years, the authority defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the authority's financial statements. On June 30, 2010, $210.01 million of bonds outstanding are considered defeased.

Debt Service requirements to maturity for TSSBA's revenue bonds payable at June 30, 2010, are as follows (expressed in thousands):

For the Year(s) Ended June 30	Principal	Interest	Total Requirements
2011	$ 56,518	$ 37,074	$ 93,592
2012	42,578	35,488	78,066
2013	42,253	33,929	76,182
2014	43,538	32,069	75,607
2015	50,353	30,331	80,684
2016-2020	235,588	125,944	361,532
2021-2025	199,426	79,836	279,262
2026-2030	322,646	38,793	361,439
2031-2035	73,750	14,460	88,210
2036-2039	26,720	1,948	28,668
	$ 1,093,370	$ 429,872	$ 1,523,242

The above principal for revenue bonds is more than that presented on the accompanying financial statements by $18.366 million, representing the deferred amount on bond refunding. This amount is the amount deducted from bonds payable in the accompanying financial statements but is included in the debt service schedule above.

Commercial Paper Program. The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum amount of principal may not exceed $300 million. At June 30, 2010, $139.55 million of tax-exempt and $142.23 million of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days and the maximum interest rate may not exceed 12%. Interest rates vary ranging from .15% to .55% during the fiscal year. Upon maturity, the paper is remarketed by the

commercial paper dealer, redeemed, or extinguished with long-term debt. The Commercial Paper bears interest at a variable rate that is paid upon maturity. The Commercial Paper liquidity provider, under a Credit Agreement, is State Street Bank and Trust Company with a termination date of March 30, 2014, subject to extension and earlier termination. The total available commitment is $304.594 million. The obligation of State Street Bank and Trust Company is to purchase unremarketed Commercial Paper. Commercial paper payable under this Program qualifies for reporting as a non-current liability because provisions in the Commercial Paper Resolution permit refinancing the paper on a long-term basis.

M. Component units – changes in long-term obligations

A summary of changes in long-term obligations for the year ended June 30, 2010, follows (expressed in thousands).

Changes In Long-Term Obligations

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue Bonds, Notes and Loans Payable:					
University of Tennessee (UT)					
Loans and Notes Payable	$ 518,267	$ 47,585	$ (20,684)	$ 545,168	$ 22,311
Tennessee Board of Regents (TBR)					
Loans and Notes Payable	490,345	70,027	(22,978)	537,394	19,815
Tennessee Housing Development					
Agency (THDA) Bonds Payable	1,979,452	550,973	(207,746)	2,322,679	128,200
Less Deferred Amount on Refunding	(6,891)	(125)	1,085	(5,931)	
THDA Notes Payable	3,250	500	(78)	3,672	
Nonmajor Component Units Bonds,					
Notes, and Loans Payable	1,251,983	341,071	(108,470)	1,484,584	99,799
Less Deferred Amount on Refunding	(21,091)		1,199	(19,892)	
Total Revenue Bonds, Notes					
and Loans Payable	$ 4,215,315	$ 1,010,031	$ (357,672)	$ 4,867,674	$ 270,125
UT Compensated Absences	73,655	47,115	(45,271)	75,499	45,271
UT Other Post Employment Benefits	38,809	16,450		55,259	
UT Due to Grantors, Deferred					
Revenue and Annuities Payable	57,509	1,751	(1,908)	57,352	
UT Capital Leases	2,007		(734)	1,273	680
TBR Compensated Absences	56,308	33,839	(32,776)	57,371	15,136
TBR Other Post Employment Benefits	51,438	17,750		69,188	
TBR Due to Grantors, Deferred Revenue and Other	20,948	4,458	(1,764)	23,642	
THDA Escrow Deposits, Arbitrage					
Rebate Payable, and Deferred Revenue	8,067	6,654	(5,196)	9,525	585
THDA Compensated Absences	1,072	117	(244)	945	494
THDA Other Post Employment Benefits	602	192		794	
Tennessee Education Lottery Corporation					
(TELC) Prizes Annuities Payable	2,532		(187)	2,345	104
TELC Compensated Absences	470	606	(543)	533	414
TELC Deferred Lease	736		(158)	578	61
Nonmajor Component Units					
Compensated Absences	1,246	1,039	(951)	1,334	650
Nonmajor Component Units Other Post					
Employment Benefits	297	40		337	
Component Units Long-Term Obligations	$ 4,531,011	$ 1,140,042	$ (447,404)	$ 5,223,649	$ 333,520

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

The University of Tennessee component units are not included in the above schedule. At year end, University of Tennessee foundations' long-term liabilities amounted to $105.818 million ($1.645 million due within one year).

N. **Endowments – component units**

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

The University of Tennessee chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the University, 5 percent of a three-year moving average of the fair value of endowment investments has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2010, net appreciation of $52.309 million is available to be spent, of which $51.32 million is restricted to specific purposes.

While some Tennessee Board of Regents institutions/foundations spend all investment income, others choose to spend only a portion of the investment income (including changes in the value of investments) each year. Under the various spending plans established by each institution/foundation, different percentages and/or amounts have been authorized for expenditure. The remaining amounts, if any, are retained to be used in future years when the amounts computed using the spending plans exceed the investment income. At June 30, 2010, net appreciation of $9.713 million is available to be spent, of which $9.542 million is restricted to specific purposes.

NOTE 6 – **Other information**

A. **Risk management**

1. Teacher Group Insurance - The Teacher Group Insurance Fund, a public entity risk pool, was established in January 1986 to provide a program of health insurance coverage for the teachers and other education system employees of the political subdivisions of the State. In accordance with Tennessee Code Annotated 8-27-302 all local education agencies are eligible to participate. Fund members at June 30, 2010, included 124 local education agencies and two education cooperatives, with 50,550 active teachers and support personnel enrolled in one of three health care options: preferred provider organization plan (PPO), point of service plan (POS), or a health maintenance organization (HMO). The State does not retain any risk for losses by this fund.

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

The Teacher Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Teachers and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. 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, 14th 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):

	2010	2009
Unpaid Claims at Beginning of Year	$ 28,257	$ 27,201
Incurred Claims:		
Provision for insured events of the current year	383,088	387,693
Increase (decrease) in provision for insured events of prior years	(896)	1,755
Total Incurred Claims Expenses	382,192	389,448
Payments:		
Claims attributable to insured events of the current year	352,408	359,437
Claims attributable to insured events of prior years	27,360	28,955
Total Payments	379,768	388,392
Total Unpaid Claims at End of the Year	$ 30,681	$ 28,257

2. Local Government Group Insurance - The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with Tennessee Code Annotated 8-27-207 all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 2010, included 34 counties, 79 municipalities and 247 quasi-governmental organizations, with 12,936 active employees maintaining coverage through one of four options: preferred provider plan, PPO limited plan, point of service plan, or a health maintenance organization. The State does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for: determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing of claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and

federal laws and regulations. Plan participants are required to: pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate a qualifying event to rejoin the plan. Employers must wait twenty-four months before rejoining the plan should the employer elect to withdraw from the plan. In the case of individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates. 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, 14th Floor William R. Snodgrass Tennessee Tower, Nashville, TN 37243-0298 or by calling (615) 532-5823.

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

	2010	2009
Unpaid Claims at Beginning of Year	$ 7,427	$ 5,832
Incurred Claims:		
Provision for insured events of the current year	105,944	96,377
Increase (decrease) in provision for insured events of prior years	(201)	1,192
Total Incurred Claims Expenses	105,743	97,569
Payments:		
Claims attributable to insured events of the current year	98,228	88,950
Claims attributable to insured events of prior years	7,226	7,024
Total Payments	105,454	95,974
Total Unpaid Claims at End of the Year	$ 7,716	$ 7,427

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

RMF liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process does not result in an exact amount. Claims liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, such as salvage or subrogation, are another component of the claims liability estimate. At June 30, 2010, the present value of the casualty liability as actuarially determined was $84.577 million (discounted at 2.5%). Changes in the balances of claims liabilities during fiscal years 2009 and 2010 were as follows (expressed in thousands):

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Advance of Insurance Proceeds	Balance at Fiscal Year-End
2009-2010	$ 93,156	$ 41,086	$ (32,612)	$ 5,000	$ 106,630
2008-2009	$ 92,877	$ 30,129	$ (29,850)		$ 93,156

At June 30, 2010, RMF held $114.5 million in cash and cash equivalents designated for payment of these claims.

4. Employee Group Insurance - The Employee Group Insurance Fund, an entity other than a pool, was established in 1979 to provide a program of health insurance coverage for the employees of the State with the risk retained by the State, therefore it is accounted for as an Internal Service Fund. In accordance with Tennessee Code Annotated 8-27-201 all state employees and former employees with work related injuries are eligible to participate. Fund members at June 30, 2010, included 66,233 active employees enrolled in one of three options: preferred provider organization plan (PPO), point of service plan (POS), or health maintenance organization (HMO).

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

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

	2010	2009
Unpaid Claims at Beginning of Year	$ 47,768	$ 51,968
Incurred Claims:		
Provision for insured events of the current year	672,642	654,939
Increase (decrease) in provision for insured events of prior years	(1,760)	(5,506)
Total Incurred Claims Expenses	670,882	649,433
Payments:		
Claims attributable to insured events of the current year	622,502	607,171
Claims attributable to insured events of prior years	46,009	46,462
Total Payments	668,511	653,633
Total Unpaid Claims at End of the Year	$ 50,139	$ 47,768

5. Component Unit—AccessTN – The AccessTN insurance fund, a public-entity risk pool, was established in 2006 to provide health insurance options for the state's uninsured. In accordance with Tennessee Code Annotated 56-7-2901, the target population is those Tennessean residents unable to obtain health insurance because of their health conditions. Enrollment began on April 1, 2007, and at June 30, 2010, the plan had 3,872 participants. Three plans exist with deductibles of $1,000, $3,000, and $5,000. The benefit plans are based on PPO plans with an 80% in-network benefit and 60% out-of-network benefit and modeled after the state employee plans. The State does not retain any risk for losses by this fund.

   This insurance fund provides health care financing based in part upon member premiums, and uses traditional insurance components, including deductibles, co-insurance, pre-existing conditions exclusion periods, and benefit limits to moderate medical claims to a level which can be supported by an affordable premium. The State's enabling statute provides for an assessment on insurers, third-party administrators, and other insurance arrangements. The latest assessment for AccessTN is projected following the end of fiscal year 2010, approximately September 13, 2010. Based upon actuarial medical claims projections, AccessTN has adequate funding established by state appropriations to conduct operations through that period. Investment income is considered for premium deficiency calculations.

The following represents changes in those aggregate liabilities during the current year (expressed in thousands):

	2010	2009
Unpaid Claims at Beginning of Year	$ 6,166	$ 5,696
Incurred Claims:		
Provision for insured events of the current year	42,814	43,976
Increase (decrease) in provision for insured events of prior years	(1,371)	(1,275)
Total Incurred Claims Expenses	41,443	42,701
Payments:		
Claims attributable to insured events of the current year	39,086	37,841
Claims attributable to insured events of prior years	4,792	4,390
Total Payments	43,878	42,231
Total Unpaid Claims at End of the Year	$ 3,731	$ 6,166

B. Related organizations

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

C. Jointly governed organizations

The State in conjunction with 37 other states and Puerto Rico are members of the Pest Control Compact.

The State in conjunction with 12 other states is a member of the Southern Growth Policies Board. Tennessee paid $44,586 in fiscal year 2010 for membership dues.

The Southern Regional Education Compact was entered into with 15 other states. Tennessee paid $21,000 in fiscal year 2010 for membership dues.

The Compact for Education was entered into with 48 other states, plus Puerto Rico, the Virgin Islands, American Samoa and the District of Columbia. Tennessee paid $77,300 in fiscal year 2010 for membership dues.

The Interstate Mining Compact has 19 member states, including Tennessee. Tennessee paid $18,131 in fiscal year 2010 for membership dues.

The Southern States Nuclear Compact is comprised of 16 member states, including Tennessee, plus Puerto Rico and the Virgin Islands. Tennessee paid $34,267 in fiscal year 2010 for membership dues.

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

The Interstate Insurance Product Regulation Commission is comprised of 35 member states and Puerto Rico.

The Interstate Compact for Juveniles is comprised of 41 member states, including Tennessee.

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.

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):

	2009	2008
Current Assets	$ 193	$ 198
Capital Assets, less depreciation	362	365
Total Assets	555	563
Total Liabilities	347	364
Net Assets	208	199
Total Liabilities and Net Assets	555	563
Revenues	383	404
Expenditures	374	394
Excess of Revenues over Expenditures	9	10
Beginning Net Assets	199	189
Ending Net Assets	$ 208	$ 199

E. Other postemployment benefits (OPEB)

Employer

Plan Description

The State of Tennessee administers and participates in the Employee Group Plan and the Medicare Supplement Plan for retired employees' healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-201 for the state plan and TCA 8-27-701 for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits.

Subsequent to age 65, members who are also in the state's retirement system may participate in the Medicare Supplement Plan. That plan does not include pharmacy.

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 each plan. The state is not the sole "employer" contributor in the Teacher Group Plan since some Local Education Agencies provide a level of support. However, the state is the sole contributor for the 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; 25 years, 70 percent; and 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; 25 years, $37.50; and 20 years, $25.

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	$ 102,309	$ 24,601	$ 15,554	$ 11,517
Interest on the net OPEB obligation	6,920	915	936	590
Adjustment to the ARC	(6,555)	(867)	(886)	(559)
Annual OPEB cost	102,674	24,649	15,604	11,548
Amount of contribution	(35,997)	(17,004)	(5,019)	(3,857)
Increase in net OPEB obligation	66,677	7,645	10,585	7,691
Net OPEB obligation —beginning of year	153,781	20,332	20,789	13,113
Net OPEB obligation —end of year	$ 220,458	$ 27,977	$ 31,374	$ 20,804

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2008	Employee Group	$ 117,244	34.00%	$ 77,383
6/30/2009	Employee Group	118,812	35.70%	153,781
6/30/2010	Employee Group	102,674	35.05%	220,458
6/30/2008	Teacher Group (State Share)	25,579	59.60%	10,335
6/30/2009	Teacher Group (State Share)	25,914	61.42%	20,332
6/30/2010	Teacher Group (State Share)	24,649	68.98%	27,977
6/30/2008	Medicare Supp State	14,900	30.21%	10,399
6/30/2009	Medicare Supp State	15,164	31.48%	20,789
6/30/2010	Medicare Supp State	15,604	32.16%	31,374
6/30/2008	Medicare Supp Teachers	10,064	35.12%	6,530
6/29/2009	Medicare Supp Teachers	10,252	35.79%	13,113
6/30/2010	Medicare Supp Teachers	11,548	33.39%	20,804

Annual OPEB Cost and Net OPEB Obligation—*Component Units*
(expressed in thousands)

	Employee Group Plan
Annual required contribution	$ 58,304
Interest on the net OPEB obligation	4,094
Adjustment to the ARC	(3,877)
Annual OPEB cost	58,521
Amount of contribution	(23,156)
Increase in net OPEB obligation	35,365
Net OPEB obligation —beginning of year	90,971
Net OPEB obligation —end of year	$ 126,336

Year End	Plan	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6/30/2008	Employee Group	$ 70,128	34%	$ 46,258
6/30/2009	Employee Group	71,023	37%	90,971
6/30/2010	Employee Group	58,521	40%	126,336

Funded Status and Funding Progress

The funded status of the plans as of July 1, 2009, was as follows (expressed in thousands):

Primary Government

	Employee Group Plan	Teacher Group Plan (State Share)	Medicare Supplement Plan	
			State	Teachers
Actuarial valuation date	7/1/2009	7/1/2009	7/1/2009	7/1/2009
Actuarial accrued liability (AAL)	$ 1,104,073	$ 240,910	$ 209,622	$ 158,789
Actuarial value of plan assets				
Unfunded actuarial accrued liablility (UAAL)	$ 1,104,073	$ 240,910	$ 209,622	$ 158,789
Actuarial Value of Assets as a % of the AAL	0.00%	0.00%	0.00%	0.00%
Covered payroll (active plan members)	$ 1,729,937	N/A	N/A	N/A
UAAL as a percentage of covered payroll	63.82%	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
Actuarial valuation date	7/1/2009
Actuarial accrued liability (AAL)	$ 577,744
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	$ 577,744
Actuarial Value of Assets as a % of the AAL	0.00%
Covered payroll (active plan members)	$1,371,949
UAAL as a percentage of covered payroll	42.11%

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, 2009, actuarial valuation for each plan, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6 percent in fiscal year 2010 for the employee Group plan, 4 percent for the Local Education plan and 1 percent for the Medicare Supplement plan. In all plans, the rate increased to 10 percent in fiscal year 2011, and then reduced by decrements to an ultimate rate of 5 percent in fiscal year 2021. All rates include a 3 percent inflation assumption. 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.

Plan

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

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

1. Retiree Health Plan—State Plan

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

    All retired employees and disability participants of the primary government and component units, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2010, there were 7,919 retirees and disabled participants enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The State insurance committee establishes premiums annually.

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

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

2. Retiree Health Plan—LEA Plan

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

considered to be an agent multiple-employer plan for accounting purposes. Approximately 125 local education agencies and two education cooperatives participate in the plan.

All retired teachers and disability participants of the local education agencies, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2010, there were 5,733 retirees and disability participants enrolled in one of three options: preferred provider organization plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

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

c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-302, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as-you-go basis.

3. Retiree Health Plan—Local Plan

   a. Plan description—Local government retired employees participate in the Local Government Group Insurance Plan. For accounting and financial reporting purposes, the balances and transactions for these retirees have been removed from the Local Government Group Insurance Plan enterprise fund and reported in an agency fund. The Local Government Group Insurance Plan is a cost-sharing, multiple-employer plan that is considered to be an agent multiple-employer plan for accounting purposes. Approximately 43 counties, 75 municipalities, and 244 quasi-governmental organizations participate in the plan.

      All retired employees and disability participants of the local governments, who are eligible and choose coverage, are included in this plan. Retirees and disability participants prior to the age of 65 participate in this plan. At June 30, 2010, there were 319 retirees and disability participants enrolled in one of three options: preferred provider organizations plan (PPO), point of service (POS), or health maintenance organization (HMO). The insurance committee establishes premiums annually.

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

   c. Contributions and reserves—An insurance committee created in accordance with Tennessee Code Annotated (TCA) 8-27-207, establishes the contributions to the plan by member employers and employees. Both active and pre-age 65 retired members of the Teacher Group Insurance Plan pay the same premium rate. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants. Not all employers contribute to retirees' healthcare premiums. Those employers who do contribute to the retirees' premiums primarily do so based on years of service. This plan is funded on a pay-as you-go basis.

4. Retiree Health Plan—Medicare Supplement

   a. Plan description—Post-65 retired employees of the state, higher education, local education agencies, and certain local governments may participate in the Medicare Supplement Insurance Plan. This plan is reported in an agency fund. Prior to July 1, 2006, this plan was reported as an enterprise fund. The Medicare Supplement Plan is a cost-sharing, multiple-employer defined benefit health insurance plan that is considered to be an agent multiple-employer plan for accounting purposes. Employers who participate in the State Plan, LEA Plan, and Local Plan may participate in this plan. All retired employees who are Medicare eligible, by virtue of age and receive a retirement benefit from the Tennessee Consolidated Retirement System, and choose coverage, are included in this plan. At June 30, 2010, there were 27,613 retirees and disabled members enrolled. The State insurance committee establishes premiums annually.

