THE TENNESSEE MUNICIPAL BOND FUND

Nashville, Tennessee

FINANCIAL STATEMENTS AND OTHER INFORMATION

June 30, 2014 and 2013

PUGH CPAs

THE TENNESSEE MUNICIPAL BOND FUND

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
The Tennessee Municipal Bond Fund
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of The Tennessee Municipal Bond Fund which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Tennessee Municipal Bond Fund as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11, The Tennessee Municipal Bond Fund will adopt GASB Statement No. 68 in fiscal year 2015 (effective July 1, 2014), which establishes new financial reporting standards for governmental employers who provide pensions to their employees. With the adoption of GASB 68, the Bond Fund will be required to include its net pension liability (NPL) on its balance sheet by reducing its net position. The amount of the NPL and the reduction to the Bond Fund's net position to record its NPL cannot be reasonably determined at this time. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 and the Schedule of Funding Progress for PSPP Administered by TCRS on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 21 is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2014, on our consideration of The Tennessee Municipal Bond Fund'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering The Tennessee Municipal Bond Fund's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 18, 2014

THE TENNESSEE MUNICIPAL BOND FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2014

INTRODUCTION

Our discussion and analysis of the Tennessee Municipal Bond Fund's financial performance provides a narrative overview of the Bond Fund's financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the audited financial statements and other information included in this report.

The Tennessee Municipal Bond Fund (the Bond Fund) administers and manages revenue bonds issued to Cities and Towns in Tennessee for qualifying projects through the Public Building Authority of the City of Clarksville, Tennessee. The Bond Fund also provides administrative and management services for the Tennessee County Services Loan Program, which administers and manages revenue bonds issued to Tennessee Counties for qualifying projects through the Public Building Authority of the County of Montgomery, Tennessee.

2014 FISCAL YEAR HIGHLIGHTS

- The Bond Fund exceeded the $3.9 billion dollar mark in loans closed since inception during the fiscal year ended June 30, 2014.
- The Bond Fund is administering in-house variable and fixed rate bank loans through the Public Building Authority of the City of Clarksville, Tennessee. This program was developed to keep pace with increasing demand from borrowers.
- Total loans outstanding through the Bond Fund were $748,337,187 as of June 30, 2014, as compared to $745,539,612 as of June 30, 2013, or an increase of 0.38%. Total loans outstanding through the Tennessee County Services Loan Program administered and managed by the Bond Fund were $510,464,310 as of June 30, 2014, as compared to $549,909,925 as of June 30, 2013, or a decrease of 7.2%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The audited financial statements of the Tennessee Municipal Bond Fund (a proprietary fund) report information about the Bond Fund as a whole using accounting methods similar to those used by private-sector companies. The financial statements are presented on the full accrual basis of accounting and include the Balance Sheets, the Statements of Revenue, Expenses and Changes in Net Position, the Statements of Cash Flows and the Notes to Financial Statements.

The Balance Sheets include all the Bond Fund's assets and liabilities, including capital assets. Assets and liabilities are classified in the order of relative liquidity for assets and due date for liabilities. This statement provides a summary of the Bond Fund's investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in this statement. The Statements of Revenue, Expenses and Changes in Net Position summarize the Bond Fund's revenues and expenses for each year, including depreciation expense on capital assets. All of the revenues and expenses are accounted for in the Statements of Revenue, Expenses and Changes in Net Position regardless of when cash is received or paid. The Statements of Cash Flows present changes in cash and cash equivalents, resulting from operating, noncapital financing, and investing activities. These statements present cash receipts and cash disbursements information, without consideration of the earnings event or when an obligation arises. These statements also report the sources and uses of cash and cash equivalents during the reporting period and reconcile cash flows to operating income.

The financial statements report the Bond Fund's net position and how it has changed. Net position, the difference between the Bond Fund's assets and liabilities, is one way to measure the Bond Fund's financial health or position.

- Over time, increases or decreases in the Bond Fund's net position is an indicator of whether its financial position is improving or deteriorating; however, as a non-profit organization, fluctuations in net position from year to year could also be an indication that the Bond Fund is assisting Tennessee Cities and Towns in obtaining low cost financing rather than being concerned with continuous growth of net position.

- To assess the Bond Fund's overall health, you need to consider additional non-financial factors such as changes in the Bond Fund's administration fees charged to borrowers, timing of municipal bond financing pools and market conditions.