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

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

5. Cobra—Federal law requires large employers to continue health insurance benefits to employees who have terminated employment for up to 18 months. The former employees must pay 102 percent of the total premium (employee plus employer share), funded on a pay-as-you-go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The State covered an average of 626 former employees during fiscal year 2009-2010, and the State Plan paid approximately $5.5 million in benefits to this group.

F. Pension plans

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

   Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

   Most plan members are noncontributory. The State of Tennessee is required to contribute at an actuarially determined rate. The current rate is 13.02% of annual covered payroll. The contribution requirements of the State of Tennessee are established and may be amended by the TCRS Board of Trustees. The State's contributions to TCRS for the years ending June 30, 2010, 2009, and 2008, were $578.404 million, $583.985 million, and $593.412 million respectively, equal to the required contributions for each year.

   The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

2. Political Subdivision Defined Benefits Plan - TCRS administers the Political Subdivision Pension Plan (PSPP), which is an agent multiple-employer defined benefit pension plan that covers employees of 482 participating political subdivisions. The PSPP provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979, are vested after four years of service.

Members joining on or after July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Benefit provisions are established and amended by state statute. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Pursuant to Article Two, Section 24 of the Constitution of the State of Tennessee, the State cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for PSPP. The PSPP report is available on the TCRS website at www.treasury.tn.gov/TCRS/ or by calling (615) 741-7063.

3. Defined Contribution Plan - The Optional Retirement Plan (ORP) as administered by the Tennessee Treasury Department is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 35, Part 4 of the TCA. This statute also sets out the plan provisions. State statutes are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff of the Tennessee Board of Regents institutions and the University of Tennessee system who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan members are noncontributory. The State of Tennessee contributes 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. The required contributions made by the State of Tennessee to the ORP were $83.9 million for the year ended June 30, 2010.

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

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

   The Section 401(k) and Section 457 plan assets remain the property of the contributing employees, they are not presented in the accompanying financial statements. IRC Sections 401(k) and 457 establish participation, contribution and withdrawal provisions for the plans. During the year ended June 30, 2010, contributions totaling $139.7 million were made to the plans.

G. Investment pool

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

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

H. Loan guarantees

The Tennessee Student Assistance Corporation (TSAC), a component unit, operates the Guaranteed Student Loans Program. The U. S. Department of Education (USDE) reinsures a majority of the student loans for at least 75% of their principal amounts. At June 30, 2010, TSAC was guarantor of $4.456 billion in student loans. TSAC has minimal obligation under these student loan guarantees in the event of default.

I. Nashville correctional facilities revenue bonds

In June 1991, revenue bonds were issued by the Metropolitan Government of Nashville that were refunded in February 2002. The refunding bonds have an outstanding balance at June 30, 2010, of $3.87 million. These bonds are obligations of the Metropolitan Government of Nashville. The State is committed to pay Nashville for the housing of locally sentenced inmates, including debt service on the bonds.

J. Contingencies

1. Litigation

The State is a defendant in multiple legal proceedings. Included in these claims are cases associated with the legality and compliance of the policies and practices of the State's Medicaid agency.

The State is also involved in other litigating matters that include claims which normally recur in governmental operations. Some of these lawsuits, including the ones referred to above, may have a future budgetary programmatic impact. They will be addressed in future budgets. Other potential losses resulting from unfavorable verdicts in legal proceedings are estimated to cost the State approximately $204 million.

2. Tobacco settlement

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

3. Pollution Remediation Obligations

The State implemented GASB Statement No. 49 which provides guidance on estimating and reporting 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 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 $4.2 million for remediation activities and had an expected recovery of $1.6 million from responsible parties. At June 30, 2010, the State had a pollution remediation obligation of $116.2 million and an estimated potential recovery of $5.9 million from other responsible parties.

4. Federal grants

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

K. **Subsequent events**

Primary Government

Subsequent to June 30, the State issued $110 million in general obligation commercial paper. Also, in October 2010, the State issued 2010 Series A tax-exempt general obligation bonds in the amount of $186.5 million at a premium of $12.9 million and 2010 Series B taxable general obligation bonds in the amount of $44.9 million at a premium of $2.2 million. The Series A issuance was used to redeem commercial paper and to finance the purchase of capital assets and the Series B issuance was used to refund a portion of 2003 Series B tax-exempt general obligation bonds.

Component Units

Subsequent to June 30, Tennessee Housing Development Agency (THDA) had the following revenue bond issuances: (2010-1) in October 2010 in the amount of $120.7 million, (2010-B) in November 2010 in the amount of $40 million, and the (2009-B, Subseries B-2) in November 2010 in the amount of $60 million. In January 2011, the THDA Board of Directors authorized the issuance of (2011-A) for an amount not to exceed $40 million and (2009-B) for an amount not to exceed $60 million. The agency used mortgage prepayments, foreclosures proceeds, and note proceeds to redeem $78.7 million of outstanding bonds in July 2010, $51.8 million in October 2010, $99.8 million in November 2010, and $43.8 million in January 2011.

Subsequent to June 30, the Tennessee State School Bond Authority (TSSBA) issued $77.2 million in commercial paper. In September 2010, TSSBA issued 2010 Series A tax-exempt bonds in the amount of $213.9 and 2010 Series B taxable bonds in the amount of $18 million. Also, in October 2010, TSSBA issued $212.4 million in Qualified School Construction Bonds (QSCB). The 2010 Series A and B were used to redeem commercial paper and finance new construction projects, and the QSCB proceeds were used by K-12 schools for renovation and rehabilitation projects, equipment purchases, new building construction, and land acquisition.

Subsequent to June 30, the Metropolitan Government of Nashville and Davidson County notified the Tennessee Local Development Authority (TLDA) of its intention to defease its current TLDA outstanding debt. As of December 2010, $38.5 million in long-term debt and $53 million in bond anticipation notes were defeased.

REQUIRED SUPPLEMENTARY INFORMATION

Infrastructure Assets Reported Using the Modified Approach

ROADWAYS

Measurement Scale

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

Established Condition Level

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

Assessed Conditions

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

For the Period Ended	Maintenance Rating Index
June 30, 2010	89.40
June 30, 2009	89.60
June 30, 2008	89.20

BRIDGES

Measurement Scale

The state maintains information on its 8,163 bridges in compliance with the National Bridge Inventory (NBI) guidelines established by the Federal Highway Administration. Bridges are inspected at least once every two years and the results are coded on a 0 to 9 scale (with 9 being the most desirable). A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy, is classified as "structurally deficient." A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as "functionally obsolete." A functionally obsolete bridge cannot properly accommodate the current traffic.

Established Condition Level

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

Assessed Conditions

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

For the Two-Year Period Ended	Percentage of Deck Area Not Structurally Deficient or Functionally Obsolete
June 30, 2010	82.00%
June 30, 2008	81.00%
June 30, 2006	85.80%

ESTIMATED AND ACTUAL COSTS TO MAINTAIN

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

For the Period Ended June 30	Roadways		Bridges	
	Estimated	Actual	Estimated	Actual
2010	$259,147	$425,681	$39,707	$44,312
2009	374,003	405,439	40,217	46.815
2008	270,331	310,355	36,224	29,196
2007	236,556	286,663	35,624	28,183
2006	224,472	277,442	33,052	38,327
2005	261,846	229,414	35,372	23,054

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

Other Post Employment Benefits Schedule of Funding Progress—*Primary Government*
(dollars 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)
7/1/07	State Plan	$ 0	$ 1,152,887	$ 1,152,887	0 %	$ 1,944,150	59.30%
7/1/09	State Plan	$ 0	$ 1,104,073	$ 1,104,073	0 %	$ 1,729,937	63.82%
7/1/07	Teacher Grp (State-Share)	$ 0	$ 252,546	$ 252,546	0 %	N/A	N/A
7/1/09	Teacher Grp (State-Share)	$ 0	$ 240,910	$ 240,910	0 %	N/A	N/A
7/1/07	MedSup S	$ 0	$ 200,080	$ 200,080	0 %	N/A	N/A
7/1/09	MedSup S	$ 0	$ 209,622	$ 209,622	0 %	N/A	N/A
7/1/07	MedSup T	$ 0	$ 140,464	$ 140,464	0 %	N/A	N/A
7/1/09	MedSup T	$ 0	$ 158,789	$ 158,789	0 %	N/A	N/A

* An additional year will be reported as data becomes available.

Other Post Employment Benefits Schedule of Funding Progress—*Component Units*
(dollars 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)
7/1/07	State P	$ 0	$ 652,696	$ 652,696	0 %	$ 1,378,089	47%
7/1/09	State P	$ 0	$ 577,744	$ 577,744	0 %	$ 1,371,949	42%

* An additional year will be reported as data becomes available.

State of Tennessee
AccessTN Insurance Fund
Required Supplementary Information
Ten-Year Claims Development Table

(Expressed in Thousands)

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

	2007	2008	2009	2010
(1) Required contribution and investment revenue earned (fiscal year)	877	21,847	23,777	15,773
(2) Unallocated expenses	3,520	2,830	2,085	1,195
(3) Estimated claims and expenses, end of policy year, net incurred	8,922	38,764	39,811	*
(4) Net paid (cumulative) as of:				
End of policy year	6,591	34,095	36,859	*
One year later	9,044	38,791	*	*
Two years later	9,056	*	*	*
(5) Reestimated net incurred claims and expenses:				
End of policy year	8,922	38,764	39,811	*
One year later	8,975	38,715	*	*
Two years later	9,051	*	*	*
(6) Increase (decrease) in estimated net incurred claims and expenses from end of policy year	129	(49)	*	*

* Data not available

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

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Required Supplementary Information
Major Governmental Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
	Original	Final		
Sources of financial resources:				
Fund balances (budgetary basis), July 1	$ 1,746,694	$ 1,746,694	$ 1,746,694	
Add:				
Contract reserves reappropriated				
Adjusted fund balances (budgetary basis), July 1	1,746,694	1,746,694	1,746,694	
Revenues:				
Taxes	5,475,103	5,475,103	5,408,496	$ (66,607)
Licenses, fines, fees, and permits	281,549	281,549	286,619	5,070
Interest on investments	7,500	7,500	12,875	5,375
Federal	9,546,844	10,653,158	10,019,856	(633,302)
Departmental services	2,106,415	2,164,037	2,057,330	(106,707)
Other	209,611	209,611	189,611	(20,000)
Other financing sources:				
Transfers in	10,564	119,563	119,563	
Bond authorization				
Other		20,978	20,978	
Total sources of financial resources	19,384,280	20,678,193	19,862,022	(816,171)
Uses of financial resources:				
Expenditures and encumbrances:				
General government				
Legislative	72,411	72,422	37,642	34,780
Secretary of State	48,773	48,783	37,110	11,673
Comptroller	100,726	101,487	83,063	18,424
Treasurer	55,082	56,993	46,221	10,772
Governor	3,802	3,665	3,360	305
Commissions	88,099	88,581	75,099	13,482
Finance and Administration	216,050	223,946	87,413	136,533
Personnel	12,875	15,095	11,987	3,108
General Services	23,426	23,099	17,482	5,617
Revenue	110,845	110,833	102,397	8,436
Miscellaneous Appropriations	36,384	836	32,887	(32,051)
Education				
Health and social services				
Veterans Affairs	5,169	4,852	4,600	252
Labor and Workforce Development	302,008	300,586	244,963	55,623
TennCare	8,252,191	8,988,593	8,188,421	800,172
Mental Health	344,477	345,607	295,178	50,429
Mental Retardation	836,175	885,950	863,965	21,985
Health	599,364	598,495	507,259	91,236
Human Services	3,046,899	3,334,308	3,076,558	257,750
Cover Tennessee	207,407	206,025	175,666	30,359
Children's Services	682,486	689,595	660,793	28,802
Law, justice and public safety				
Judicial	295,498	302,162	284,970	17,192
Correction	686,028	647,776	621,536	26,240
Probation and Parole	88,028	84,136	80,590	3,546
Military	111,210	179,771	91,767	88,004
Bureau of Criminal Investigation	64,319	64,972	63,228	1,744
Safety	169,188	164,352	154,081	10,271
Recreation and resource development				
Agriculture	84,108	79,460	71,392	8,068
Tourist Development	20,161	19,520	17,492	2,028
Environment and Conservation	300,256	303,467	218,702	84,765
Economic and Community Development	386,860	416,587	83,939	332,648
Regulation of business and professions				
Commerce and Insurance	86,925	86,971	70,084	16,887
Financial Institutions	18,388	18,298	14,144	4,154
Transportation				
Intergovernmental revenue sharing	538,867	538,867	538,867	
Other financing uses:				
Transfers out	1,131,654	1,132,174	1,132,174	
Total uses of financial resources	19,026,139	20,138,264	17,995,030	2,143,234
Fund balances (budgetary basis), June 30	$ 358,141	$ 539,929	$ 1,866,992	$ 1,327,063

Education Fund				Highway Fund			
Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget - Positive (Negative)
Original	Final			Original	Final		
$ 524,165	$ 524,165	$ 524,165		$ 8,114	$ 8,114	$ 8,114	
				605,317	605,317	605,317	
524,165	524,165	524,165		613,431	613,431	613,431	
3,973,200	3,973,200	3,844,853	$ (128,347)	761,500	761,500	777,551	$ 16,051
1,900	1,900	1,627	(273)	219,725	219,725	207,806	(11,919)
		324	324				
1,798,797	1,759,294	1,494,098	(265,196)	860,318	4,144,100	911,897	(3,232,203)
29,996	31,630	30,512	(1,118)	42,764	55,569	32,726	(22,843)
297,200	297,200	326,619	29,419	4,740	4,740	3,685	(1,055)
997,600	997,768	997,768			108,600	108,600	
				167,500	58,900		(58,900)
7,622,858	7,585,157	7,219,966	(365,191)	2,669,978	5,966,565	2,655,696	(3,310,869)
7,082,227	7,022,455	6,674,516	347,939				
				2,393,893	5,663,831	2,310,716	3,353,115
				286,900	286,900	335,227	(48,327)
402	402	402		1,336	1,336	1,336	
7,082,629	7,022,857	6,674,918	347,939	2,682,129	5,952,067	2,647,279	3,304,788
$ 540,229	$ 562,300	$ 545,048	$ (17,252)	$ (12,151)	$ 14,498	$ 8,417	$ (6,081)

State of Tennessee
Required Supplementary Information
Reconciliation of Budget to GAAP
Note to RSI
For the Fiscal Year Ended June 30, 2010

(Expressed in thousands)

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

	General Fund	Education Fund	Highway Fund
Sources of financial resources			
Actual amounts (budgetary basis)	$ 19,862,022	$ 7,219,966	$ 2,655,696
Differences - budget to GAAP:			
The fund balance at the beginning of the fiscal year is a budgetary resource but is not a current-year revenue for financial statement purposes.	(1,746,694)	(524,165)	(613,431)
Other financing sources are inflows of budgetary resources, but are not revenues for financial statement purposes.	(140,541)	(997,768)	(108,600)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 17,974,787	$ 5,698,033	$ 1,933,665
Uses of financial resources			
Actual amounts (budgetary basis)	$ 17,995,030	$ 6,674,918	$ 2,647,279
Differences - budget to GAAP:			
Certain construction contract commitments are reported in the year of federal appropriation for budgetary purposes, but in the year the services are received for financial reporting purposes.			(494,894)
Transfers to other funds are outflows of budgetary resources, but are not expenditures for financial statement purposes.	(1,132,174)	(402)	(1,336)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	$ 16,862,856	$ 6,674,516	$ 2,151,049

2. Budgetary process

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

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

Most appropriations generally lapse at the end of each fiscal year. There were no outstanding encumbrances reported as of June 30, 2010. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $51.178 million were required.

The State's annual budget is prepared on the modified accrual basis of accounting with several exceptions, principally the effect of contract obligations and certain budgetary commitments in the highway fund. Because these exceptions represent departures from generally accepted accounting principles (GAAP), actual amounts, in the accompanying budgetary comparison schedule, are presented on the budgetary basis. Appropriations for contract obligations in the highway fund do not lapse at year-end, but are carried forward for subsequent year expenditures. In addition, it is the State’s budgetary practice to appropriate matching dollars for jointly funded projects in the year of federal apportionment. These appropriations do not lapse at year-end but are also carried forward for subsequent year expenditure.

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.

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

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

State of Tennessee
Combining Balance Sheet
Nonmajor Governmental Funds - By Fund Type
June 30, 2010

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	$ 299,868	$ 3,094	$ 311,681	$ 52,707	$ 667,350
Investments				210,182	210,182
Receivables:					
Taxes	3,736	5,342		15	9,093
Due from other governments	9,944		5,683		15,627
Interest				3,733	3,733
Other	654				654
Due from other funds	1				1
Due from component units			1,375	500	1,875
Loans receivable	3,719	12,779			16,498
Restricted assets:					
Cash and cash equivalents			73,435		73,435
Total assets	$ 317,922	$ 21,215	$ 392,174	$ 267,137	$ 998,448
Liabilities and fund balances					
Liabilities:					
Accounts payable and accruals	$ 31,126	$ 116	$ 6,676	$ 3,261	$ 41,179
Due to other funds	293		20		313
Due to component units				1,839	1,839
Deferred revenue	2,023	13,959			15,982
Advance from federal government	35,163				35,163
Deposits payable	1				1
Payable from restricted assets			40,803		40,803
Other		425			425
Total liabilities	68,606	14,500	47,499	5,100	135,705
Fund balances:					
Reserved for:					
Related assets	3,719				3,719
Specific purposes:					
Permanent funds:					
Expendable				117,839	117,839
Nonexpendable				144,198	144,198
Unreserved, undesignated reported in:					
Special revenue funds	245,597				245,597
Debt service fund		6,715			6,715
Capital projects fund			344,675		344,675
Total fund balances	249,316	6,715	344,675	262,037	862,743
Total liabilities and fund balances	$ 317,922	$ 21,215	$ 392,174	$ 267,137	$ 998,448

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, 2010

(Expressed in Thousands)

	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Permanent Funds	Total Nonmajor Governmental Funds
Revenues					
Taxes:					
Sales		$ 43,794			$ 43,794
Fuel	$ 15,099	110,400			125,499
Business	293	231,506			231,799
Other	13,371				13,371
Licenses, fines, fees, and permits	173,888	2,700		$ 2,369	178,957
Investment income	806			22,438	23,244
Federal	35,484		$ 10,307		45,791
Departmental services	12,261	908	61,971		75,140
Other	4			16	20
Total revenues	251,206	389,308	72,278	24,823	737,615
Expenditures					
Current:					
General government	23,353				23,353
Education				7,657	7,657
Law, justice and public safety	6,079				6,079
Recreation and resources development	164,022			170	164,192
Regulation of business and professions	54,972				54,972
Debt service:					
Bond principal retirement		101,804			101,804
Bond interest		63,856			63,856
Commercial paper interest		488			488
Debt issuance costs		4,837			4,837
Capital outlay			485,937		485,937
Total expenditures	248,426	170,985	485,937	7,827	913,175
Excess (deficiency) of revenues over (under) expenditures	2,780	218,323	(413,659)	16,996	(175,560)
Other financing sources (uses)					
Bond and commercial paper issued			415,033		415,033
Commercial paper redeemed			(155,973)		(155,973)
Refunding bond proceeds		43,985			43,985
Refunding payment to escrow		(43,985)			(43,985)
Bond premium		26,358			26,358
Insurance claims recoveries			168		168
Transfers in	4,865	3,423	98,226	402	106,916
Transfers out	(149)	(245,386)	(150)		(245,685)
Total other financing sources (uses)	4,716	(215,605)	357,304	402	146,817
Net changes in fund balances	7,496	2,718	(56,355)	17,398	(28,743)
Fund balances, July 1	241,820	3,997	401,030	244,639	891,486
Fund balances, June 30	$ 249,316	$ 6,715	$ 344,675	$ 262,037	$ 862,743

NONMAJOR SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pre-need Consumer Protection—This program is administered by the Department of Commerce and Insurance. Revenues are collected from fees on every pre-need cemetery and funeral contract entered into by a registered seller of pre-need funeral and cemetery contracts. These fees are used to fund the pre-need registration programs and to fund any receivership action initiated against a cemetery or funeral establishment.