NOTES TO FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 11 - 19 of this report.

ECONOMIC FACTORS

Administration fees received from the cities and counties that borrow money from the municipal bond financing pools are major sources of income for the Bond Fund; therefore, the economic outlook for all borrowers directly affects that of the Bond Fund.

FINANCIAL ANALYSIS OF THE BOND FUND AS A WHOLE

Net position is an indicator of the fiscal health of the Bond Fund. Assets exceeded liabilities by $17.893 million as of June 30, 2014. The largest component of net assets is unrestricted net assets of $17.888 million. It comprises 99.9% of the total net position.

Following is a summary of the Balance Sheets:

Table 1
Condensed Balance Sheets
as of June 30

	2014	2013	2012
Current Assets	$ 13,665,360	$ 9,118,148	$ 8,678,834
Net Capital Assets	4,997	1,880	2,365
Other Assets	4,393,616	11,141,346	11,464,429
Total Assets	$ 18,063,973	$ 20,261,374	$ 20,145,628
Current Liabilities	$ 171,275	$ 99,818	$ 76,840
Long-Term Liabilities	0	2,800,000	2,850,000
Total Liabilities	171,275	2,899,818	2,926,840
Net Investment in Capital Assets	4,997	1,880	2,365
Unrestricted Net Position	17,887,701	17,359,676	17,216,423
Total Net Position	17,892,698	17,361,556	17,218,788
Total Liabilities and Net Position	$ 18,063,973	$ 20,261,374	$ 20,145,628

THE TENNESSEE MUNICIPAL BOND FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2014

The following table shows a summary of the Revenues, Expenses and Changes in Net Position for the Bond Fund for the current and two prior fiscal years.

Table 2
Condensed Statements of Revenue, Expenses and Changes in Net Position
for the Years Ended June 30,

	2014	2013	2012
Operating Revenues	$ 1,849,264	$ 1,951,119	$ 4,076,510
Operating Expenses	2,369,337	2,725,063	1,946,623
Income (Loss) from Operations	(520,073)	(773,944)	2,129,887
Non-operating Revenues (Expenses):			
Gain (Loss) on Investments, Net	386,512	380,969	(64,897)
Interest and Dividend Income	762,703	635,493	590,380
Interest Expense	(98,000)	(99,750)	(136,500)
Total Non-operating Revenue	1,051,215	916,712	388,983
Change in Net Position	531,142	142,768	2,518,870
Beginning Net Position	17,361,556	17,218,788	14,699,918
Ending Net Position	$ 17,892,698	$ 17,361,556	$ 17,218,788

Total operating activities generated revenues during fiscal year 2014 of $1.85 million while expenses totaled $2.37 million. Non-operating revenues for 2014 were $1,051,215. The resulting increase in net position totaled $531,142. Total operating activities generated revenues during fiscal year 2013 of $1.95 million while expenses totaled $2.73 million. Non-operating revenue for 2013 were $916,712. The resulting increase in net position totaled $142,768.

Operating revenues decreased by approximately $102,000 from fiscal year 2013 to fiscal year 2014. The decrease in operating revenues is a result of a decrease in outstanding loans being administered by the Bond Fund compared to the prior year. The Bond Fund received approximately $2.44 million from four separate Securities & Exchange Commission litigation settlements in fiscal year 2012 while none were received in 2013 resulting in a decrease in fiscal year 2013 of approximately $2.13 million. The Bond Fund also provides management and administrative services on behalf of the Tennessee County Services Loan Program in connection with its county bond financing pools.

Operating expenses decreased by approximately $356,000 from fiscal year 2013 to fiscal year 2014 and increased approximately $778,000 from fiscal year 2012 to 2013. With a decrease in new loan activity in 2014 as compared to 2013, compensation and bonuses decreased over prior year levels by approximately $185,000. Also, no federal arbitrage rebate payment was made in 2014 compared to an approximate $477,000 payment made in 2013. Based on increased new loan activity in 2013 as compared to 2012, compensation and bonuses increased from prior year levels by approximately $414,000.

Due to a relative recovery in the economy in 2014 as compared to 2013, the Bond Fund's investments experienced a net gain of $386,512 during 2014, as compared to a net gain of $380,969 in 2013 and a net loss of $64,897 in 2012.