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, 2010

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote	Environmental Protection
Assets						
Cash and cash equivalents	$ 49,465	$ 11,393	$ 5,784	$ 12,339	$ 36,840	$ 11,671
Receivables:						
Taxes	61	601	1,752			
Due from other governments	2,927	5,181			13	
Other	208					
Due from other funds				1		
Loans receivable						
Total assets	$ 52,661	$ 17,175	$ 7,536	$ 12,340	$ 36,853	$ 11,671
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 3,846	$ 6,419	$ 1,845	$ 874		$ 5
Due to other funds	164	59	6			
Deferred revenue	1					
Advance from federal government					$ 35,163	
Deposits payable						
Total liabilities	4,011	6,478	1,851	874	35,163	5
Fund balances:						
Reserved for:						
Related assets						
Unreserved	48,650	10,697	5,685	11,466	1,690	11,666
Total fund balances	48,650	10,697	5,685	11,466	1,690	11,666
Total liabilities and fund balances	$ 52,661	$ 17,175	$ 7,536	$ 12,340	$ 36,853	$ 11,671

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education
$ 7,137	$ 15,313	$ 1,951	$ 47,776	$ 78,101	$ 636
			1,255		61
636			869		
		431	1		
$ 7,773	$ 15,313	$ 2,382	$ 49,901	$ 78,101	$ 697
$ 123	$ 2,045	$ 34	$ 2,763	$ 12,344	$ 15
12			18	3	1
1,542		17	463		
1,677	2,045	51	3,244	12,347	16
6,096	13,268	2,331	46,657	65,754	681
6,096	13,268	2,331	46,657	65,754	681
$ 7,773	$ 15,313	$ 2,382	$ 49,901	$ 78,101	$ 697

State of Tennessee
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2010

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response
Assets						
Cash and cash equivalents	$ 1,162	$ 1,529	$ 3,901	$ 852	$ 3	$ 1,543
Receivables:						
Taxes						
Due from other governments						
Other					7	
Due from other funds						
Loans receivable						
Total assets	$ 1,162	$ 1,529	$ 3,901	$ 852	$ 10	$ 1,543
Liabilities and fund balances						
Liabilities:						
Accounts payable and accruals	$ 2	$ 262	$ 13	$ 37	$ 5	$ 227
Due to other funds				4		1
Deferred revenue						
Advance from federal government						
Deposits payable						
Total liabilities	2	262	13	41	5	228
Fund balances:						
Reserved for:						
Related assets						
Unreserved	1,160	1,267	3,888	811	5	1,315
Total fund balances	1,160	1,267	3,888	811	5	1,315
Total liabilities and fund balances	$ 1,162	$ 1,529	$ 3,901	$ 852	$ 10	$ 1,543

Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Pre-Need Consumer Protection	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
$ 1,547	$ 1,535	$ 6,583	$ 58	$ 462	$ 2,287	$ 299,868
			6			3,736
	318					9,944
	7					654
						1
		3,719				3,719
$ 1,547	$ 1,860	$ 10,302	$ 64	$ 462	$ 2,287	$ 317,922
	$ 222	$ 4	$ 41			$ 31,126
	25					293
						2,023
						35,163
	1					1
	248	4	41			68,606
		3,719				3,719
$ 1,547	1,612	6,579	23	$ 462	$ 2,287	245,597
1,547	1,612	10,298	23	462	2,287	249,316
$ 1,547	$ 1,860	$ 10,302	$ 64	$ 462	$ 2,287	$ 317,922

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Wildlife Resources Agency	Criminal Injuries Compensation	Solid Waste	Job Skills	Help America Vote	Environmental Protection
Revenues						
Taxes:						
Fuel	$ 522					
Business	293					
Other	6,000		$ 6,391			
Licenses, fines, fees, and permits	38,355	$ 9,865	2,827			$ 41,561
Interest on investments	152		23	$ 58	$ 6	34
Federal	23,875	5,181			417	
Departmental services	8,001	27	102			
Other		4				
Total revenues	77,198	15,077	9,343	58	423	41,595
Expenditures						
General government		14,055			417	
Law, justice and public safety						
Recreation and resources development	71,756		6,219	5,640		38,177
Regulation of business and professions						
Total expenditures	71,756	14,055	6,219	5,640	417	38,177
Excess (deficiency) of revenues over (under) expenditures	5,442	1,022	3,124	(5,582)	6	3,418
Other financing sources (uses)						
Transfers in	1,280					
Transfers out	(149)					
Total other financing sources (uses)	1,131					
Net change in fund balances	6,573	1,022	3,124	(5,582)	6	3,418
Fund balances, July 1	42,077	9,675	2,561	17,048	1,684	8,248
Fund balances, June 30	$ 48,650	$ 10,697	$ 5,685	$ 11,466	$ 1,690	$ 11,666

(continued on next page)

Hazardous Waste	Parks Acquisition	Supreme Court Boards	Underground Storage Tanks	Enhanced Emergency 911 Service	Driver Education
			$ 14,577		
	$ 75				
		$ 4,039	4,627	$ 56,741	$ 721
$ 25	66	6	172	232	
1,905	2		3,232		
2,880	607	265	239		
4,810	750	4,310	22,847	56,973	721
		4,263			504
5,089	6,856		22,863		
				54,753	
5,089	6,856	4,263	22,863	54,753	504
(279)	(6,106)	47	(16)	2,220	217
1,000					
1,000					
721	(6,106)	47	(16)	2,220	217
5,375	19,374	2,284	46,673	63,534	464
$ 6,096	$ 13,268	$ 2,331	$ 46,657	$ 65,754	$ 681

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Abandoned Land Program	Agricultural Non-Point Water Pollution	Regulatory Boards	Salvage Title Enforcement	Dairy Promotion Board	Drycleaner's Environmental Response
Revenues						
Taxes:						
Fuel						
Business						
Other					$ 905	
Licenses, fines, fees, and permits	$ 45		$ 116	$ 1,554		$ 982
Interest on investments	4	$ 2	14			5
Federal	25	3				
Departmental services	50		8		2	
Other						
Total revenues	124	5	138	1,554	907	987
Expenditures						
General government				1,223		
Law, justice and public safety						
Recreation and resources development	112	2,554			907	941
Regulation of business and professions			51			
Total expenditures	112	2,554	51	1,223	907	941
Excess (deficiency) of revenues over (under) expenditures	12	(2,549)	87	331	-	46
Other financing sources (uses)						
Transfers in		2,250				
Transfers out						
Total other financing sources (uses)		2,250				
Net change in fund balances	12	(299)	87	331		46
Fund balances, July 1	1,148	1,566	3,801	480	5	1,269
Fund balances, June 30	$ 1,160	$ 1,267	$ 3,888	$ 811	$ 5	$ 1,315

Agricultural Regulatory Fund	Tennessee Regulatory Authority	Small and Minority Owned Business Assistance	Sex Offender Treatment Program	Pre-Need Consumer Protection	Fraud and Economic Crime	Total Nonmajor Special Revenue Funds
						$ 15,099
						293
						13,371
$ 3,052	$ 7,819		$ 109	$ 608	$ 867	173,888
7						806
	844					35,484
	3	$ 26	51			12,261
						4
3,059	8,666	26	160	608	867	251,206
	7,224	434				23,353
			500		812	6,079
2,908						164,022
				168		54,972
2,908	7,224	434	500	168	812	248,426
151	1,442	(408)	(340)	440	55	2,780
			335			4,865
						(149)
			335			4,716
151	1,442	(408)	(5)	440	55	7,496
1,396	170	10,706	28	22	2,232	241,820
$ 1,547	$ 1,612	$ 10,298	$ 23	$ 462	$ 2,287	$ 249,316

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, 2010

(Expressed in Thousands)

	Wildlife Resources Agency		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 42,077	$ 42,077	
Revenues:			
Taxes	6,750	6,815	$ 65
Licenses, fines, fees, and permits	36,150	38,355	2,205
Interest on investments		152	152
Federal	26,946	23,875	(3,071)
Departmental services	3,402	8,001	4,599
Other	11,450		(11,450)
Other financing sources - transfers in	1,280	1,280	
Total sources of financial resources	128,055	120,555	(7,500)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources	87,395	71,756	15,639
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out	149	149	
Total uses of financial resources	87,544	71,905	15,639
Fund balances (budgetary basis), June 30	$ 40,511	$ 48,650	$ 8,139

(continued on next page)

Criminal Injuries Compensation			Solid Waste		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 9,675	$ 9,675		$ 2,561	$ 2,561	
			4,404	6,391	$ 1,987
8,227	9,865	$ 1,638	3,488	2,827	(661)
				23	23
5,025	5,181	156			
	27	27	234	102	(132)
3	4	1			
22,930	24,752	1,822	10,687	11,904	1,217
15,880	14,055	1,825			
			8,125	6,219	1,906
15,880	14,055	1,825	8,125	6,219	1,906
$ 7,050	$ 10,697	$ 3,647	$ 2,562	$ 5,685	$ 3,123

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Job Skills		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 17,048	$ 17,048	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		58	$ 58
Federal			
Departmental services	285		(285)
Other			
Other financing sources - transfers in			
Total sources of financial resources	17,333	17,106	(227)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development	9,285	5,640	3,645
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	9,285	5,640	3,645
Fund balances (budgetary basis), June 30	$ 8,048	$ 11,466	$ 3,418

(continued on next page)

Help America Vote			Environmental Protection		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,684	$ 1,684		$ 8,248	$ 8,248	
			48,409	41,561	$ (6,848)
	6	$ 6		34	34
19,500	417	(19,083)			
21,184	2,107	(19,077)	56,657	49,843	(6,814)
20,500	417	20,083			
			48,032	38,177	9,855
20,500	417	20,083	48,032	38,177	9,855
$ 684	$ 1,690	$ 1,006	$ 8,625	$ 11,666	$ 3,041

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Hazardous Waste		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 5,375	$ 5,375	
Revenues:			
Taxes			
Licenses, fines, fees, and permits			
Interest on investments		25	$ 25
Federal	1,990	1,905	(85)
Departmental services	4,388	2,880	(1,508)
Other			
Other financing sources - transfers in	1,000	1,000	
Total sources of financial resources	12,753	11,185	(1,568)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	11,734	5,089	6,645
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	11,734	5,089	6,645
Fund balances (budgetary basis), June 30	$ 1,019	$ 6,096	$ 5,077

(continued on next page)

Parks Acquisition			Supreme Court Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 19,374	$ 19,374		$ 2,284	$ 2,284	
75	75				
			4,017	4,039	$ 22
	66	$ 66		6	6
1,722	2	(1,720)			
600	607	7		265	265
688		(688)			
22,459	20,124	(2,335)	6,301	6,594	293
			4,059	4,263	(204)
11,337	6,856	4,481			
11,337	6,856	4,481	4,059	4,263	(204)
$ 11,122	$ 13,268	$ 2,146	$ 2,242	$ 2,331	$ 89

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Underground Storage Tanks		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 46,673	$ 46,673	
Revenues:			
Taxes	15,000	14,577	$ (423)
Licenses, fines, fees, and permits	4,269	4,627	358
Interest on investments		172	172
Federal	7,120	3,232	(3,888)
Departmental services		239	239
Other			
Other financing sources - transfers in			
Total sources of financial resources	73,062	69,520	(3,542)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	26,488	22,863	3,625
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	26,488	22,863	3,625
Fund balances (budgetary basis), June 30	$ 46,574	$ 46,657	$ 83

(continued on next page)

Enhanced Emergency 911 Service			Driver Education		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 63,534	$ 63,534		$ 464	$ 464	
51,300	56,741	$ 5,441	676	721	$ 45
	232	232			
114,834	120,507	5,673	1,140	1,185	45
			677	504	173
57,078	54,753	2,325			
57,078	54,753	2,325	677	504	173
$ 57,756	$ 65,754	$ 7,998	$ 463	$ 681	$ 218

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Abandoned Land Program		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 1,148	$ 1,148	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	500	45	$ (455)
Interest on investments		4	4
Federal		25	25
Departmental services		50	50
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,648	1,272	(376)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation	500	112	388
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	500	112	388
Fund balances (budgetary basis), June 30	$ 1,148	$ 1,160	$ 12

(continued on next page)

Agricultural Non-Point Water Pollution			Regulatory Boards		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,566	$ 1,566		$ 3,801	$ 3,801	
			374	116	$ (258)
	2	$ 2		14	14
250	3	(247)			
				8	8
2,250	2,250				
4,066	3,821	(245)	4,175	3,939	(236)
2,801	2,554	247			
			374	51	323
2,801	2,554	247	374	51	323
$ 1,265	$ 1,267	$ 2	$ 3,801	$ 3,888	$ 87

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Salvage Title Enforcement		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 480	$ 480	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	1,465	1,554	$ 89
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	1,945	2,034	89
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue	1,461	1,223	238
Other financing uses - transfers out			
Total uses of financial resources	1,461	1,223	238
Fund balances (budgetary basis), June 30	$ 484	$ 811	$ 327

(continued on next page)

Drycleaner's Environmental Response			Agricultural Regulatory Fund		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 1,269	$ 1,269		$ 1,396	$ 1,396	
2,518	982	$ (1,536)	2,354	3,052	$ 698
	5	5		7	7
			120		(120)
3,787	2,256	(1,531)	3,870	4,455	585
			3,028	2,908	120
2,519	941	1,578			
2,519	941	1,578	3,028	2,908	120
$ 1,268	$ 1,315	$ 47	$ 842	$ 1,547	$ 705

State of Tennessee
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Tennessee Regulatory Authority		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 170	$ 170	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	8,300	7,819	$ (481)
Interest on investments			
Federal	367	844	477
Departmental services	2	3	1
Other			
Other financing sources - transfers in			
Total sources of financial resources	8,839	8,836	(3)
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions	8,701	7,224	1,477
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance			
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	8,701	7,224	1,477
Fund balances (budgetary basis), June 30	$ 138	$ 1,612	$ 1,474

(continued on next page)

Small and Minority Owned Business Assistance			Sex Offender Treatment Program		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 10,706	$ 10,706		$ 28	$ 28	
			86	109	$ 23
	26	$ 26		51	51
			335	335	
10,706	10,732	26	449	523	74
671	434	237			
			114	500	(386)
671	434	237	114	500	(386)
$ 10,035	$ 10,298	$ 263	$ 335	$ 23	$ (312)

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
All Nonmajor Budgeted Special Revenue Funds (continued)
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Pre-Need Consumer Protection		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 22	$ 22	
Revenues:			
Taxes			
Licenses, fines, fees, and permits	461	608	$ 147
Interest on investments			
Federal			
Departmental services			
Other			
Other financing sources - transfers in			
Total sources of financial resources	483	630	147
Uses of financial resources:			
Expenditures and encumbrances:			
Judicial			
Secretary of State			
Treasurer			
Commissions			
Correction			
Safety			
Agriculture			
Environment and Conservation			
Wildlife Resources			
Economic and Community Development			
Commerce and Insurance	460	168	292
Revenue			
Other financing uses - transfers out			
Total uses of financial resources	460	168	292
Fund balances (budgetary basis), June 30	$ 23	$ 462	$ 439

Total Nonmajor Special Revenue Funds		
Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
$ 239,583	$ 239,583	
26,229	27,858	$ 1,629
172,594	173,021	427
	806	806
62,920	35,484	(27,436)
9,031	12,259	3,228
12,141	4	(12,137)
4,865	4,865	
527,363	493,880	(33,483)
4,059	4,263	(204)
20,500	417	20,083
16,551	14,489	2,062
8,701	7,224	1,477
114	500	(386)
677	504	173
5,829	5,462	367
108,735	80,257	28,478
87,395	71,756	15,639
9,285	5,640	3,645
57,912	54,972	2,940
1,461	1,223	238
149	149	
321,368	246,856	74,512
$ 205,995	$ 247,024	$ 41,029

DEBT SERVICE FUND

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

State of Tennessee
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budgetary Basis)
Debt Service Fund
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Debt Service Fund		
	Budget	Actual (Budgetary Basis)	Variance - Favorable (Unfavorable)
Sources of financial resources:			
Fund balances (budgetary basis), July 1	$ 3,997	$ 3,997	
Revenues:			
Taxes	385,700	385,700	
Licenses, fines, fees, and permits	2,700	2,700	
Other		908	$ 908
Other financing sources			
Transfers in	3,423	3,423	
Bond premium	26,358	26,358	
Total sources of financial resources	422,178	423,086	908
Uses of financial resources:			
Expenditures and encumbrances:			
Debt Service	404,373	170,985	233,388
Other financing uses - transfers out	245,386	245,386	
Total uses of financial resources	649,759	416,371	233,388
Fund balances (budgetary basis), June 30	$ (227,581)	$ 6,715	$ 234,296

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PERMANENT FUNDS

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

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

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

State of Tennessee
Combining Balance Sheet
Permanent Funds
June 30, 2010

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Assets				
Cash and cash equivalents	$ 10,058		$ 42,649	$ 52,707
Investments	206,475	$ 3,707		210,182
Receivables:				
Taxes			15	15
Interest	3,733			3,733
Due from component units	500			500
Total assets	$ 220,766	$ 3,707	$ 42,664	$ 267,137
Liabilities and fund balances				
Liabilities:				
Accounts payable and accruals	$ 3,261			$ 3,261
Due to component units	1,839			1,839
Total liabilities	5,100			5,100
Fund balances:				
Reserved for:				
Expendable	115,736	$ 1,002	$ 1,101	117,839
Nonexpendable	99,930	2,705	41,563	144,198
Total fund balances	215,666	3,707	42,664	262,037
Total liabilities and fund balances	$ 220,766	$ 3,707	$ 42,664	$ 267,137

State of Tennessee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Permanent Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Chairs of Excellence	Academic Scholars	Other	Total Permanent Funds
Revenues				
Licenses, fines, fees and permits			$ 2,369	$ 2,369
Investment income	$ 21,938	$ 387	113	22,438
Other			16	16
Total revenues	21,938	387	2,498	24,823
Expenditures				
Education	7,115	542		7,657
Recreation and resources development			170	170
Total expenditures	7,115	542	170	7,827
Excess (deficiency) of revenues over (under) expenditures	14,823	(155)	2,328	16,996
Other financing sources (uses)				
Transfers in		402		402
Total other financing sources (uses)		402		402
Net change in fund balances	14,823	247	2,328	17,398
Fund balances, July 1	200,843	3,460	40,336	244,639
Fund balances, June 30	$ 215,666	$ 3,707	$ 42,664	$ 262,037

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NONMAJOR ENTERPRISE FUNDS

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

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

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

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

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

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

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

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

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

State of Tennessee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2010

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Assets				
Current assets:				
Cash and cash equivalents	$ 1,309	$ 20,506	$ 131,773	$ 17,349
Receivables:				
Accounts receivable, net			1,919	97
Interest				
Loans receivable		2,483		
Due from component units				
Inventories, at cost				
Total current assets	1,309	22,989	133,692	17,446
Noncurrent assets:				
Loans receivable		8,198		
Capital assets:				
Machinery and equipment, at cost				
Less-accumulated depreciation				
Total capital assets, net of accumulated depreciation				
Total noncurrent assets		8,198		
Total assets	1,309	31,187	133,692	17,446
Liabilities				
Current liabilities:				
Accounts payable and accruals	4		30,703	7,719
Due to other funds				
Unearned revenue				
Total current liabilities	4		30,703	7,719
Noncurrent liabilities:				
Other noncurrent liabilities				
Total noncurrent liabilities				
Total liabilities	4		30,703	7,719
Net assets				
Unrestricted	1,305	31,187	102,989	9,727
Total net assets	$ 1,305	$ 31,187	$ 102,989	$ 9,727