THE TENNESSEE MUNICIPAL BOND FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended June 30, 2014

CAPITAL ASSETS

At June 30, 2014, the Bond Fund had $61,078 invested in furniture and equipment. Capital assets net of accumulated depreciation increased (including additions, deletions and depreciation) $3,117 during 2014.

Table 3
Summary of Capital Assets
as of June 30, 2014

Furniture and Equipment	$	61,078
Less Accumulated Depreciation		(56,081)
Net Capital Assets	$	4,997

We lease our office space on a month to month basis from the Tennessee Municipal League (see Note 10).

BUDGETARY HIGHLIGHTS

Formal budgetary integration is employed as a management control device during the year for the Bond Fund. All budget variances are reviewed on a monthly basis. It is management's policy to not alter the original budget during the year; therefore, actual results can vary significantly from the estimates at the beginning of the year. Over the course of the year, the Bond Fund's revenues and expenditures were slightly more than budgeted amounts.

NEXT YEAR'S BUDGET

The revenue estimates for next year were projected based on the borrowers remaining in the pooled loan programs of each series that the Bond Fund administers. Other revenue sources were budgeted based on management's reasonable expectations. Using this revenue estimate as a guide, the budget was prepared by estimating the operating needs of the Bond Fund.

Total revenue is budgeted to be $2.04 million and total expenditures are budgeted to be $2.04 million for the fiscal year ending June 30, 2015.

No other facts, decisions, or conditions are currently known which would have a significant impact on the financial condition and results of operations of the Bond Fund during the fiscal year ending June 30, 2015.

REQUESTS FOR INFORMATION

This report is intended to provide a summary of the financial condition of the Tennessee Municipal Bond Fund. Questions or requests for additional information should be addressed to:

Mr. Charles G. "Bones" Seivers
President - CEO
Tennessee Municipal Bond Fund
226 Capital Blvd. Suite 502
Nashville, TN 37219

THE TENNESSEE MUNICIPAL BOND FUND

BALANCE SHEETS

As of June 30,	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 7,833,575	$ 2,826,872
Certificates of Deposit	146,461	146,461
Investments	4,564,007	4,772,022
Fees Receivable	256,018	310,944
Notes Receivable - Short-Term	730,575	886,130
Interest Receivable	84,724	125,719
Prepaid Expenses	50,000	50,000
Total Current Assets	13,665,360	9,118,148
NONCURRENT ASSETS		
Furniture and Equipment, Net	4,997	1,880
Notes Receivable - Long-Term	4,393,616	11,141,346
Total Noncurrent Assets	4,398,613	11,143,226
TOTAL ASSETS	$ 18,063,973	$ 20,261,374
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	$ 107,873	$ 40,368
Accrued Expenses	63,402	59,450
Total Current Liabilities	171,275	99,818
NOTE PAYABLE	0	2,800,000
NET POSITION		
Net Investment in Capital Assets	4,997	1,880
Unrestricted	17,887,701	17,359,676
Total Net Position	17,892,698	17,361,556
TOTAL LIABILITIES AND NET POSITION	$ 18,063,973	$ 20,261,374

The accompanying notes are an integral part of these financial statements.

THE TENNESSEE MUNICIPAL BOND FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Years Ended June 30,	2014	2013
OPERATING REVENUES		
Program Administration Fees	$ 1,849,264	$ 1,951,119
OPERATING EXPENSES		
Compensation and Contract Labor	1,493,055	1,677,895
Federal Arbitrage Rebate	0	476,958
Program Fees	139,210	157,741
Professional Fees	445,584	142,200
Travel and Entertainment	21,250	19,976
Tennessee Municipal League Sponsorship Fee	100,000	75,000
Board Meetings and Travel Reimbursements	14,400	16,767
Office Rent	33,498	33,663
Office Supplies, Telephone and Postage	17,205	15,867
Depreciation	1,143	1,852
Other	103,992	107,144
Total Operating Expenses	2,369,337	2,725,063
INCOME (LOSS) FROM OPERATIONS	(520,073)	(773,944)
NONOPERATING REVENUES (EXPENSES)		
Gain (Loss) on Investments, Net	386,512	380,969
Interest and Dividend Income	762,703	635,493
Interest Expense	(98,000)	(99,750)
Net Nonoperating Revenues (Expenses)	1,051,215	916,712
CHANGE IN NET POSITION	531,142	142,768
TOTAL NET POSITION - BEGINNING OF YEAR	17,361,556	17,218,788
TOTAL NET POSITION - END OF YEAR	$ 17,892,698	$ 17,361,556

The accompanying notes are an integral part of these financial statements.