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
$ 37,171	$ 3,171		$ 2,430	$ 213,709
		$ 107		2,123
9				9
4,059				6,542
		5		5
		39		39
41,239	3,171	151	2,430	222,427
79,381				87,579
		16		16
		(16)		(16)
		-		-
79,381		-		87,579
120,620	3,171	151	2,430	310,006
7		59		38,492
		55		55
		2		2
7		116		38,549
2,101		144		2,245
2,101		144		2,245
2,108		260		40,794
118,512	3,171	(109)	2,430	269,212
$ 118,512	$ 3,171	$ (109)	$ 2,430	$ 269,212

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Operating revenues				
Charges for services		$ 58		
Investment income	$ 6	72		
Premiums			$ 420,751	$ 104,736
Total operating revenues	6	130	420,751	104,736
Operating expenses				
Personal services				
Contractual services			19,981	5,204
Materials and supplies				
Rentals and insurance				
Benefits			422,228	105,918
Other			3,213	716
Total operating expenses			445,422	111,838
Operating income (loss)	6	130	(24,671)	(7,102)
Nonoperating revenues (expenses)				
Operating grants	(25)			
Interest income			491	74
Other				
Total nonoperating revenues (expenses)	(25)		491	74
Income (loss) before transfers	(19)	130	(24,180)	(7,028)
Transfers in				
Transfers out	(400)			
Change in net assets	(419)	130	(24,180)	(7,028)
Net assets, July 1	1,724	31,057	127,169	16,755
Net assets, June 30	$ 1,305	$ 31,187	$ 102,989	$ 9,727

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
$ 1,439	$ 175	$ 843	$ 200	$ 2,715
114				192
				525,487
1,553	175	843	200	528,394
		851		851
357		409	18	25,969
		102		102
		3		3
				528,146
	111	2		4,042
357	111	1,367	18	559,113
1,196	64	(524)	182	(30,719)
11,150				11,125
	11		8	584
(4,575)				(4,575)
6,575	11		8	7,134
7,771	75	(524)	190	(23,585)
3,017		520		3,537
				(400)
10,788	75	(4)	190	(20,448)
107,724	3,096	(105)	2,240	289,660
$ 118,512	$ 3,171	$ (109)	$ 2,430	$ 269,212

State of Tennessee
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	State Loan Program	Energy Loan Program	Teacher Group Insurance	Local Government Group Insurance
Cash flows from operating activities				
Receipts from customers and users			$ 425,734	$ 106,884
Receipts from interfund services provided				
Payments to suppliers			(444,570)	(112,015)
Payments to employees				
Payments for interfund services used			(3,213)	(716)
Net cash from (used for) operating activities			(22,049)	(5,847)
Cash flows from noncapital financing activities				
Negative cash balance implicitly financed				
Operating grants received				
Transfers in				
Transfers out	$ (400)			
Payments to component units	(25)			
Subsidy to borrowers	(5)			
Net cash from (used for) noncapital financing activities	(430)			
Cash flows from investing activities				
Loans issued		$ (493)		
Collection of loan principal	280	2,850		
Interest received	6	130	491	74
Net cash from (used for) investing activities	286	2,487	491	74
Net increase (decrease) in cash and cash equivalents	(144)	2,487	(21,558)	(5,773)
Cash and cash equivalents, July 1	1,453	18,019	153,331	23,122
Cash and cash equivalents, June 30	$ 1,309	$ 20,506	$ 131,773	$ 17,349
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income (loss)	$ 6	$ 130	$ (24,671)	$ (7,102)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Investment income	(6)	(72)		
Charges for services		(58)		
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable			1,044	1,118
(Increase) decrease in due from component units				
(Increase) decrease in inventories				
Increase (decrease) in accounts payable			1,578	137
Increase (decrease) in due to other funds				
Increase (decrease) in unearned revenue				
Total adjustments	(6)	(130)	2,622	1,255
Net cash provided by (used for) operating activities	$ -	$ -	$ (22,049)	$ (5,847)

Drinking Water	Grain Indemnity	Property Utilization	Client Protection	Total Nonmajor Enterprise Funds
	$ 175	$ 645	$ 200	$ 533,638
		161		161
	(265)	(152)	(41)	(557,043)
		(856)		(856)
$ (357)		(393)		(4,679)
(357)	(90)	(595)	159	(28,779)
		53		53
11,150				11,150
3,017		520		3,537
				(400)
				(25)
				(5)
14,167		573		14,310
(12,654)				(13,147)
704				3,834
1,524	11		8	2,244
(10,426)	11		8	(7,069)
3,384	(79)	(22)	167	(21,538)
33,787	3,250	22	2,263	235,247
$ 37,171	$ 3,171	$ -	$ 2,430	$ 213,709
$ 1,196	$ 64	$ (524)	$ 182	$ (30,719)
(1,553)				(1,631)
				(58)
		(32)		2,130
		(5)		(5)
		(39)		(39)
	(154)	6	(23)	1,544
		(2)		(2)
		1		1
(1,553)	(154)	(71)	(23)	1,940
$ (357)	$ (90)	$ (595)	$ 159	$ (28,779)

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INTERNAL SERVICE FUNDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 Assets
Internal Service Funds
June 30, 2010

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Food Services
Assets							
Current assets:							
Cash and cash equivalents	$ 91,104	$ 114,501	$ 31,761	$ 676	$ 81,487	$ 144,333	$ 2,588
Accounts receivable	110		167	2	295	3,324	
Due from other funds	1,927				20		
Due from component units			3	1			
Inventories, at cost	1,173		19	87			
Prepaid expenses							
Total current assets	94,314	114,501	31,950	766	81,802	147,657	2,588
Noncurrent assets:							
Accounts receivable		8,998					
Due from other funds	1,350						
Deferred charges					246		
Lease receivable					2,060		
Capital assets:							
Land, at cost					66,112		215
Structures and improvements, at cost					510,069		15,752
Machinery and equipment, at cost	90,812		150,361	1,720	139		3,021
Less-accumulated depreciation	(63,492)		(94,369)	(1,376)	(235,591)		(8,599)
Construction in progress					42,509		
Total capital assets, net of accumulated depreciation	27,320		55,992	344	383,238		10,389
Total noncurrent assets	28,670	8,998	55,992	344	385,544		10,389
Total assets	122,984	123,499	87,942	1,110	467,346	147,657	12,977
Liabilities							
Current liabilities:							
Accounts payable	17,395	574	2,762	46	6,851	50,706	1,082
Accrued payroll and related deductions	2,140		99	128			5
Due to other funds	121		6	7			1
Lease obligations payable					139		
Bonds payable					17,312		
Unearned revenue		8	1,261			39,681	
Other		35,226					
Total current liabilities	19,656	35,808	4,128	181	24,302	90,387	1,088
Noncurrent liabilities:							
Lease obligations payable					670		
Commercial paper payable					26,388		
Bonds payable, net					178,908		
Other noncurrent liabilities	3,171	71,404	216	317			22
Total noncurrent liabilities	3,171	71,404	216	317	205,966		22
Total liabilities	22,827	107,212	4,344	498	230,268	90,387	1,110
Net assets							
Invested in capital assets, net of related debt	27,320		55,992	344	159,822		10,389
Unrestricted	72,837	16,287	27,606	268	77,256	57,270	1,478
Total net assets	$ 100,157	$ 16,287	$ 83,598	$ 612	$ 237,078	$ 57,270	$ 11,867

Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 842	$ 276	$ 364	$ 346	$ 163	$ 4,176	$ 4,121	$ 5,963	$ 482,701
1		1			2	525		4,427
								1,947
								4
275			267			3,929		5,750
215								215
1,333	276	365	613	163	4,178	8,575	5,963	495,044
								8,998
								1,350
								246
								2,060
								66,327
								525,821
2,567	290			220	118	9,455	98,087	356,790
(1,666)	(290)			(211)	(61)	(6,995)	(16,579)	(429,229)
								42,509
901	-			9	57	2,460	81,508	562,218
901	-			9	57	2,460	81,508	574,872
2,234	276	365	613	172	4,235	11,035	87,471	1,069,916
31	4	2	9	1	16	970	768	81,217
113	24	131	39	46	402	420	725	4,272
6	2	8	3	3	23	23		203
								139
								17,312
						1		40,951
								35,226
150	30	141	51	50	441	1,414	1,493	179,320
								670
							43,719	70,107
								178,908
393	58	342	128	105	544	1,090	1,179	78,969
393	58	342	128	105	544	1,090	44,898	328,654
543	88	483	179	155	985	2,504	46,391	507,974
901				9	57	2,460	37,789	295,083
790	188	(118)	434	8	3,193	6,071	3,291	266,859
$ 1,691	$ 188	$ (118)	$ 434	$ 17	$ 3,250	$ 8,531	$ 41,080	$ 561,942

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Food Services
Operating revenues							
Charges for services	$ 163,327	$ 27,119	$ 36,035	$ 3,665	$ 136,568		$ 5,377
Premiums						$ 591,710	
Total operating revenues	163,327	27,119	36,035	3,665	136,568	591,710	5,377
Operating expenses							
Personal services	30,204		1,555	1,969			162
Contractual services	57,977	8,915	7,063	939	70,862	28,472	5,172
Materials and supplies	60,384		14,114	738	5,403		252
Rentals and insurance	28	3,371	31	82	40,628	754	4
Depreciation and amortization	7,464		12,416	65	11,769		603
Benefits		41,086				667,197	
Other	843		128	3	141	5,288	
Total operating expenses	156,900	53,372	35,307	3,796	128,803	701,711	6,193
Operating income (loss)	6,427	(26,253)	728	(131)	7,765	(110,001)	(816)
Nonoperating revenues (expenses)							
Taxes		2					
Operating grants		5,850					
Interest income		396			179	617	
Interest expense			(2)		(8,565)		
Total nonoperating revenues (expenses)		6,248	(2)		(8,386)	617	
Income (loss) before contributions and transfers	6,427	(20,005)	726	(131)	(621)	(109,384)	(816)
Capital contributions							
Transfers in	1,474		4,096	305	13,115		
Transfers out	(225)						
Change in net assets	7,676	(20,005)	4,822	174	12,494	(109,384)	(816)
Net assets, July 1	92,481	36,292	78,776	438	224,584	166,654	12,683
Net assets, June 30	$ 100,157	$ 16,287	$ 83,598	$ 612	$ 237,078	$ 57,270	$ 11,867

Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 21,414	$ 422	$ 4,355	$ 2,295	$ 1,635	$ 8,478	$ 26,218	$ 13,496	$ 450,404
								591,710
21,414	422	4,355	2,295	1,635	8,478	26,218	13,496	1,042,114
1,833	470	2,249	757	732	5,466	7,082	9,284	61,763
1,828	178	1,703	719	764	3,537	5,878	11,083	205,090
17,524	50	271	813	16	84	10,033		109,682
12	80	10	3	137	9	725	609	46,483
276				1	23	811	9,559	42,987
								708,283
10					8	154	4	6,579
21,483	778	4,233	2,292	1,650	9,127	24,683	30,539	1,180,867
(69)	(356)	122	3	(15)	(649)	1,535	(17,043)	(138,753)
								2
								5,850
								1,192
							(135)	(8,702)
							(135)	(1,658)
(69)	(356)	122	3	(15)	(649)	1,535	(17,178)	(140,411)
							91,052	91,052
	250						13,000	32,240
							(8,620)	(8,845)
(69)	(106)	122	3	(15)	(649)	1,535	78,254	(25,964)
1,760	294	(240)	431	32	3,899	6,996	(37,174)	587,906
$ 1,691	$ 188	$ (118)	$ 434	$ 17	$ 3,250	$ 8,531	$ 41,080	$ 561,942

State of Tennessee
Combining Statement of Cash Flows
Internal Service Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Office for Information Resources	Risk Management	Motor Vehicle Management	General Services Printing	Facilities Revolving Fund	Employee Group Insurance	Food Services
Cash flows from operating activities							
Receipts from customers and users	$ 1,571	$ 7,749	$ 1,241	$ 13	$ 3,878	$ 248,731	$ 3
Receipts from interfund services provided	164,065	19,370	34,764	3,651	132,740	379,455	5,374
Payments to suppliers	(102,706)	(33,176)	(13,755)	(1,084)	(104,207)	(728,842)	(4,609)
Payments to employees	(29,591)		(1,490)	(1,913)			(154)
Payments for interfund services used	(12,016)	(6,857)	(6,618)	(710)	(16,135)	(5,300)	(416)
Net cash from (used for) operating activities	21,323	(12,914)	14,142	(43)	16,276	(105,956)	198
Cash flows from noncapital financing activities							
Transfers in	1,474		4,096	305	13,115		
Transfers out	(225)						
Tax revenues received		2					
Net cash from (used for) noncapital financing activities	1,249	2	4,096	305	13,115		
Cash flows from capital and related financing activities financing activities							
Purchase of capital assets	(15,153)		(5,192)		(32,531)		(6)
Bond and commercial paper proceeds					65,986		
Proceeds from sale of capital assets			852		201		
Principal payments			(2,607)	(26)	(32,644)		
Interest paid			(2)		(8,814)		
Net cash from (used for) capital and related financing activities	(15,153)		(6,949)	(26)	(7,802)		(6)
Cash flows from investing activities							
Interest received		396			179	617	
Net cash from (used for) investing activities		396			179	617	
Net increase (decrease) in cash and cash equivalents	7,419	(12,516)	11,289	236	21,768	(105,339)	192
Cash and cash equivalents, July 1	83,685	127,017	20,472	440	59,719	249,672	2,396
Cash and cash equivalents, June 30	$ 91,104	$ 114,501	$ 31,761	$ 676	$ 81,487	$ 144,333	$ 2,588
Reconciliation of operating income to net cash provided (used) by operating activities							
Operating income (loss)	$ 6,427	$ (26,253)	$ 728	$ (131)	$ 7,765	$ (110,001)	$ (816)
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation and amortization	7,464		12,416	65	11,769		603
Loss on disposal of capital assets	786		128		114		
Bond issuance cost					15		
Capital lease executory costs paid					28		
Changes in assets and liabilities:							
(Increase) decrease in accounts receivable	120		(68)		70	2,403	
(Increase) decrease in due from other funds	2,189				(19)		
(Increase) decrease in due from component units			5	(1)			
(Increase) decrease in inventories	(34)		(13)	13			
(Increase) decrease in prepaid expenses							
Increase (decrease) in accounts payable	4,376	13,347	912	11	(3,466)	459	411
Increase (decrease) in due to other funds	(5)	(8)	1				
Increase (decrease) in unearned revenue			33			1,183	
Total adjustments	14,896	13,339	13,414	88	8,511	4,045	1,014
Net cash provided by (used for) operating activities	$ 21,323	$ (12,914)	$ 14,142	$ (43)	$ 16,276	$ (105,956)	$ 198
Noncash investing, capital and financing activities							
Contributed capital assets							
Total noncash investing, capital and financing activities							

Postal Services	Capitol Print Shop	Purchasing	Central Stores	Records Management	Division of Accounts	TRICOR	Edison	Total Internal Service Funds
$ 152	$ 9	$ 100	$ 2	$ 14	$ 356	$ 6,256	$ 54	$ 270,129
21,262	413	4,254	2,293	1,621	8,122	20,338	13,442	811,164
(17,673)	(266)	(355)	(955)	(175)	(876)	(15,704)	(7,573)	(1,031,956)
(1,716)	(458)	(2,175)	(734)	(688)	(5,321)	(7,068)	(8,074)	(59,382)
(1,827)	(32)	(1,641)	(583)	(756)	(2,777)	(937)	(4,983)	(61,588)
198	(334)	183	23	16	(496)	2,885	(7,134)	(71,633)
	250						13,000	32,240
							(8,620)	(8,845)
								2
	250						4,380	23,397
(720)						(246)	(15)	(53,863)
							4,916	70,902
								1,053
								(35,277)
							(135)	(8,951)
(720)						(246)	4,766	(26,136)
								1,192
								1,192
(522)	(84)	183	23	16	(496)	2,639	2,012	(73,180)
1,364	360	181	323	147	4,672	1,482	3,951	555,881
$ 842	$ 276	$ 364	$ 346	$ 163	$ 4,176	$ 4,121	$ 5,963	$ 482,701
$ (69)	$ (356)	$ 122	$ 3	$ (15)	$ (649)	$ 1,535	$ (17,043)	$ (138,753)
276				1	23	811	9,559	42,987
10								1,038
								15
								28
		(1)				41		2,565
						337		2,507
								4
(45)	9		178			(160)		(52)
(96)	19							(77)
121	(8)	63	(158)	30	129	326	350	16,903
1	2	(1)			1	(3)		(12)
						(2)		1,214
267	22	61	20	31	153	1,350	9,909	67,120
$ 198	$ (334)	$ 183	$ 23	$ 16	$ (496)	$ 2,885	$ (7,134)	$ (71,633)
							$ 91,052	$ 91,052
							$ 91,052	$ 91,052

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FIDUCIARY FUNDS

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

Pension and Other Employee Benefit Trust:

Pension Trust Fund—The Tennessee Consolidated Retirement System was established in July 1972 superseding seven former retirement systems. The accounts of each superseded system were transferred to the new system wherein separate accounting is maintained for assets and liabilities attributable to the various classes of members and beneficiaries. Benefits under the system are funded by contributions of members and employers. Effective July 1981, contributions of up to 5% of the retirement credible compensation of most classes of state employees, formerly paid by those employees, were assumed by the state pursuant to non-contributory legislation. The level of contributions is determined by actuarial valuation, the latest having been performed as of July 1, 2009. As of that date there were 214,950 active members and 110,875 retired members representing a 1.05% and 12.87% increase, respectively, since the previous actuarial valuation in 2007.

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

Private-Purpose Trust Funds:

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

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

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

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.

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

Agency Funds:

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

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

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

State of Tennessee
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2010

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust	Total Pension (and Other Employee Benefit) Trust Funds
Assets					
Cash and cash equivalents	$ 362,240	$ 76,029	$ 438,269	$ 752	$ 439,021
Receivables:					
Member contributions	22,006	4,957	26,963		26,963
Employer contributions	27,181	18,596	45,777		45,777
Accrued interest	88,666	18,610	107,276		107,276
Accrued dividends	25,731	5,400	31,131		31,131
Derivative instruments	557,809	117,075	674,884		674,884
Real estate income	75	16	91		91
Investments sold	980,820	205,859	1,186,679		1,186,679
Total receivables	1,702,288	370,513	2,072,801		2,072,801
Due from other funds	8,407		8,407	293	8,700
Due from component units	8,164		8,164	5	8,169
Investments, at fair value:					
Government bonds	7,142,965	1,499,198	8,642,163		8,642,163
Corporate bonds	4,406,274	924,808	5,331,082		5,331,082
Corporate stocks	10,690,206	2,243,709	12,933,915		12,933,915
Derivative instruments	3,524	740	4,264		4,264
Private equities	21,996	4,617	26,613		26,613
Real estate	804,412	168,833	973,245		973,245
Total investments	23,069,377	4,841,905	27,911,282		27,911,282
Total assets	25,150,476	5,288,447	30,438,923	1,050	30,439,973
Liabilities					
Accounts payable and accruals	980,209	206,271	1,186,480	1	1,186,481
Derivative instruments	560,589	117,659	678,248		678,248
Total liabilities	1,540,798	323,930	1,864,728	1	1,864,729
Net assets					
Held in trust for:					
Pension benefits	23,609,678	4,964,517	28,574,195		28,574,195
Employees' flexible benefits				1,049	1,049
Total net assets	$ 23,609,678	$ 4,964,517	$ 28,574,195	$ 1,049	$ 28,575,244

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	Total Pension	Other Employee Benefit Trust Fund	Total Pension (and Other Employee Benefit) Trust Funds
Additions					
Contributions:					
Members	$ 190,635	$ 64,414	$ 255,049	$ 8,725	$ 263,774
Employers	578,403	258,324	836,727		836,727
Total contributions	769,038	322,738	1,091,776	8,725	1,100,501
Investment income:					
Net increase in fair value of investments	1,494,405	307,909	1,802,314		1,802,314
Interest	482,315	99,369	581,684		581,684
Dividends	226,610	46,687	273,297		273,297
Real estate income	52,952	10,910	63,862		63,862
Total investment income	2,256,282	464,875	2,721,157		2,721,157
Less: Investment expenses	23,877	4,934	28,811		28,811
Net investment income	2,232,405	459,941	2,692,346		2,692,346
Total additions	3,001,443	782,679	3,784,122	8,725	3,792,847
Deductions					
Annuity benefits:					
Retirement benefits	1,081,425	185,169	1,266,594		1,266,594
Cost of living	231,084	30,395	261,479		261,479
Death benefits	4,694	2,420	7,114		7,114
Other benefits				8,660	8,660
Refunds	19,371	17,052	36,423		36,423
Administrative expenses	3,924	3,619	7,543		7,543
Total deductions	1,340,498	238,655	1,579,153	8,660	1,587,813
Change in net assets held in trust for:					
Pension benefits	1,660,945	544,024	2,204,969		2,204,969
Employees' flexible benefits				65	65
Net assets, July 1	21,948,733	4,420,493	26,369,226	984	26,370,210
Net assets, June 30	$ 23,609,678	$ 4,964,517	$ 28,574,195	$ 1,049	$ 28,575,244

State of Tennessee
Combining Statement of Fiduciary Net Assets
Private-Purpose Trust Funds
June 30, 2010

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Assets						
Cash and cash equivalents	$ 2,944	$ 1,595	$ 11,485	$ 9,323	$ 2,046	$ 27,393
Receivables:						
Taxes					43	43
Interest and dividends	626					626
Other	60					60
Total receivables	686				43	729
Due from other funds	9					9
Investments, at fair value:						
Mutual funds	77,526					77,526
Total investments	77,526					77,526
Total assets	81,165	1,595	11,485	9,323	2,089	105,657
Liabilities						
Accounts payable and accruals	663	1				664
Total liabilities	663	1				664
Net assets						
Held in trust for:						
Individuals, organizations and other governments	$ 80,502	$ 1,594	$ 11,485	$ 9,323	$ 2,089	$ 104,993

State of Tennessee
Combining Statement of Changes in Fiduciary Net Assets
Private-Purpose Trust Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Baccalaureate Education	Children in State Custody	Oak Ridge Monitoring	TNInvestco	Other	Total Private-Purpose Trust Funds
Additions						
Contributions:						
Federal		$ 5,753	$ 1,000			$ 6,753
Private	$ 3,677			$ 19,747	$ 419	23,843
Other		1,844			44,212	46,056
Total contributions	3,677	7,597	1,000	19,747	44,631	76,652
Investment income:						
Net increase in fair value of investments	5,944					5,944
Interest	2,323	6	39	17	10	2,395
Total investment income	8,267	6	39	17	10	8,339
Total additions	11,944	7,603	1,039	19,764	44,641	84,991
Deductions						
Payments made under trust agreements	7,443	3,366		7,323	44,485	62,617
Refunds	659	2,161				2,820
Administrative expenses	392	1,856		3,118		5,366
Total deductions	8,494	7,383		10,441	44,485	70,803
Change in net assets held in trust for:						
Individuals, organizations and other governments	3,450	220	1,039	9,323	156	14,188
Net assets, July 1	77,052	1,374	10,446	-	1,933	90,805
Net assets, June 30	$ 80,502	$ 1,594	$ 11,485	$ 9,323	$ 2,089	$ 104,993

State of Tennessee
Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2010

(Expressed in Thousands)

	Local Government	Contingent Revenue	Retiree Health Plans	Total Agency Funds
Assets				
Cash and cash equivalents	$ 285,334	$ 115,862	$ 21,074	$ 422,270
Receivables:				
Accounts		16	1,188	1,204
Taxes	366,726			366,726
Total assets	652,060	115,878	22,262	790,200
Liabilities				
Accounts payable and accruals	652,060	14,767	15,434	682,261
Amounts held in custody for others		101,111	6,828	107,939
Total liabilities	$ 652,060	$ 115,878	$ 22,262	$ 790,200

State of Tennessee
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

Local Government Fund	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010
Assets				
Cash and cash equivalents	$ 273,462	$ 2,967,574	$ 2,955,702	$ 285,334
Accounts receivable	356,307	515,224	504,805	366,726
Total assets	629,769	3,482,798	3,460,507	652,060
Liabilities				
Accounts payable and accruals	629,769	3,144,783	3,122,492	652,060
Total liabilities	$ 629,769	$ 3,144,783	$ 3,122,492	$ 652,060
Contingent Revenue Fund				
Assets				
Cash and cash equivalents	$ 96,722	$ 2,036,769	$ 2,017,629	$ 115,862
Accounts receivable	5	905	894	16
Due from other funds		1	1	
Total assets	96,727	2,037,675	2,018,524	115,878
Liabilities				
Accounts payable and accruals	12,617	336,054	333,904	14,767
Amount held in custody for others	84,110	733,763	716,762	101,111
Total liabilities	$ 96,727	$ 1,069,817	$ 1,050,666	$ 115,878
Retiree Health Plans				
Assets				
Cash and cash equivalents	$ 21,486	$ 224,255	$ 224,667	$ 21,074
Accounts receivable	1,446	7,494	7,752	1,188
Total assets	22,932	231,749	232,419	22,262
Liabilities				
Accounts payable	17,607	29,364	31,537	15,434
Amount held in custody for others	5,325	7,206	5,703	6,828
Total liabilities	$ 22,932	$ 36,570	$ 37,240	$ 22,262
Totals - All Agency Funds				
Assets				
Cash and cash equivalents	$ 391,670	$ 5,228,598	$ 5,197,998	$ 422,270
Accounts receivable	357,758	523,623	513,451	367,930
Due from other funds		1	1	
Total assets	749,428	5,752,222	5,711,450	790,200
Liabilities				
Accounts payable and accruals	659,993	3,510,201	3,487,933	682,261
Amount held in custody for others	89,435	740,969	722,465	107,939
Total liabilities	$ 749,428	$ 4,251,170	$ 4,210,398	$ 790,200

COMPONENT UNITS

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

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.

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

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

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

UNIVERSITIES

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

COMMUNITY COLLEGES

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

TECHNOLOGY CENTERS

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

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

The University of Tennessee Board of Trustees—The University of Tennessee was first established in 1794 by the Legislature of the Federal Territory. Since that time, it has grown into an institution of twenty-four different colleges and schools. The locations of its four

primary campuses, various experimental stations and extension services have made the university state-wide in physical presence as well as in services. The main campus is located in Knoxville. The other primary campuses are located in Memphis, Martin and Chattanooga.

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

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

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

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

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 Assets
Component Units
June 30, 2010

(Expressed in Thousands)

	Governmental Fund Types		Proprietary Fund Types			
	Tennessee Student Assistance Corporation	Tennessee CSA	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee
Assets						
Cash and cash equivalents	$ 9,396	$ 257	$ 270,188	$ 68,315	$ 754,427	$ 806,297
Investments			30,222		450,929	682,677
Investments with fiscal agent						
Receivables, net	9,981	1,370	64,496	47,706	178,405	332,050
Due from primary government		1,240			15,721	8,874
Inventories, at cost					4,979	7,473
Prepayments		13		6,543	6,420	129
Loans receivable			2,118,550			
Deferred charges and other			13,209		5,912	8,169
Deferred outflow- derivatives						
Restricted assets:						
Cash and cash equivalents			234,268	7		
Investments			181,751	2,241		
Receivables, net			2,169			
Capital assets:						
Land, at cost					100,822	68,531
Infrastructure					262,838	71,533
Structures and improvements, at cost				401	2,089,177	1,898,994
Machinery and equipment, at cost		700	346	4,760	446,945	521,055
Less accumulated depreciation		(659)	(267)	(3,802)	(1,186,867)	(1,038,300)
Construction in progress					217,971	210,466
Total assets	19,377	2,921	2,914,932	126,171	3,347,679	3,577,948
Liabilities						
Accounts payable and accruals	9,532	1,546	62,567	37,443	113,501	141,608
Due to primary government	12	60	57	84,560	5,706	5,334
Deferred revenue	229		1,862	705	67,046	83,380
Fair value of derivatives						
Other					21,335	12,382
Noncurrent liabilities:						
Due within one year	112	118	129,279	579	34,952	69,906
Due in more than one year	356	328	2,202,405	2,877	652,643	770,464
Total liabilities	10,241	2,052	2,396,170	126,164	895,183	1,083,074
Net assets						
Invested in capital assets, net of related debt		41	79	1,359	1,406,876	1,112,139
Restricted for:						
Debt service					22,631	1,365
Capital projects					17,215	89,241
Single family bond programs			504,955			
Other			9,428	7	144,043	361,936
Permanent and endowment:						
Expendable					9,713	52,309
Nonexpendable					254,231	487,849
Unrestricted	9,136	828	4,300	(1,359)	597,787	390,035
Total net assets	$ 9,136	$ 869	$ 518,762	$ 7	$ 2,452,496	$ 2,494,874

Proprietary Fund Types					
Local Development Authority	Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Component Units
$ 22,536	$ 4,854	$ 39,682	$ 1,716	$ 49,253	$ 2,026,921
					1,163,828
		14			14
	2,931	6,992	5	23	643,959
	844				26,679
	177				12,629
	55				13,160
87,261		1,122,932			3,328,743
389	143	10,007	2,096		39,925
		1,613			1,613
5,419	3,376	183,061			426,131
		36,896			220,888
					2,169
	406				169,759
	1,691				336,062
	30,164				4,018,736
	4,965				978,771
	(9,025)				(2,238,920)
	2				428,439
115,605	40,583	1,401,197	3,817	49,276	11,599,506
752	1,073	29,056	56	3,892	401,026
	189	7			95,925
		5,691		1	158,914
		1,613			1,613
	200				33,917
57,449	847	41,923			335,165
44,712	5,654	1,314,863			4,994,302
102,913	7,963	1,393,153	56	3,893	6,020,862
	22,268				2,542,762
	293				24,289
					106,456
					504,955
205	2,947				518,566
					62,022
					742,080
12,487	7,112	8,044	3,761	45,383	1,077,514
$ 12,692	$ 32,620	$ 8,044	$ 3,761	$ 45,383	$ 5,578,644

State of Tennessee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2010

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Component units					
Higher education institutions:					
Board of Regents	$ 2,253,852	$ 784,612	$ 803,378	$ 101,569	$ (564,293)
University of Tennessee	1,730,017	542,744	774,679	145,055	(267,539)
Total higher education institutions	3,983,869	1,327,356	1,578,057	246,624	(831,832)
Loan programs:					
Tennessee Student Assistance Corporation	81,972	15,889	18,511		(47,572)
Housing Development Agency	396,305	136,160	268,805		8,660
Local Development Authority	2,688	2,311	93		(284)
State School Bond Authority	43,810	43,377	386		(47)
Total loan programs	524,775	197,737	287,795		(39,243)
Lottery program	1,064,216	1,063,967	45		(204)
Other programs:					
Tennessee CSA	12,416	3,260	8,108		(1,048)
Access Tennessee Insurance Plan	40,996	15,612			(25,384)
Veterans' Homes Board	34,337	34,573	77	326	639
Certified Cotton Growers'	822	1,339	566		1,083
Total other programs	88,571	54,784	8,751	326	(24,710)
Total	$ 5,661,431	$ 2,643,844	$ 1,874,648	$ 246,950	$ (895,989)

General Revenues							
Payments from Primary Government	Unrestricted Grants and Contributions	Unrestricted Investment Earnings	Miscellaneous	Contributions to Permanent Funds	Change In Net Assets	Net Assets July 1	Net Assets June 30
$ 665,212	$ 142,702	$ 7,066	$ 9,024	$ 7,253	$ 266,964	$ 2,185,532	$ 2,452,496
471,937	797	17,325		37,060	259,580	2,235,294	2,494,874
1,137,149	143,499	24,391	9,024	44,313	526,544	4,420,826	4,947,370
48,731					1,159	7,977	9,136
		129			8,789	509,973	518,762
2,215					1,931	10,761	12,692
					(47)	8,091	8,044
50,946		129			11,832	536,802	548,634
		211			7	-	7
		1			(1,047)	1,916	869
23,049		161			(2,174)	47,557	45,383
	20				659	31,961	32,620
		3			1,086	2,675	3,761
23,049	20	165			(1,476)	84,109	82,633
$ 1,211,144	$ 143,519	$ 24,896	$ 9,024	$ 44,313	$ 536,907	$ 5,041,737	$ 5,578,644

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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, 2010

(Expressed in Thousands)

	Tennessee Student Assistance Corporation	Tennessee CSA	Total Governmental Fund Type Component Units
Revenues			
Interest on investments	$ 577	$ 1	$ 578
Federal	10,556		10,556
Departmental services	71,998	11,368	83,366
Total revenues	83,131	11,369	94,500
Expenditures			
Education	81,877		81,877
Health and social services		12,346	12,346
Total expenditures	81,877	12,346	94,223
Excess (deficiency) of revenues over (under) expenditures	1,254	(977)	277
Fund balances, July 1	8,350	2,252	10,602
Fund balances, June 30	$ 9,604	$ 1,275	$ 10,879
Reconciliation to net assets:			
Fund balances per above	$ 9,604	$ 1,275	$ 10,879
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		41	41
Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund.	(468)	(447)	(915)
Net assets on Statement of Net Assets	$ 9,136	$ 869	$ 10,005

State of Tennessee
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund Type Component Units
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

	Housing Development Agency	Tennessee Education Lottery	Board of Regents	University of Tennessee	Local Development Authority
Operating revenues					
Charges for services	$ 136,160	$ 1,063,516	$ 1,014,501	$ 931,898	$ 2,311
Investment income	14,517		1,271	6,298	93
Other		451	55,766	29,625	
Total operating revenues	150,677	1,063,967	1,071,538	967,821	2,404
Operating expenses					
Personal services	13,841	11,134	1,283,539	1,149,709	
Contractual services	3,315	100,275			152
Mortgage service fees	7,394				
Materials and supplies	321		484,116	406,203	
Rentals and insurance	90	1,730			
Interest	93,154				2,451
Depreciation and amortization	781	769	96,813	97,795	64
Lottery prizes		651,148			
Nursing home services					
Scholarships and fellowships			359,881	45,389	
Benefits					
Other	6,935	10,249			21
Total operating expenses	125,831	775,305	2,224,349	1,699,096	2,688
Operating income (loss)	24,846	288,662	(1,152,811)	(731,275)	(284)
Nonoperating revenues (expenses)					
Grant income	254,417		628,977	211,144	
Grant expense	(270,474)				
Interest expense			(21,793)	(24,491)	
Interest income		211	33,779	124,210	
Payments from primary government			665,212	471,937	2,215
Grants and contributions				5,184	
Gifts			7,291	25,920	
Payments to primary government		(288,873)			
Other		7	(4,441)	(6,429)	
Total nonoperating revenues (expenses)	(16,057)	(288,655)	1,309,025	807,475	2,215
Income (loss) before capital grants and contributions	8,789	7	156,214	76,200	1,931
Capital payments from primary government			88,763	91,550	
Capital grants and gifts			13,420	53,505	
Additions to permanent endowments			9,180	37,060	
Other			(613)	1,265	
Change in net assets	8,789	7	266,964	259,580	1,931
Net assets, July 1	509,973	-	2,185,532	2,235,294	10,761
Net assets, June 30	$ 518,762	$ 7	$ 2,452,496	$ 2,494,874	$ 12,692

Veterans' Homes Board	State School Bond Authority	Certified Cotton Growers'	Access Tennessee Insurance Plan	Total Proprietary Fund Type Component Units
$ 29,231	$ 43,377	$ 1,339	$ 15,612	$ 3,237,945
	386			22,565
36				85,878
29,267	43,763	1,339	15,612	3,346,388
23,376				2,481,599
	773	821	494	105,830
				7,394
				890,640
				1,820
	42,114			137,719
1,374	632			198,228
				651,148
9,309				9,309
				405,270
			39,802	39,802
	291	1	700	18,197
34,059	43,810	822	40,996	4,946,956
(4,792)	(47)	517	(25,384)	(1,600,568)
5,306				1,099,844
				(270,474)
(287)				(46,571)
77		3	161	158,441
			23,049	1,162,413
				5,184
20				33,231
				(288,873)
9		566		(10,288)
5,125		569	23,210	1,842,907
333	(47)	1,086	(2,174)	242,339
325				180,638
1				66,926
				46,240
				652
659	(47)	1,086	(2,174)	536,795
31,961	8,091	2,675	47,557	5,031,844
$ 32,620	$ 8,044	$ 3,761	$ 45,383	$ 5,568,639

State of Tennessee
Statement of Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
June 30, 2010

(Expressed in Thousands)

Assets	
Cash and cash equivalents	$ 96,805
Receivables:	
Due from other governments	6,993
Total receivables	6,993
Total assets	103,798
Liabilities	
Accounts payable and accruals	23
Total liabilities	23
Net assets	
Held in trust for student loans	$ 103,775

State of Tennessee
Statement of Changes in Fiduciary Net Assets
Component Units
Tennessee Student Assistance Corporation
Federal Family Education Loan Trust
For the Fiscal Year Ended June 30, 2010

(Expressed in Thousands)

Additions	
Federal revenue	$ 29,965
Interest income	357
Contribution from primary government	1,182
Total additions	31,504
Deductions	
Collection costs	22,521
Administrative expenses	9,882
Total deductions	32,403
Change in net assets held in trust	(899)
Net assets, July 1	104,674
Net assets, June 30	$ 103,775

SUPPLEMENTARY SCHEDULES

Schedule 1

State of Tennessee
Debt Service Requirements to Maturity
General Obligation Bonds
June 30, 2010

(Expressed in Thousands)

For the Year Ended June 30	General Long-Term Debt (Note 1)			Facilities Revolving Fund Debt (Note 2)		
	Principal	Interest	Total Require-ments	Principal	Interest	Total Require-ments
2011	$ 119,050	$ 58,732	$ 177,782	$ 18,044	$ 8,041	$ 26,085
2012	114,807	54,036	168,843	17,984	7,251	25,235
2013	115,251	49,002	164,253	18,173	6,421	24,594
2014	109,552	44,022	153,574	17,640	5,589	23,229
2015	105,027	38,943	143,970	14,066	4,759	18,825
2016	100,806	34,319	135,125	12,899	4,224	17,123
2017	96,379	29,955	126,334	11,892	3,671	15,563
2018	88,242	26,882	115,124	10,836	3,348	14,184
2019	80,165	23,663	103,828	9,467	2,988	12,455
2020	76,912	20,384	97,296	9,051	2,606	11,657
2021	69,794	17,691	87,485	8,229	2,292	10,521
2022	69,719	14,789	84,508	8,210	1,955	10,165
2023	61,909	12,531	74,440	7,340	1,700	9,040
2024	61,748	9,960	71,708	7,331	1,383	8,714
2025	53,707	7,398	61,105	7,014	1,063	8,077
2026	53,810	5,058	58,868	6,990	773	7,763
2027	48,253	2,863	51,116	5,133	524	5,657
2028	43,507	894	44,401	4,418	327	4,745
2029	37,083	(460)	36,623	3,107	190	3,297
2030	10,812	(36)	10,776	1,532	77	1,609
TOTALS	$ 1,516,533	$ 450,626	$ 1,967,159	$ 199,356	$ 59,182	$ 258,538

Note 1: General obligtion bonds principal is more than that presented in the accompanying financial statements by $23.933 million, which is a deduction from bonds payable for the deferred amount on refunding.