THE TENNESSEE MUNICIPAL BOND FUND

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$ 1,904,190	$ 1,979,310
Cash Paid to Employees and Contract Labor	(1,489,103)	(1,651,990)
Cash Paid to Suppliers	(807,634)	(1,048,243)
Net Cash Provided by (Used in) Operating Activities	(392,547)	(720,923)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Principal Paid on Note Payable	(2,800,000)	(50,000)
Interest Paid on Note Payable	(98,000)	(99,750)
Net Cash Provided by (Used in) Noncapital Financing Activities	(2,898,000)	(149,750)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (Increase) Decrease in Certificates of Deposit	0	1,815,582
Purchases of Investments	(5,447,748)	(3,005,337)
Proceeds from Sales of Investments	6,042,275	1,049,359
Interest and Dividends Received	803,698	633,273
Issuance of Notes Receivable	(1,326,770)	(638,070)
Collection of Notes Receivable	8,230,055	782,641
Net Cash Provided by (Used in) Investing Activities	8,301,510	637,448
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,006,703	(234,592)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,826,872	3,061,464
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,833,575	$ 2,826,872

The accompanying notes are an integral part of these financial statements.

THE TENNESSEE MUNICIPAL BOND FUND

STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended June 30,	2014	2013
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Income (Loss) from Operations	$ (520,073)	$ (773,944)
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided by (Used in) Operating Activities:		
Depreciation	1,143	1,852
(Increase) Decrease in Assets:		
Fees Receivable	54,926	28,191
Increase (Decrease) in Liabilities:		
Accounts Payable	67,505	(2,927)
Accrued Expenses	3,952	25,905
Total Adjustments	127,526	53,021
Net Cash Provided by (Used in) Operating Activities	$ (392,547)	$ (720,923)
Supplementary Schedule of Noncash Activities:		
Gain (Loss) on Investments, Net	$ 386,512	$ 380,969

The accompanying notes are an integral part of these financial statements.

THE TENNESSEE MUNICIPAL BOND FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

NOTE 1 - ORGANIZATION

The Tennessee Municipal Bond Fund, a nonprofit association, was organized in accordance with the applicable laws of the State of Tennessee to provide management and administrative services in connection with municipal bond financing pools. The Bond Fund also provides management and administrative services on behalf of the Tennessee County Services Loan Program in connection with its county bond financing pools and received program administration fees of $0 and $196,885 for the years ended June 30, 2014 and 2013, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The financial statements of The Tennessee Municipal Bond Fund have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

GAAP establishes standards for external financial reporting for all state and local governmental entities, which includes a balance sheet, a statement of revenues, expenses and changes in net position and a statement of cash flows. It requires the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

- Restricted - This component of net position consists of restrictions placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation. The Bond Fund does not have any restricted net position.

- Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” These are available for current use by the Bond Fund.

Fund Structure and Basis of Accounting - The accounts of The Tennessee Municipal Bond Fund are organized on the basis of a proprietary fund type and are considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, and revenues and expenses, as appropriate. Government resources are allocated to and accounted for in the fund based on the purposes for which they are to be spent and the means by which spending activities are controlled. The fund, in the financial statements of this report, is an Enterprise Fund - Proprietary Fund Type. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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. The principal operating revenues of the Bond Fund are program administration fees. Operating expenses for the Bond Fund include compensation and contract labor, program fees and various administrative expenses. 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 Bond Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

Budget - Formal budgetary integration is employed as a management control device during the year for the fund. This budget is prepared on a basis consistent with GAAP.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Bond Fund considers all highly liquid cash accounts available for current use with an initial maturity of three months or less to be cash equivalents.

Investments - Investments are stated at estimated fair value based on quoted market prices in accordance with GASB No. 31 (see Notes 4 and 5). Any unrealized gain or loss has been reflected in gain or loss on investments in the statements of revenue, expenses and changes in net position.