Note 2: Facilities Revolving Fund principal is more than that presented in the accompanying financial statements by $3.136 million, which is a deduction from bonds payable for the deferred amount on refunding.

Schedule 2

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

(Expressed in Thousands)

	June 30				
	2006	2007	2008	2009	2010
Enterprise Funds:					
State Loan Program General Obligation Bonds	$ 3,378	$ 2,534	$ 1,655		
Internal Service Funds:					
General Obligation Commercial Paper	22,899	15,541	39,819	$ 48,715	$ 70,107
Facilities Revolving Fund General Obligation Bonds	151,829	152,191	164,545	182,081	196,220
	174,728	167,732	204,364	230,796	266,327
General Long-Term Debt:					
General Obligation Bonds	944,936	963,297	1,010,858	1,356,861	1,492,600
General Obligation Commercial Paper	121,726	115,283	200,807	127,593	171,283
	1,066,662	1,078,580	1,211,665	1,484,454	1,663,883
Totals for Primary Government	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,715,250	$ 1,930,210

Schedule 3

State of Tennessee
Schedule of General Obligation
Commercial Paper Outstanding- By Purpose
All Fund Types
June 30, 2010

(Expressed in Thousands)

General Obligation Commercial Paper - Tax Exempt	$ 214,463
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	26,927
Purpose: To finance improvements to Mental Health and Mental Retardation Facilities and grants to local governments.	
Total Outstanding	$ 241,390

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

(Expressed in Thousands)

	June 30				
	2006	2007	2008	2009	2010
Component units:					
Mid-Cumberland Community Services Agency notes	$ 13				
Certified Cotton Growers' notes	19,073	$ 16,725	$ 9,294		
Local Development Authority notes	35,401	57,773	56,998	$ 53,288	$ 53,919
Local Development Authority bonds	62,053	58,806	55,410	51,888	48,242
Tennessee Housing Development Agency bonds	1,568,472	1,812,267	1,952,295	1,972,561	2,316,748
Tennessee Housing Development Agency notes	262,395	247,675	88,720	3,250	3,672
Veterans' Homes Board loan	6,265	6,283	6,231	5,953	5,936
Tennessee State School Bond Authority bonds	582,815	604,747	696,340	945,461	1,075,004
Tennessee State School Bond Authority commercial paper	129,046	164,195	243,229	174,300	281,782
University of Tennessee notes	307	284	260	235	211
University of Tennessee bonds	148,333	146,471	86,518	85,118	83,644
Board of Regents notes	300	250	2,597	2,478	2,222
Board of Regents bonds				800	700
Board of Regents commercial paper			1,668	4,161	6,431
	$ 2,814,473	$ 3,115,476	$ 3,199,560	$ 3,299,493	$ 3,878,511

State of Tennessee
Comparative Schedules of Revenues by Source
General Fund
For the Fiscal Years Ended June 30, 2010 and 2009

Schedule 5

(Expressed in Thousands)

Revenues by Source	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009
Taxes:		
Sales and use	$ 2,525,347	$ 2,578,721
Gasoline	8,892	9,394
Motor fuel	2,921	2,929
Gasoline inspection	3,576	897
Total fuel taxes	15,389	13,220
Franchise	504,125	512,080
Excise	664,644	638,483
Gross receipts	347,113	313,393
Beer	14,416	15,560
Alcoholic beverage	45,492	44,081
Mixed drink	27,804	27,047
Tobacco	25,468	30,962
Business	145,758	135,037
Insurance companies premium	538,051	379,137
Retaliatory	9,527	12,699
Workers compensation premium	36,045	44,087
Medicaid provider	7,985	20,968
Other	2,151	2,483
Total business taxes	2,368,579	2,176,017
Income	190,325	220,450
Privilege	221,307	232,530
Inheritance and estate	88,867	80,140
Other	(1,318)	993
Total other taxes	499,181	534,113
Total taxes	5,408,496	5,302,071
Licenses, fines, fees and permits:		
Motor vehicle registration	41,598	41,549
Motor vehicle title registration fees	7,701	7,330
Drivers licenses	24,613	24,033
Arrests, fines and fees	8,224	8,194
Regulatory board fees	123,657	119,309
Other	80,826	86,529
Total licenses, fines, fees and permits	286,619	286,944
Interest on investments	12,875	45,196
Federal - earned by state departments	10,019,856	8,330,499
Departmental services:		
Charges to the public	315,795	355,049
Interdepartmental charges	1,431,735	1,444,057
Charges to cities, counties, etc.	309,799	399,945
Total departmental services	2,057,329	2,199,051
Other	189,612	222,311
Total revenues by source	$ 17,974,787	$ 16,386,072

State of Tennessee
Comparative Schedules of Expenditures by Function and Department
General Fund
For the Fiscal Years Ended June 30, 2010 and 2009

Schedule 6

(Expressed in Thousands)

Expenditures by function and department	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009
General government:		
Legislative	$ 37,642	$ 38,013
Secretary of State	37,109	39,560
Comptroller	83,063	87,455
Treasurer	46,221	46,936
Governor	3,360	3,591
Commissions	75,099	78,507
Finance and Administration	87,413	93,594
Personnel	11,987	12,494
General Services	17,482	20,478
Revenue	102,397	105,142
Miscellaneous Appropriations	32,887	29,283
Total general government	534,660	555,053
Health and social services:		
Veterans Affairs	4,600	4,605
Labor and Workforce Development	244,963	223,726
TennCare	8,188,421	7,688,345
Mental Health	295,178	300,615
Mental Retardation	863,965	858,142
Health	507,259	528,109
Human Services	3,076,558	2,468,255
Cover Tennessee	175,666	144,158
Children's Services	660,793	675,398
Total health and social services	14,017,403	12,891,353
Law, justice and public safety:		
Judicial	284,971	280,505
Correction	621,536	625,477
Probation and Paroles	80,590	78,459
Military	91,767	85,993
Bureau of Criminal Investigation	63,228	64,194
Safety	154,081	153,773
Total law, justice and public safety	1,296,173	1,288,401
Recreation and resources development:		
Agriculture	71,392	78,872
Tourist Development	17,492	17,751
Environment and Conservation	218,702	217,168
Economic and Community Development	83,939	110,228
Total recreation and resources development	391,525	424,019
Regulation of business and professions:		
Commerce and Insurance	70,084	71,045
Financial Institutions	14,144	13,655
Total regulation of business and professions	84,228	84,700
Intergovernmental revenue sharing	538,867	527,857
Total expenditures by function and department	$ 16,862,856	$ 15,771,383

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 **196**

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 **200**

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

Debt Capacity **202**

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 **204**

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 **205**

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 **207**

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.

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Page references for Securities and Exchange Commission disclosures contained in this report.

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

Schedule 1

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

(continued on next page)

	FOR THE FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Expenses									
Governmental activities:									
General government	$ 514,419	$ 510,674	$ 546,996	$ 596,016	$ 705,897	$ 738,897	$ 837,250	$ 988,309	$ 1,078,294
Education	4,326,480	4,520,624	4,692,605	5,158,369	5,449,613	5,884,841	6,464,564	6,520,569	6,893,801
Health and social services	8,499,713	9,507,209	10,583,726	11,522,061	10,170,957	10,448,373	11,125,967	11,697,900	12,849,335
Law, justice, and public safety	918,970	968,859	1,032,302	1,090,779	1,214,957	1,221,175	1,325,500	1,338,869	1,365,134
Recreation and resources development (2)	362,068	376,734	479,251	423,342	466,689	485,852	613,902	538,386	499,080
Regulation of business and professions	59,493	64,109	81,940	113,902	86,945	129,107	123,391	126,003	132,784
Transportation	683,229	726,476	787,646	698,450	671,641	835,751	808,591	979,454	1,010,029
Intergovernmental revenue sharing	686,515	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094
Interest on long-term debt	55,114	50,610	51,819	42,902	49,460	50,003	51,086	51,977	60,566
Payments to fiduciary fund						25,950			19,747
Total governmental activities expenses	16,106,001	17,366,566	18,903,939	20,329,746	19,554,508	20,635,781	22,192,347	23,051,530	24,782,864
Business-type activities:									
Employment security (3)	739,008	767,202	639,993	476,646	452,043	467,327	541,573	1,427,713	2,135,537
Insurance programs	353,534	379,661	416,871	430,568	471,032	413,483	469,491	514,065	557,371
Loan programs	2,585	2,273	1,737	1,909	1,487	1,473	1,655	1,345	1,406
Other	1,410	1,802	2,037	2,498	2,496	2,595	2,744	2,265	1,385
Total business-type activities expenses	1,096,537	1,150,938	1,060,638	911,621	927,058	884,878	1,015,463	1,945,388	2,695,699
Total primary government expenses	$ 17,202,538	$ 18,517,504	$ 19,964,577	$ 21,241,367	$ 20,481,566	$ 21,520,659	$ 23,207,810	$ 24,996,918	$ 27,478,563
Program Revenues									
Governmental activities:									
Charges for services:									
General government	$ 281,379	$ 273,503	$ 342,154	$ 380,679	$ 375,640	$ 524,306	$ 672,892	$ 753,066	$ 778,352
Education	10,155	15,922	16,966	13,568	26,785	34,819	35,405	35,124	44,813
Health and social services (1)	282,095	277,184	943,040	1,027,602	692,186	521,508	548,570	615,871	499,694
Law, justice, and public safety	341,615	336,115	313,386	316,337	374,715	130,885	117,536	122,064	121,201
Recreation and resources development	110,033	114,618	124,105	140,227	138,970	153,048	142,128	142,657	141,278
Regulation of business and professions	86,468	95,953	107,355	115,556	124,435	142,805	143,646	151,095	148,788
Transportation	13,045	13,339	13,636	15,494	15,118	22,542	18,778	15,936	28,322
Operating grants and contributions (4)	6,454,927	7,452,665	8,095,087	8,777,283	8,314,981	8,481,473	8,612,838	9,758,691	12,076,579
Capital grants and contributions	560,074	568,221	503,539	520,090	615,584	708,384	600,404	592,719	782,188
Total governmental activities program revenues	8,139,791	9,147,520	10,459,268	11,306,836	10,678,414	10,719,770	10,892,197	12,187,223	14,621,215
Business-type activities:									
Charges for services:									
Employment security	335,723	437,378	523,372	463,385	381,600	356,064	413,741	585,668	710,113
Insurance programs	338,085	385,384	422,584	462,441	479,515	438,275	480,803	504,130	525,662
Loan programs	13,449	12,590	12,733	12,878	12,970	13,803	15,137	15,684	16,584
Other	1,368	1,998	2,111	2,593	2,803	2,644	2,324	1,543	1,043
Operating grants and contributions (4)	342,469	256,444	208,296	100,536	131,043	116,569	124,576	508,249	1,482,113
Total business-type activities program revenues	1,031,094	1,093,794	1,169,096	1,041,833	1,007,931	927,355	1,036,581	1,615,274	2,735,515
Total primary government program revenues	$ 9,170,885	$ 10,241,314	$ 11,628,364	$ 12,348,669	$ 11,686,345	$ 11,647,125	$ 11,928,778	$ 13,802,497	$ 17,356,730
Net (Expense)/Revenue									
Governmental activities	$ (7,966,210)	$ (8,219,046)	$ (8,444,671)	$ (9,022,910)	$ (8,876,094)	$ (9,916,011)	$ (11,300,150)	$ (10,864,307)	$ (10,161,649)
Businesss-type activities	(65,443)	(57,144)	108,458	130,212	80,873	42,477	21,118	(330,114)	39,816
Total primary government net expense	$ (8,031,653)	$ (8,276,190)	$ (8,336,213)	$ (8,892,698)	$ (8,795,221)	$ (9,873,534)	$ (11,279,032)	$ (11,194,421)	$ (10,121,833)

Schedule 1

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

(continued from previous page)

	FOR THE FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Taxes									
Sales and use	$ 4,656,105	$ 5,478,642	$ 5,806,268	$ 6,099,159	$ 6,540,224	$ 6,819,570	$ 6,851,481	$ 6,326,857	$ 6,170,977
Fuel	787,132	813,554	829,372	846,826	851,362	867,520	865,181	817,873	874,511
Business	1,696,812	1,981,099	2,099,081	2,311,448	2,507,653	2,799,751	2,913,227	2,671,226	2,944,465
Other	490,958	425,099	526,573	514,938	598,827	734,026	734,029	563,501	504,750
Grants and contributions not restricted to specific programs	159,511	149,746	152,676	46,807					
Unrestricted investment earnings	37,802	11,582	12,079	30,361	81,287	113,940	120,523	42,883	7,245
Miscellaneous	281,952	230,770	207,653	209,226	185,466	250,344	275,499	226,907	195,414
Contributions to permanent funds	354	381	351	468	369	270	239	217	196
Transfers	(16,819)	(18,881)	(18,829)	(21,062)	(22,783)	(5,028)	(4,110)	(3,541)	(3,608)
Total governmental activities	8,093,807	9,071,992	9,615,224	10,038,171	10,742,405	11,580,393	11,756,069	10,645,923	10,693,950
Business-type activities:									
Transfers	16,819	18,881	18,829	21,062	22,783	5,028	4,110	3,541	3,608
Total business-type activities	16,819	18,881	18,829	21,062	22,783	5,028	4,110	3,541	3,608
Total primary government general revenues and other changes in net assets	$ 8,110,626	$ 9,090,873	$ 9,634,053	$ 10,059,233	$ 10,765,188	$ 11,585,421	$ 11,760,179	$ 10,649,464	$ 10,697,558
Changes in Net Assets									
Governmental activities	$ 127,597	$ 852,946	$ 1,170,553	$ 1,015,261	$ 1,866,311	$ 1,664,382	$ 455,919	$ (218,384)	$ 532,301
Businesss-type activities	(48,624)	(38,263)	127,287	151,274	103,656	47,505	25,228	(326,573)	43,424
Total primary government	$ 78,973	$ 814,683	$ 1,297,840	$ 1,166,535	$ 1,969,967	$ 1,711,887	$ 481,147	$ (544,957)	$ 575,725

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

(2) The increase in expenses of the recreation and resources development function between fiscal years 2007 and 2008 resulted from the acquisition of conservation easements for wilderness protection.

(3) The increase in expenses of the Employment Security program between fiscal years 2008 and 2009 and between 2009 and 2010 was due to a significant increase in the demand for unemployment benefits.

(4) The significant increase in Operating grants and contributions revenue for both Governmental and Business-type activities between fiscal years 2008 and 2009 and between 2009 and 2010 was due to the increase in federal funds received as a result of the American Recovery and Reinvestment Act.

Schedule 2

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

	FOR THE FISCAL YEAR ENDED JUNE 30,								
	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities									
Invested in capital assets, net of related debt	$ 17,457,541	$ 18,119,735	$ 18,691,308	$ 19,406,978	$ 20,204,007	$ 21,078,481	$ 21,796,151	$ 22,575,852	$ 23,360,007
Restricted	665,673	703,010	843,889	580,840	725,209	792,542	864,270	965,292	924,902
Unrestricted (1), (2), (3)	69,056	288,523	743,586	1,306,226	2,204,315	2,964,957	2,631,478	1,495,656	1,284,192
Total governmental activities net assets	18,192,270	19,111,268	20,278,783	21,294,044	23,133,531	24,835,980	25,291,899	25,036,800	25,569,101
Business-type activities									
Invested in capital assets, net of related debt							51		
Restricted	1,239,236	1,181,636	1,288,353	1,389,261	1,459,045	1,472,523	1,479,166	1,160,425	1,235,085
Unrestricted	31,655	50,992	71,562	121,928	155,800	171,183	189,717	181,936	150,700
Total business-type activities net assets	1,270,891	1,232,628	1,359,915	1,511,189	1,614,845	1,643,706	1,668,934	1,342,361	1,385,785
Primary Government									
Invested in capital assets, net of related debt	17,457,541	18,119,735	18,691,308	19,406,978	20,204,007	21,078,481	21,796,202	22,575,852	23,360,007
Restricted	1,904,909	1,884,646	2,132,242	1,970,101	2,184,254	2,265,065	2,343,436	2,125,717	2,159,987
Unrestricted	100,711	339,515	815,148	1,428,154	2,360,115	3,136,140	2,821,195	1,677,592	1,434,892
Total primary government net assets	$ 19,463,161	$ 20,343,896	$ 21,638,698	$ 22,805,233	$ 24,748,376	$ 26,479,686	$ 26,960,833	$ 26,379,161	$ 26,954,886

(1) The increase in unrestricted net assets between fiscal years 2004 and 2005 is attributable, in part, to the implementation of GASB Statement 46 which caused a reduction in restricted net assets. In addition, because the state lottery was operational for only six months during fiscal year 2004, fewer funds were restricted for lottery scholarships when compared fiscal year 2005.

(2) The increase in unrestricted net assets between fiscal years 2005 and 2006 and between 2006 and 2007 is attributable, in part, to the overall increase in the net assets resulting from governmental activities, specifically those activities associated with teh General fund, which had a $698 million and $662 million increase in fund balance for 2006 and 2007, respectively.

(3) The decrease in unrestricted net assets between fiscal years 2008 and 2009 was mostly attributable to the decrease in cash and cash equivalents caused by a reduction in revenue collections from business and sales taxes and interest on investments.

Schedule 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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	$ 534,116	$ 435,600	$ 486,319	$ 693,371	$ 594,405	$ 960,229	$ 1,143,163	$ 1,112,212	$ 1,102,819	$ 1,174,135
Unreserved	461,964	195,941	202,603	658,055	737,779	1,070,124	1,549,399	1,097,767	633,699	692,857
Total general fund (1), (2)	$ 996,080	$ 631,541	$ 688,922	$ 1,351,426	$ 1,332,184	$ 2,030,353	$ 2,692,562	$ 2,209,979	$ 1,736,518	$ 1,866,992
All Other Governmental Funds										
Reserved	$ 659,095	$ 876,919	$ 922,258	$ 1,061,453	$ 1,307,412	$ 1,166,534	$ 1,079,672	$ 1,179,711	$ 1,033,436	$ 1,027,923
Unreserved, reported in:										
Special revenue funds	103	50	50	50	50	345,143	569,041	461,832	600,805	531,788
Debt service fund	3,407					5,377	5,398	7,131	3,997	6,715
Capital projects fund	131,833					49,749	123,205	489,173	401,019	344,675
Total all other governmental funds	$ 794,438	$ 876,969	$ 922,308	$ 1,061,503	$ 1,307,462	$ 1,566,803	$ 1,777,316	$ 2,137,847	$ 2,039,257	$ 1,911,101

(1) The increase in the fund balance of the general fund between fiscal years 2003 and 2004 resulted from higher revenue collections. A favorable economy caused increases in sales, excise, franchise, business, and income tax collections. However, expenditures in fiscal year 2004 did not increase at the same rate. The result was an increase of $625 million in the General Fund total fund balance. A majority of the increase in the *reserved* component was from the Reserve for Unencumbered Balance and the Reserve for Federal Tax Relief. The largest part of the increase in the *unreserved* component resulted in the Reserve for Supplemental Appropriations and the Reserve for Future Requirements.