Notes Receivable - Notes receivable consist of fixed rate simple interest obligations of Tennessee counties and municipalities which require periodic payments of principal and interest at least annually and are secured by the full faith and credit of the entities originating them. Principal prepayments are allowed without penalty.

Furniture and Equipment - Acquisitions are recorded at cost and include only expenses for new furniture and equipment and those which substantially increase the useful lives of the existing assets. The Bond Fund does not capitalize individual assets with costs less than $1,000. Maintenance and repairs are expensed as incurred. When furniture and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the respective accounts, and any profit or loss on disposition is credited or charged to income. Depreciation is computed using the straight-line method over an estimated useful life of five years.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising - Advertising costs are expensed as incurred.

Tax Status - The financial statements do not include provisions for state or federal income taxes because the Bond Fund operates as a tax-exempt organization.

Evaluation of Subsequent Events - Management has evaluated subsequent events through November 18, 2014, which is the date the financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure, other than the information disclosed in Note 11 concerning changes in the calculation of pension liabilities and expense when the Bond Fund adopts GASB Statement No. 68 in fiscal year 2015.

NOTE 3 - CUSTODIAL CREDIT RISK - DEPOSITS

For cash and cash equivalents and certificates of deposit, this is the risk that, in the event of a bank failure, the Bond Fund's deposits may not be available or the Bond Fund will not be able to recover collateral securities in the possession of an outside party. The Bond Fund's policy requires that deposits be either (i) secured and collateralized by the institutions at 105% of the value of the deposits placed in the institution, less the amount protected by federal depository insurance or (ii) that deposits be placed in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Institutions participating in the collateral pool determine the aggregated balance of their public fund accounts. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held.

As of June 30, 2014, the book balances of the Bond Fund's "Cash and Cash Equivalents" and "Certificates of Deposit" were $7,980,036 and the bank balances were $10,787,567. Of the bank balances, $728,008 was covered by FDIC insurance and $10,059,559 was covered by collateral held by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department.

NOTE 4 - INVESTMENTS

The Bond Fund's investments are stated at estimated fair value and consist of the following as of June 30:

	2014		2013	
	Number of Shares	Estimated Fair Value	Number of Shares	Estimated Fair Value
Mutual Funds:				
Angel Oak Multi-Strategy Income Fund Institutional Shares	16,451	$ 200,702	0	$ 0
Diamond Hill Long-Short	11,067	263,727	0	0
Fidelity Advisor New Insights Fund Institutional Class	25,711	730,287	35,649	915,482
First Eagle Overseas Fund Institutional Class	9,119	229,890	5,644	128,478
First Trust Large Cap Core AlphaDEX ETF	8,040	356,333	0	0
FPA Perennial Fund, Inc.	2,911	155,826	3,290	147,330
Goldman Sachs Strategic Income Institutional Class	22,017	232,500	0	0
Lord Abbett Floating Rate Fund	31,288	296,610	0	0
MFS Value Fund Institutional Class	22,202	766,635	32,720	962,306
Nuveen Build America Bond Fund	4,200	86,100	0	0
PowerShares S&P Low Volatility	8,866	315,541	9,025	280,858
Prudential Global Short Duration High Yield Fund	4,200	84,835	0	0
Prudential Jennison Small Company Fund Class Z	8,304	253,355	5,625	150,309
Schroder Absolute Return EMD and Currency Fund	19,168	198,005	0	0
The Arbitrage Fund Institutional Class	0	0	19,578	249,818
Western Asset Core Plus Bond Fund	25,958	301,632	0	0
Money Market Funds:				
Merrill Lynch WCMA Money Fund	92,029	92,029	1,937,441	1,937,441
		$ 4,564,007		$ 4,772,022

NOTE 5 - FAIR VALUE DISCLOSURES

GAAP generally permits the measurement of selected eligible financial instruments at fair value at specified election dates. The Bond Fund has not elected to adopt the fair value option for any financial instruments. However, other accounting pronouncements require the Bond Fund to measure certain financial instruments at fair value as described below.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset and liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

A description of valuation methodologies used for assets recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets Recorded at Estimated Fair Value on a Recurring Basis

Mutual Funds: Valued at daily closing price as reported by the fund. Mutual funds held by the Bond Fund are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Bond Fund are deemed to be actively traded.

Money Market Funds: Valued at the daily closing price as reported by the fund. This fund is required to publish its daily net asset value (NAV) and to transact at that price. The fund is deemed to be actively traded. The NAV is used as a practical expedient to estimating fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Transactions (issuance and redemptions) may occur daily. Were the Bond Fund to initiate a full redemption of the fund, the investment adviser reserves the right to temporarily delay withdrawal from the fund in order to ensure that securities liquidations will be carried out in an orderly business manner. The fund is designed to protect capital with low-risk investments and includes U.S. Government Agency Securities, Repurchase Agreements and various U.S. Treasury Securities.

NOTE 5 - FAIR VALUE DISCLOSURES (Continued)

Below is a table that presents information about certain assets measured at estimated fair value on a recurring basis:

		Estimated Fair Value Measurements Using		
	Carrying Amount in the Balance Sheet	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2014				
Mutual Funds:				
Bank Loan Bond Funds	$ 296,610	$ 296,610	$ 0	$ 0
Emerging Markets Bond Funds	198,005	198,005	0	0
Foreign Large Cap Blend Equity Funds	229,890	229,890	0	0
High Yield Bond Funds	84,835	84,835	0	0
Intermediate Term Bond Fund	301,632	301,632	0	0
Large Blend Funds	356,333	356,333	0	0
Large Cap Growth Equity Funds	730,287	730,287	0	0
Large Cap Value Equity Funds	1,082,176	1,082,176	0	0
Long/Short Equity Funds	263,727	263,727	0	0
Long Term Bond Funds	86,100	86,100	0	0
Mid Cap Growth Equity Funds	155,826	155,826	0	0
Multisector Bond Funds	200,702	200,702	0	0
Nontraditional Bond Funds	232,500	232,500	0	0
Small Cap Growth Equity Funds	253,355	253,355	0	0
Money Market Funds	92,029	92,029	0	0
Total Investments at Estimated Fair Value	$ 4,564,007	$ 4,564,007	$ 0	$ 0
As of June 30, 2013				
Mutual Funds:				
Foreign Large Cap Blend Equity Funds	$ 128,478	$ 128,478	$ 0	$ 0
Large Cap Growth Equity Funds	915,482	915,482	0	0
Large Cap Value Equity Funds	1,243,164	1,243,164	0	0
Mid Cap Blend Equity Funds	249,818	249,818	0	0
Mid Cap Growth Equity Funds	147,330	147,330	0	0
Small Cap Growth Equity Funds	150,309	150,309	0	0
Money Market Funds	1,937,441	1,937,441	0	0
Total Investments at Estimated Fair Value	$ 4,772,022	$ 4,772,022	$ 0	$ 0

NOTE 6 - NOTES RECEIVABLE

Notes receivable consist of the following as of June 30:

	2014	2013
City of Athens, 4.00%, Matures April 2016	$ 640,500	$ 942,100
Cannon County, 2.00%, Matures February 2015	16,800	0
Carroll County, 2.00%, Matures September 2016	100,000	0
Carroll County Watershed Authority, 4.00%, Matures May 2029	0	7,123,989
Carroll County Watershed Authority, 4.00%, Matures February 2014	0	300,000
City of Charleston, 4.10%, Matures August 2014	15,000	30,000
City of Clarksville, 4.20%, Matures December 2015	888,000	995,000
Town of Cumberland Gap, 3.31%, Matures May 2017	22,230	29,310
Town of Cumberland Gap, 2.50%, Matures October 2015	0	15,000
Dickson County, 2.47%, Matures April 2015	6,910	13,660
City of Eagleville, 2.75%, Matures August 2017	35,460	0
City of Elkton, 2.00%, Matures October 2014	2,750	0
City of Elkton, 2.00%, Matures August 2014	1,125	0
City of Etowah, 3.00%, Matures August 2014	13,000	25,000
City of Jellico, 6.75%, Matures February 2034	850,000	0
City of Middleton, 4.25%, Matures September 2035	1,811,416	1,862,417
City of Pikeville, 3.07%, Matures February 2018	60,000	0
Town of Ridgetop, 2.60%, Matures September 2015	54,000	0
City of Ripley IDB, 4.50%, Matures September 2020	572,000	640,000
Town of Unicoi, 4.50%, Matures January 2016	35,000	51,000
	5,124,191	12,027,476
Less Notes Receivable - Short-Term	(730,575)	(886,130)
Notes Receivable - Long-Term	$ 4,393,616	$ 11,141,346