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

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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes	$ 8,010,722	$ 7,631,768	$ 8,608,984	$ 9,272,267	$ 9,819,155	$ 10,488,650	$ 11,249,773	$ 11,333,507	$ 10,376,455	$ 10,445,363
Licenses, fines, fees, and permits	325,974	547,594	567,243	590,627	624,694	637,522	660,888	672,486	677,766	675,009
Interest on investments	92,127	36,618	28,429	34,102	46,222	102,075	178,080	127,152	23,964	36,443
Federal (3)	6,184,126	6,694,648	7,646,384	8,417,534	8,988,687	8,568,732	8,763,302	8,807,036	10,013,033	12,471,642
Departmental services	1,748,165	1,607,251	1,716,159	2,071,252	2,360,891	2,238,968	2,233,450	2,339,870	2,352,198	2,195,707
Other	356,029	444,450	384,536	488,769	502,074	491,064	537,816	570,634	535,534	519,936
Total revenues	16,717,143	16,962,329	18,951,735	20,874,551	22,341,723	22,527,011	23,623,309	23,850,685	23,978,950	26,344,100
Expenditures										
Current:										
General government	349,278	358,523	392,747	400,069	425,243	530,637	555,545	617,056	581,364	558,013
Education (1)	3,059,538	4,218,637	4,432,071	4,630,294	5,100,147	5,353,167	5,775,363	6,318,858	6,335,343	6,682,173
Health and social services	8,641,777	9,250,026	10,342,682	11,308,871	12,518,297	11,273,685	11,662,476	12,297,128	12,891,353	14,017,403
Law, justice, and public safety	897,805	914,307	970,042	1,042,510	1,109,819	1,216,756	1,275,402	1,278,752	1,294,717	1,302,252
Recreation and resources development	419,423	446,137	442,915	479,243	491,681	544,744	525,885	707,866	599,885	555,717
Regulation of business and professions	57,988	65,040	71,109	88,580	119,620	92,888	134,955	129,688	131,614	139,200
Transportation	1,269,773	1,311,654	1,357,941	1,318,913	1,411,906	1,477,504	1,541,850	1,459,231	1,593,643	1,815,822
Intergovernmental revenue sharing	681,151	686,515	641,271	647,654	683,925	738,349	815,832	842,096	810,063	874,094
Debt service:	122,221									
Principal		68,304	78,108	80,243	89,474	86,532	81,790	79,107	83,960	101,804
Interest		54,121	47,964	49,956	43,455	49,319	50,363	51,872	52,110	64,344
Debt issuance costs		1,282	650	1,945	2,159	1,082	1,173	980	4,362	4,837
Capital outlay	55,679	145,590	132,949	128,167	119,730	253,229	343,712	359,118	472,451	485,937
Total expenditures	15,554,633	17,520,136	18,910,449	20,176,445	22,115,456	21,617,892	22,764,346	24,141,752	24,850,865	26,601,596
Revenues over (under) expenditures	1,162,510	(557,807)	41,286	698,106	226,267	909,119	858,963	(291,067)	(871,915)	(257,496)
Other Financing Sources (Uses)										
Capital lease										
Bonds and commercial paper issued	223,408	168,017	95,195	206,933	52,979	228,409	196,290	340,021	601,664	415,033
Notes/Commercial paper redeemed	(79,160)	(152,091)	(3,900)	(155,796)		(109,908)	(103,498)	(129,333)	(273,443)	(155,973)
Insurance claim recoveries						1,670	4,013	2,361	251	
Premium on bond sale	586	5,149		6,485		2,485	2,049	2,760	30,147	26,358
Refunding bonds issued					355,053				91,536	43,985
Refunding bond premium					31,929				10,670	
Refunding payment to escrow					(386,261)				(101,707)	(43,985)
Other										21,146
Transfers in (2)	567,901	766,097	679,743	661,064	812,886	733,813	898,244	1,526,581	1,810,209	1,332,847
Transfers out (2)	(1,748,989)	(787,813)	(708,252)	(691,729)	(866,136)	(808,078)	(983,418)	(1,573,375)	(1,869,463)	(1,379,597)
Total other financing sources (uses)	(1,036,254)	(641)	62,786	26,957	450	48,391	13,680	169,015	299,864	259,814
Net Change in Fund Balances	$ 126,256	$ (558,448)	$ 104,072	$ 725,063	$ 226,717	$ 957,510	$ 872,643	$ (122,052)	$ (572,051)	$ 2,318
Debt Service as a Percentage of Noncapital Expenditures		0.6720%	0.6937%	0.6691%	0.6241%	0.6566%	0.6055%	0.5620%	0.5659%	0.6441%

(1) The increase in expenditures in the Education function between 2001 and 2002 resulted primarily from implementing GASB Statement 34. Amounts reported as a transfer to component units in fiscal year 2001 were recorded as expenditures in fiscal year 2002.

(2) The increase in transfers in and transfers out between 2007 and 2008 was due to transfers from the General fund to the Education Trust fund for an increase in appropriation requirements and to the Capital Projects fund for capital outlay appropriations.

(3) The increase in federal revenue between 2009 and 2010 is the result of funding provided by the American Recovery and Reinvestment Act.

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,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Auto dealers	$ 8,378	$ 8,648	$ 8,836	$ 9,430	$ 9,440	$ 9,425	$ 9,387	$ 9,503	$ 7,939	$ 6,633
Purchases from manufacturers	4,201	3,956	3,652	3,933	4,150	4,805	4,680	4,745	4,497	3,513
Miscellaneous durable goods	13,013	12,359	12,272	12,893	14,183	15,846	17,211	17,442	16,346	13,702
Eating and drinking places	6,205	6,446	6,564	6,914	7,456	7,961	8,465	8,882	8,984	8,837
Food stores	8,131	8,095	7,983	7,851	7,937	8,195	8,419	8,983	9,165	9,353
Liquor stores	385	397	408	433	458	495	548	594	636	658
Hotels and motels	1,830	1,785	1,777	1,821	1,881	2,043	2,219	2,354	2,313	2,031
Other retail and service	21,493	21,400	21,996	23,174	24,240	25,764	27,087	28,485	28,710	27,266
Miscellaneous nondurable goods	6,335	6,310	6,262	6,282	6,564	7,067	7,333	7,803	7,832	7,414
Transportation, communication	4,684	5,136	5,723	6,018	6,411	6,685	7,354	7,691	7,913	7,729
Total taxable sales	$ 74,655	$ 74,532	$ 75,473	$ 78,749	$ 82,720	$ 88,286	$ 92,703	$ 96,482	$ 94,335	$ 87,136

Source: University of Tennessee Economic Report to the Governor

Schedule 6

STATE OF TENNESSEE
REVENUE CAPACITY - SALES AND USE TAX RATES
LAST TEN FISCAL YEARS
(expressed in thousands)

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Rate applied to gross proceeds derived from the retail sale or use of tangible personal property and specific services	6.00%	6.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Rates for specific items or services:	N/A	N/A	6.00%	6.00%	6.00%	6.00%	6.00%	5.50%	5.50%	5.50%
Retail sale of food and food ingredients for human consumption (except vending machines)										
Energy fuels used by manufacturers and nurserymen	N/A	N/A	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Water used by manufacturers	N/A	N/A	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Manufactured homes	N/A	N/A	3.00%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Aviation fuel	N/A	N/A	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Common carriers	N/A	N/A	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Interstate telecommunication services sold to businesses	N/A	N/A	3.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Aircraft exceeding $100,000 sales price	N/A	N/A	3.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cable and wireless TV (between $15 and $27.50) and satellite services	N/A	N/A	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)	N/A	N/A	N/A	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
Note: N/A - Not applicable because this item was not specifically identified with a rate separate from the general rate.

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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retail:										
Building materials	$ 224,268	$ 233,385	$ 271,969	$ 328,562	$ 363,952	$ 405,812	$ 423,160	$ 391,271	$ 333,737	$ 311,332
General merchandise	543,088	575,230	654,071	712,426	735,074	767,584	820,549	829,576	810,503	799,387
Food stores	469,960	465,911	478,857	485,947	494,466	508,497	526,981	529,977	520,280	510,104
Auto dealers and service stations	622,544	645,670	751,167	820,454	815,985	817,689	856,109	835,035	672,112	690,797
Apparel and accessory stores	137,616	137,851	160,688	177,017	185,683	194,946	200,131	200,745	191,132	191,110
Furniture and home furnishings	169,378	162,401	189,506	209,525	222,089	238,475	246,569	244,312	215,352	207,398
Eating and drinking places	362,716	379,566	435,505	486,680	518,689	547,547	585,490	605,544	596,893	598,562
Miscellaneous retail stores	372,632	378,101	443,114	491,443	508,694	550,340	580,936	597,649	568,197	560,527
Total retail	2,902,202	2,978,115	3,384,877	3,712,054	3,844,632	4,030,890	4,239,925	4,234,109	3,908,206	3,869,217
Services:										
Hotels and lodging places	104,794	102,036	118,247	124,795	131,675	142,333	154,081	160,909	146,253	137,973
Personal services	39,316	41,982	47,623	51,845	49,818	49,375	51,099	51,151	46,564	46,777
Business services	184,803	167,634	189,019	199,677	218,799	234,810	245,387	254,506	239,143	224,044
Auto repair, services, and parking	140,215	137,546	153,418	163,687	159,935	163,710	174,680	173,481	157,972	153,781
Miscellaneous repair services	20,282	19,809	21,914	23,606	24,873	27,100	28,387	28,441	25,321	22,801
Motion pictures	16,105	17,320	20,868	23,244	22,851	22,282	22,178	21,498	21,512	19,803
Amusement services	39,660	41,477	45,116	49,106	50,854	54,629	59,578	59,636	58,225	57,636
Health services	9,459	8,951	9,137	10,818	11,139	11,710	13,123	13,676	14,228	14,305
Other services	20,833	19,002	23,503	26,747	31,025	34,282	34,400	37,740	43,434	36,802
Total services	575,467	555,757	628,845	673,525	700,969	740,231	782,913	801,038	752,652	713,922
Non-retail, non-services:										
Agriculture, forestry, fishing	4,797	4,774	5,133	5,812	5,968	6,920	7,261	7,451	7,381	7,312
Mining	4,981	4,341	4,126	5,286	5,073	5,635	6,302	7,117	6,126	5,933
Construction	40,689	41,851	38,168	42,275	42,640	48,540	54,075	59,119	52,415	44,038
Manufacturing	232,558	209,366	236,163	261,260	289,494	312,570	305,558	299,223	256,995	225,530
Transportation	24,678	5,991	22,856	26,895	36,239	42,825	46,688	53,866	69,930	34,556
Communications	257,754	308,184	361,677	398,105	385,544	442,837	457,116	475,675	477,281	443,576
Electric, gas, and sanitary services	133,325	128,072	149,710	163,358	174,794	194,574	203,789	215,552	236,692	215,020
Wholesale trade	292,179	243,826	280,882	321,014	349,023	418,607	451,777	450,898	393,100	361,217
Finance, insurance, real estate	14,167	11,998	12,376	11,396	11,037	12,899	17,830	17,908	12,981	17,766
Total non-retail, non-services	1,005,128	958,403	1,111,091	1,235,401	1,299,812	1,485,407	1,550,396	1,586,809	1,512,901	1,354,948
County Clerk	76,608	82,391	94,705	108,781	112,753	114,767	126,081	125,355	101,136	110,328
Consumer Use Tax	N/A	N/A	104,786	4,647	5,313	7,545	5,071	4,641	5,250	4,322
Grand Total	$ 4,559,405	$ 4,574,666	$ 5,324,304	$ 5,734,408	$ 5,963,479	$ 6,378,840	$ 6,704,386	$ 6,751,952	$ 6,280,145	$ 6,052,737

Source: Revenue Collections Reports, Tennessee Department of Revenue

Note: N/A means not available.

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,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Governmental activities debt:										
General obligation bonds	$ 1,049,456	$ 1,134,881	$ 1,047,531	$ 1,141,026	$ 1,044,830	$ 1,096,765	$ 1,115,488	$ 1,175,403	$ 1,538,942	$ 1,688,820
General obligation bond anticipation notes										
General obligation commercial paper	250,000	110,700	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390
Capital leases	562	483	788	1,008	1,229	3,619	3,943	11,743	10,810	16,301
Total governmental activities debt	1,300,018	1,246,064	1,250,119	1,224,809	1,214,634	1,245,009	1,250,255	1,427,772	1,726,060	1,946,511
Business-type activities debt:										
General obligation bonds	17,213	13,924	11,070	8,071	5,232	3,378	2,534	1,655	-	-
Total business-type activities debt	17,213	13,924	11,070	8,071	5,232	3,378	2,534	1,655	-	-
Total primary government debt	$ 1,317,231	$ 1,259,988	$ 1,261,189	$ 1,232,880	$ 1,219,866	$ 1,248,387	$ 1,252,789	$ 1,429,427	$ 1,726,060	$ 1,946,511
Debt Ratios										
Personal income	$ 154,416,000	$ 159,173,000	$ 165,402,000	$ 174,741,000	$ 184,637,000	$ 195,085,000	$ 205,112,000	213,124,000	217,884,000	N/A
Ratio of total debt to personal income	0.85%	0.79%	0.76%	0.71%	0.66%	0.64%	0.61%	0.67%	0.79%	
Population	5,747	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296	N/A
Net general bonded debt per capita	$ 229	$ 218	$ 216	$ 209	$ 205	$ 206	$ 203	228	270	
General Bonded Debt:										
General obligation bonds	$ 1,066,669	$ 1,148,805	$ 1,058,601	$ 1,149,097	$ 1,050,062	$ 1,100,143	$ 1,118,022	$ 1,177,058	$ 1,538,942	$ 1,688,820
General obligation bond anticipation notes										
General obligation commercial paper	250000	110,700	201,800	82,775	168,575	144,625	130,824	240,626	176,308	241,390
Assets restricted for debt principal									(14,509)	
Total net bonded debt	$ 1,316,669	$ 1,259,505	$ 1,260,401	$ 1,231,872	$ 1,218,637	$ 1,244,768	$ 1,248,846	$ 1,417,684	$ 1,700,741	$ 1,930,210
Debt Ratios										
Ratio of net bonded debt to total of pledged revenues	60.91%	61.03%	65.48%	70.45%	73.21%	75.68%	80.92%	71.22%	46.38%	38.01%

Source: State of Tennessee Comprehensive Annual Financial Report
and the University of Tennessee Economic Report to the Governor

Notes: (1) N/A - not available because the source did not provide the data.
(2) See Schedule 10 for personal income and population data.
(3) Details of the state's debt can be found in Note 5H in the basic financial statements.

Schedule 9

STATE OF TENNESSEE
DEBT CAPACITY - LEGAL DEBT SERVICE MARGIN INFORMATION
LAST TEN FISCAL YEARS
(expressed in thousands)

Calculation of 2010 pledged revenues:	Collections for Fiscal Year 2010 Portion Pledged	Collections for Fiscal Year 2010 All Governmental Fund Types	Fiscal Year 2010 Pledged Amount
Gasoline tax	29.3%	$ 437,246	$ 128,113
Petroleum products fee	100%	62,442	62,442
Motor vehicle registration fee	50%	41,864	20,932
Franchise tax	100%	522,125	522,125
		$ 1,063,677	$ 733,612

Pledged amount	$ 733,612
Legal debt service limit (pledged amount/150%)	489,075
Less: 2010 debt service required on all general long-term debt, including State Loan Program and Facilities Revolving Fund general obligations bonds	186,684
Legal debt service margin	$ 302,391

	FOR THE FISCAL YEAR ENDED JUNE 30,									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt limit	$ 534,682	$ 512,464	$ 550,211	$ 578,609	$ 594,778	$ 628,010	$ 673,748	$ 673,070	$ 525,905	$ 489,075
Total net debt service applicable to limit	131,593	142,075	148,079	143,702	155,215	148,033	145,975	145,721	154,803	186,684
Legal debt service margin	$ 403,089	$ 370,389	$ 402,132	$ 434,907	$ 439,563	$ 479,977	$ 527,773	$ 527,349	$ 371,102	$ 302,391
Legal debt service margin as a percentage of the debt limit	75.39%	72.28%	73.09%	75.16%	73.90%	76.43%	78.33%	78.35%	70.56%	61.83%

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,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population	5,689	5,747	5,790	5,842	5,893	5,963	6,039	6,157	6,215	6,296
Total personal income	$ 148,834,000	$ 154,416,000	$ 159,173,000	$ 165,622,000	$ 174,727,000	$ 184,567,000	$ 195,656,000	$ 205,112,000	$ 213,124,000	$ 217,884,000
Per capita personal income	$ 26,168	$ 26,842	$ 27,434	$ 28,377	$ 29,761	$ 31,127	$ 32,474	$ 33,746	$ 34,995	$ 35,065
Unemployment rate	4.0%	4.6%	5.2%	5.5%	5.4%	5.6%	4.5%	5.3%	7.9%	10.9%

Source: Population from www.census.gov
All other from the University of Tennessee Economic Report to the Governor
Note: N/A means not available.

Schedule 11

STATE OF TENNESSEE
DEMOGRAPHIC AND ECONOMIC INFORMATION - EMPLOYMENT BY INDUSTRY
PRIOR YEAR AND NINE YEARS AGO

	2009			2000		
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	573,500	1	21.52%	592,900	1	21.74%
Government	431,400	2	16.19%	399,000	3	14.63%
Education and Health Services	366,600	3	13.76%	281,600	5	10.32%
Manufacturing	322,400	4	12.10%	493,100	2	18.08%
Professional and Business Services	307,200	5	11.53%	304,000	4	11.14%
Leisure and Hospitality	270,700	6	10.16%	235,700	6	8.64%
Financial Activities	137,800	7	5.17%	140,600	7	5.15%
Natural Resources, Mining, and Construction	107,300	8	4.03%	130,800	8	4.80%
Other Services	100,800	9	3.78%	94,700	9	3.47%
Information	46,800	10	1.76%	55,300	10	2.03%
Total	2,664,500		100.00%	2,727,700		100.00%
	Calendar Year 2009			Calendar Year 2000		
Total State Employment	2,703,010			2,756,550		

Source: An Economic Report to the Governor of the State of Tennessee January 2010
and the Tennessee Department of Labor and Workforce Development

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	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government	4,150	4,114	4,163	4,254	4,394	4,671	4,964	5,040	4,947	4,866
Education	979	955	966	1,014	1,028	1,025	1,070	1,206	1,157	1,193
Health and social services (1)	18,147	18,852	19,144	19,255	20,431	21,246	21,208	20,990	19,704	19,241
Law, justice and public safety	10,406	10,681	10,569	10,691	10,922	10,987	10,843	11,004	10,530	10,629
Recreation and resources development	3,718	3,586	3,689	3,762	3,757	3,846	3,885	3,901	3,698	3,640
Regulation of business and professions	624	646	668	680	718	738	776	754	708	717
Transportation	4,620	4,559	4,528	4,460	4,454	4,448	4,380	4,294	4,167	4,326
Total	42,644	43,393	43,727	44,116	45,704	46,961	47,126	47,189	44,911	44,612

Source: Department of Personnel

(1) In 2005, in the Department of Human Services, a TennCare appeals unit, and three new family assistance service centers were established.

Schedule 13

STATE OF TENNESSEE
OPERATING INFORMATION - CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST TEN FISCAL YEARS

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Motor pool vehicles		7,587	7,701	7,785	6,689	7,067	7,276	7,392	7,562	7,536
Buildings	62	62	61	61	108	107	107	107	107	107
Machinery and equipment	3,282	3,233	3,581	3,861	3,634	3,637	3,586	3,528	3,166	3,888
Education										
Number of residential schools	5	5	5	5	5	5	5	5	5	5
Machinery and equipment	210	167	223	228	244	219	209	240	242	260
Health and social services										
Buildings	417	397	391	388	342	340	339	329	320	320
Machinery and equipment	2,014	1,916	1,973	1,964	2,031	2,142	2,303	2,443	2,462	2,856
Law, justice and public safety										
Correctional facilities	19	19	19	19	19	19	19	19	19	19
Armories	89	90	90	86	86	86	86	83	83	83
Machinery and equipment	1,728	1,739	1,882	2,009	2,352	2,532	2,586	3,103	3,156	3,732
Recreation and resources development										
Acreage of state parks	156,643	158,252	158,581	158,723	164,251	164,399	164,537	165,486	173,878	163,032
Machinery and equipment	1,991	1,884	2,093	2,185	2,295	2,476	2,543	2,729	2,736	2,949
Regulation of business and professions										
Machinery and equipment	72	59	68	82	93	104	138	147	140	148
Transportation										
State highways (in miles)	14,111	14,107	14,107	14,289	14,151	14,163	13,835	13,887	13,882	13,871
Bridges, state and local highways	19,453	19,453	19,493	19,621	19,646	19,432	19,515	19,563	19,536	19,595
Facilities	122	120	120	120	122	122	122	122	122	122
Buildings	631	629	671	682	710	713	717	708	708	708

Schedule 14

STATE OF TENNESSEE
OPERATING INFORMATION - OPERATING INDICATORS
FOR THE LAST TEN FISCAL YEARS

Function	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government										
Tax returns processed (1)	2,148,643	2,125,072	1,999,458	2,225,891	2,013,809	2,398,453	2,502,248	2,802,574	2,802,137	3,005,798
New corporate charters registered	12,162	11,716	11,563	11,826	12,103	11,807	11,726	10,745	11,073	11,724
Investment return on total portfolio	5.94%	2.67%	1.64%	1.11%	2.12%	4.11%	5.30%	2.00%	0.40%	0.25%
Residential and commercial property reappraisals completed	1,435,746	475,539	256,916	265,373	1,441,168	554,798	336,050	255,250	511,050	677,720
Education										
Number of public schools (K-12)	1,623	1,646	1,659	1,677	1,693	1,699	1,714	1,718	1,736	1,736
Enrollment of public schools (K-12)	984,015	958,496	973,170	973,626	976,574	991,489	925,898	929,543	930,525	933,703
Number of high school graduates from public schools	44,873	44,622	48,341	50,203	51,436	53,960	54,191	57,486	60,371	62,526
Health and social services										
TennCare enrollees	1,445,900	1,428,600	1,287,600	1,336,700	1,213,800	1,187,500	1,191,233	1,208,871	1,233,208	1,199,611
Food stamp recipients	504,443	578,144	692,300	791,695	833,687	870,304	861,979	902,500	1,094,500	1,044,900
Percentage of population (4)	8.78%	9.99%	11.85%	13.43%	13.98%	14.41%	14.00%	14.52%	17.38%	
Temporary assistance recipients	153,845	163,840	68,300	73,158	72,676	70,108	64,684	60,000	60,000	58,000
Percentage of population (4)	2.68%	2.83%	1.17%	1.24%	1.22%	1.16%	1.05%	0.97%	0.95%	
Children in state custody (2)	10,819	10,259	10,345	10,869	10,467	9,700	9,048	8,149	7,202	7,336
Percentage of population (4)	0.19%	0.18%	0.18%	0.18%	0.18%	0.16%	0.15%	0.13%	0.11%	
Mental health institutes average daily census	985	941	958	960	888	845	808	780	688	575
Law, justice and public safety										
Correctional institutions average daily census	16,920	17,372	18,170	19,117	19,141	19,119	26,573	26,998	27,325	27,164
Department of Safety citations issued	415,928	415,030	388,356	423,305	453,630	472,465	403,363	380,586	358,104	347,571
Drivers licenses issued	1,402,735	1,281,106	1,271,141	1,334,417	1,351,241	1,711,655	1,632,164	1,600,000	1,625,939	1,486,722
Recreation and resources development										
Hunting/fishing licenses and boats registered	735,941	722,949	718,307	723,305	733,554	690,426 (est.)	718,397 (est.)	690,313	707,000	689,935
Wetland acres acquired	10,873	4,798	74,831	6,369	782	3,308 (est.)	891 (est.)	3,602	2,327	79
Number of visitors to state parks	28,824,110	28,821,110	26,878,838	26,702,434	27,604,112	28,859,399	29,408,099	30,672,700	28,410,067	28,404,662
Air pollution monitoring sites	104	99	92	91	86	87	86	78	89	93
Regulation of business and professions										
Fire safety inspections	20,087	12,574		41,402		18,418	34,976	39,518	34,241	37,920
Consumer affairs written complaints	5,017	4,660		4,747		5,528	5,420	5,797	5,481	6,240
Transportation										
Lane miles resurfaced (3)	2,748	3,483	2,194	2,238	2,188	1,632	2,408	1,968	2,893	2,261
HELP program services provided	85,267	150,086	123,809	137,615	148,805	154,362	128,006	130,062	108,460	112,438

Source: Tennessee fact book, various state agencies

Notes:
(1) Tennessee does not tax employment income.
(2) Children who are abused/dependent, neglected, delinquent, and unruly.
(3) Amounts are reported on a calendar year basis; the 2009 amount is through October 2009.
(4) Population figures used in calculating percentages are from schedule 10.
(5) Blank lines indicate that data is unavailable.

STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

University of Tennessee

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 401,918	$ 408,671	21	$ 16,872
2002	438,956	406,146	21	18,628
2003	413,632	409,612	-	24,804
2004	417,191	406,033	75	24,508
2005	448,955	430,412	66	25,317
2006	484,786	440,014	56	23,896
2007	532,582	471,730	45	26,652
2008	565,963	510,261	35	33,177
2009	599,973	476,333	35	43,577
2010	648,298	493,304	12	43,998

University of Memphis

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 114,031	$ 97,499	-	$ 2,353
2002	120,196	99,786	-	3,777
2003	127,638	102,139	-	6,334
2004	140,957	100,602	-	6,291
2005	151,536	106,393	-	5,609
2006	166,652	108,395	-	4,993
2007	177,082	116,006	-	6,013
2008	188,462	123,719	-	6,280
2009	166,167	114,524	-	8,914
2010	178,343	105,354	-	8,914

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)
2001	$ 31,087	$ 28,051	48	$ 649
2002	38,957	30,484	48	649
2003	42,577	31,100	48	1,516
2004	40,120	30,712	48	1,515
2005	44,332	32,216	-	2,242
2006	50,818	32,684	-	2,104
2007	56,119	34,977	-	2,253
2008	61,033	37,180	-	2,581
2009	62,358	33,427	-	3,512
2010	49,277	30,729	-	3,512

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)
2001	$ 86,328	$ 76,159	-	$ 4,886
2002	98,031	77,990	-	5,472
2003	108,974	82,144	-	6,537
2004	126,161	81,057	-	6,540
2005	136,192	85,305	-	6,937
2006	149,759	86,971	-	6,455
2007	158,641	94,005	-	7,875
2008	168,872	100,859	-	8,011
2009	182,576	92,908	-	12,962
2010	145,229	82,875	-	12,962

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)
2001	$ 66,727	$ 75,937	261	$ 1,954
2002	72,774	77,965	261	1,916
2003	76,414	79,735	319	2,608
2004	85,854	79,247	315	2,609
2005	92,599	83,221	312	2,824
2006	100,454	86,173	2,242	2,221
2007	107,798	91,709	2,070	2,895
2008	121,820	98,619	1,889	5,172
2009	128,037	92,402	1,699	9,489
2010	126,146	85,811	1,399	9,502

Tennessee State University

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 54,979	$ 34,843	66	$ 2,056
2002	45,119	35,067	-	2,193
2003	47,326	34,988	-	3,137
2004	54,375	34,569	-	3,136
2005	57,504	37,110	-	3,001
2006	59,847	37,864	-	2,893
2007	60,537	39,913	-	2,911
2008	61,058	46,407	-	3,506
2009	77,569	38,085	-	4,041
2010	61,812	35,525	-	4,041

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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)
2001	$ 37,065	$ 39,933	-	$ 844
2002	41,311	40,392	-	639
2003	45,293	40,790	-	415
2004	47,194	40,165	-	897
2005	52,138	42,742	-	1,168
2006	56,568	43,370	-	1,042
2007	61,679	46,012	-	1,242
2008	70,801	48,812	-	1,273
2009	76,045	45,267	-	1,786
2010	81,430	40,932	-	1,786

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)
2001	$ 3,127	$ 5,809	-	-
2002	3,762	5,979	-	-
2003	4,010	6,108	-	-
2004	5,219	6,035	-	-
2005	5,490	6,386	-	-
2006	5,451	6,490	-	-
2007	6,032	7,118	-	$ 117
2008	6,141	7,612	-	116
2009	6,945	7,276	-	116
2010	4,284	7,758	-	116

Chattanooga State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 11,650	$ 20,684	69	$ 34
2002	13,947	21,233	70	73
2003	15,034	21,108	60	73
2004	17,297	20,802	65	73
2005	18,216	21,977	-	73
2006	19,084	22,336	-	69
2007	20,832	23,697	-	280
2008	22,190	25,074	-	489
2009	26,466	23,937	-	489
2010	20,239	22,174	-	489

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)
2001	$ 5,468	$ 10,210	-	-
2002	6,773	10,477	-	-
2003	7,173	10,768	-	-
2004	8,290	10,610	-	-
2005	8,958	11,282	-	-
2006	9,280	11,480	-	-
2007	10,614	12,383	-	$ 168
2008	14,329	13,147	-	166
2009	17,309	13,365	-	166
2010	19,203	11,611	-	166

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)
2001	$ 3,952	$ 9,072	-	-
2002	4,544	9,295	-	-
2003	4,757	9,212	-	-
2004	5,631	9,053	-	-
2005	5,737	9,580	-	-
2006	6,249	9,683	-	-
2007	6,422	10,317	-	$ 169
2008	7,206	10,856	-	168
2009	8,188	10,379	-	213
2010	5,804	9,763	-	213

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)
2001	$ 7,294	$ 11,016	-	-
2002	13,136	11,437	-	-
2003	14,921	11,540	-	-
2004	10,799	11,344	-	-
2005	12,133	12,839	-	$ 17
2006	13,027	12,731	-	17
2007	13,829	13,710	-	17
2008	13,829	13,710	-	18
2009	11,481	13,337	-	14
2010	9,490	12,560	-	18

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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)
2001	$ 4,413	$ 8,309	-	-
2002	5,225	8,514	-	-
2003	5,660	8,893	-	-
2004	6,369	8,747	-	-
2005	7,022	9,343	-	-
2006	7,678	9,434	-	-
2007	8,661	10,290	-	$ 171
2008	9,780	10,951	-	170
2009	10,696	10,428	-	170
2010	12,658	9,700	-	170

Nashville State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 8,322	$ 12,168	-	-
2002	8,254	12,525	-	-
2003	13,519	13,099	-	$ 13
2004	12,202	12,730	-	13
2005	13,955	13,449	-	13
2006	15,615	14,045	-	13
2007	15,828	15,185	-	13
2008	17,392	16,370	-	85
2009	19,940	15,579	-	70
2010	24,984	13,578	-	85

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)
2001	$ 7,697	$ 15,524	-	-
2002	8,589	15,771	-	-
2003	9,532	15,779	-	-
2004	10,964	15,518	-	-
2005	11,823	16,470	-	-
2006	12,528	16,660	-	-
2007	13,510	17,892	-	$ 330
2008	14,478	18,976	-	323
2009	15,366	18,104	-	323
2010	10,029	16,997	-	323

Northeast State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 5,534	$ 9,501	-	-
2002	6,599	9,737	-	-
2003	7,283	10,543	-	-
2004	8,910	10,391	-	-
2005	9,883	10,958	-	-
2006	10,505	11,147	-	-
2007	11,731	12,256	-	$ 212
2008	12,086	13,199	-	209
2009	13,534	12,622	-	209
2010	9,225	11,548	-	209

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)
2001	$ 18,325	$ 34,451	-	$ 146
2002	19,022	35,175	-	146
2003	21,839	34,827	-	179
2004	16,472	34,191	-	179
2005	16,749	36,210	-	179
2006	18,166	36,905	-	169
2007	22,042	38,723	-	174
2008	19,577	40,131	-	175
2009	20,523	38,230	-	389
2010	20,712	35,892	-	389

Pellissippi State Technical Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 12,693	$ 17,514	-	-
2002	13,854	18,078	-	-
2003	14,393	18,247	-	-
2004	17,109	17,985	-	-
2005	17,376	18,935	-	-
2006	19,184	19,252	-	-
2007	20,801	20,657	-	$ 293
2008	23,917	22,037	-	375
2009	25,530	20,983	-	376
2010	19,697	19,105	-	376

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STATE OF TENNESSEE
SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE LAST TEN FISCAL YEARS

(expressed in thousands)

Volunteer State Community College

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non-Authority)	Debt Service Requirements (Authority Bonds)
2001	$ 7,723	$ 15,297	-	-
2002	9,600	15,689	-	-
2003	10,333	15,641	-	-
2004	12,256	15,417	-	-
2005	13,206	16,303	-	$ 17
2006	14,224	16,548	-	17
2007	14,974	17,995	-	140
2008	15,457	19,245	-	139
2009	18,782	18,363	-	139
2010	21,420	17,011	-	139

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)
2001	$ 8,281	$ 15,173	-	-
2002	9,381	15,595	-	-
2003	9,990	15,909	-	-
2004	11,211	15,689	-	-
2005	11,798	16,643	-	-
2006	12,740	16,860	-	-
2007	14,097	18,249	-	$ 294
2008	15,379	19,429	-	289
2009	17,859	18,576	-	289
2010	12,143	17,296	-	289

Source: Comptroller of the Treasury,
Division of Bond Finance

STATE OF TENNESSEE
STUDENT FEES AND CHARGES
FOR INSTITUTIONS WITH TENNESSEE STATE SCHOOL BOND AUTHORITY DEBT
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

Schedule 16

Institution	Debt Service Fees	In-State Student Tuition	Non-Resident Student Tuition	Average Board Charge	Average Room Charge
University of Tennessee- Knoxville	$ 204	$ 7,382	$ 22,720	$ 3,174	$ 4,080
University of Tennessee- Chattanooga	300	6,062	18,376	2,856	5,200
University of Tennessee- Martin	380	6,190	18,600	2,320	3,654
Austin Peay State University	274	6,228	19,224	2,490	5,031
East Tennessee State University	180	6,004	19,000	2,853	4,508
Middle Tennessee State University	408	6,478	19,474	3,101	4,109
Tennessee State University	178	5,854	18,850	2,891	3,131
Tennessee Technological University	58	6,036	19,032	4,538	3,142
University of Memphis	192	6,990	20,856	3,202	4,803
Chattanooga State Technical Community College		3,235	12,421		
Cleveland State Community College		3,209	12,395		
Columbia State Community College		3,201	12,387		
Dyersburg State Community College		3,211	12,397		
Jackson State Community College		3,193	12,379		
Motlow State Community College		3,213	12,399		
Nashville State Technical Community College		3,165	12,351		
Northeast State Technical Community College		3,221	12,407		
Pellissippi State Technical Community College	30	3,237	12,423		
Roane State Community College		3,221	12,407		
Southwest Tennessee Community College		3,225	12,411		
Volunteer State Community College		3,205	12,391		
Walters State Community College		3,209	12,395		

Source: Comptroller of the Treasury,
Division of Bond Finance

STATE OF TENNESSEE
PRINCIPAL AMOUNT OF DEBT OUTSTANDING BY INSTITUTION
COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS
JUNE 30, 2010

Schedule 17

Institution	First Program Bonds	Second Program Bonds	Commercial Paper	Non-Authority Debt	Total Debt
University of Tennessee	$ (3)	$ 382,032	$ 163,126	$ 12	$ 545,167
Austin Peay State University		38,086	6,815		44,901
East Tennessee State University	(1)	111,017	8,890	1,399	121,305
Middle Tennessee State University	(1)	132,840	35,167		168,006
Tennessee State University		38,133	292		38,425
Tennessee Technological University		13,497	23,062		36,559
University of Memphis	(1)	71,638	34,107		105,744
Chattanooga State Technical Community College		2,299	1,049		3,348
Cleveland State Community College		384	567		951
Columbia State Community College		64	667		731
Dyersburg State Community College					
Jackson State Community College					
Motlow State Community College					
Nashville State Technical Community College		705			705
Northeast State Technical Community College		377			377
Pellissippi State Technical Community College		1,659			1,659
Roane State Community College		1,329			1,329
Southwest Tennessee Community College		2,986			2,986
Volunteer State Community College		62			62
Walters State Community College		884			884
	$ (6)	$ 797,992	$ 273,742	$ 1,411	$ 1,073,139

Source: Comptroller of the Treasury,
Division of Bond Finance

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ACKNOWLEDGEMENTS

DEPARTMENT OF FINANCE AND ADMINISTRATION

DIVISION OF ACCOUNTS

CHIEF OF ACCOUNTS

JAN SYLVIS, CPA*

CMIA/CREDIT CARDS

ANNETTE WHITE
JOHN BONO
LYNN CUMMINGS, CPA
TERRI RACARD

POLICY DEVELOPMENT

JACK HILL
TAMMY WORLEY

PAYROLL

SUSAN WALKER
PAT ALFORD
JACOB CARRIGAN
SHYAMALI GHOSH
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GLENN PERRY
LYNDA SANDERS
LARRY VOYTA

PAYROLL CALL CENTER

JENNIFER CARLISLE
KAREN HARRIS
CARLA HILL
JOYCE LINDAMOOD
REGINA WILLHITE

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CHARLES GRIFFITH
TAMMY HARSH
RHONDA HICKS, CPA
TARA LEWIS
MICKI LINDSLEY, CPA*
JUANITA MCCRARY
TAMMY MILLER, CPA inactive
TONYA VANTERPOOL

FINANCIAL OVERSIGHT

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IKE BOONE*
KRISTI COUCH, CPA, inactive*
MICHELLE EARHART, CPA*
TUAN LE, CPA*
JENNIFER LEWIS*
RANDY ROSS, CPA*
THAD SANDERS, CPA*

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TOM CAREY
CHRISTINA FINLEY
TAMMY GRIZZLE
JANE MCCOY, CPA inactive
ROBERT MCDONALD
ZADIE NUNLEY
CINDY RITTENBERRY

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KIM HONN*
MORGAN JUMBI, CPA
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GENERAL LEDGER

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EDDIE D'OVIDIO
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JEREMY FORSYTH
SUSAN GAFFORD
CHARLOTTE GENTRY*
JESSICA JUDKINS*
VIVIAN KAAIHUE
JENNIFER PEARSON, CPA, inactive
KATHY RICHARDSON, CPA

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CASH MGMT/CLRG ACC

SHERITA WOODS*
APRIL MAIN
RICHARD REESE

VENDOR FILE MAINTENANCE

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BRENDA BROOKS
NANCY CHECK
DORINDA COLEMAN
GEORGE CROSSWHITE
WANDA DRIGGERS
LINDA MILLER
DONNA NICELY
CECILIA PARSONS, CPA
LAURA POOLE
GLENDA TIDWELL
WANDA WILSON
ADANE WOLDE

***PREPARER OF COMPREHENSIVE ANNUAL FINANCIAL REPORT**