Annual principal payments of the notes receivable are due as follows for the year ending June 30:

2015	$ 730,575
2016	1,365,710
2017	225,550
2018	192,940
2019	176,000
2020-2024	711,000
2025-2029	680,000
2030-2034	874,000
2035-2036	168,416
	$ 5,124,191

NOTE 7 - FURNITURE AND EQUIPMENT

Furniture and equipment activity for the year ended June 30, 2014 is as follows:

	Balances July 01, 2013	Increases	Decreases	Balances June 30, 2014
Furniture and Equipment, Being Depreciated	$ 105,985	$ 4,260	$ (49,167)	$ 61,078
Less Accumulated Depreciation	104,105	1,143	(49,167)	56,081
Total Furniture and Equipment, Net	$ 1,880	$ 3,117	$ 0	$ 4,997

NOTE 7 - FURNITURE AND EQUIPMENT (Continued)

Furniture and equipment activity for the year ended June 30, 2013 is as follows:

	Balances July 01, 2012	Increases	Decreases	Balances June 30, 2013
Furniture and Equipment, Being Depreciated	$ 104,618	$ 1,367	$ 0	$ 105,985
Less Accumulated Depreciation	102,253	1,852	0	104,105
Total Furniture and Equipment, Net	$ 2,365	$ (485)	$ 0	$ 1,880

NOTE 8 - CONTINGENT REBATE LIABILITY AND FEDERAL ARBITRAGE REBATE

The Bond Fund is required to monitor and assess each of the municipal bond financing pools' compliance with Internal Revenue Code Section 148 related to arbitrage. In general, arbitrage is earned when the gross proceeds of a pool are used to acquire investments that earn a yield materially higher than the yield of the pool during a five year period. Proceeds of the pools are invested until the municipal borrowers draw all of the funds they are borrowing under the pool. The Bond Fund has the ability to charge additional fees to certain borrowers as needed to cover arbitrage liabilities. The Bond Fund calculates the amount of arbitrage and pays that amount to the U.S. Treasury. The amounts of the contingent rebate liabilities accrued as of both June 30, 2014 and 2013 are $0 and are based on management's estimate of the amounts due in the next year compared to the amounts held in trust to pay arbitrage. Federal arbitrage rebate expense is $0 and $476,958 for the year ended June 30, 2014 and 2013, respectively.

NOTE 9 - NOTE PAYABLE

Effective July 1, 2010, the Bond Fund entered into an agreement with the Local Government Property & Casualty Fund (LGPCF) to borrow $4,950,000 for the purpose of making loans to certain entities (see Note 6). The loan was paid in full during 2014 as shown below and was secured by an assignment of certain notes receivable issued to the Bond Fund (see Note 6).

Changes in the note payable for the year ended June 30, 2014 are as follows:

	Balance, July 01, 2013	Increases	Decreases	Balance, June 30, 2014
Note Payable to Local Government Property & Casualty Fund	$ 2,800,000	$ 0	$ (2,800,000)	$ 0

NOTE 10 - LEASE OBLIGATION / RELATED ORGANIZATION

The Bond Fund leases its operating facility from The Tennessee Municipal League, an affiliated organization. Rental expense under this operating lease amounted to $33,498 during the year ended June 30, 2014 ($33,663 in 2013). Total future minimum rental payments under its noncancellable operating lease are:

2015	$ 30,151
2016	30,151
2017	30,151
2018	20,100

NOTE 11 - RETIREMENT PLAN

Plan Description

Certain employees of the Bond Fund are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. 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 at the age of 55. 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 system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Bond Fund participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at http://www.tn.gov/treasury/tcrs/PS/.

Funding Policy

The Bond Fund has adopted a noncontributory retirement plan for its employees.

The Bond Fund is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 5.00% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Bond Fund is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2014, the Bond Fund's annual pension cost of $32,972 to TCRS was equal to the Bond Fund's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0% annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Bond Fund's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 1 year. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ending		Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
June 30, 2014	$	32,972	100.00%	$	0.00
June 30, 2013	$	34,242	100.00%	$	0.00
June 30, 2012	$	73,164	100.00%	$	0.00

NOTE 11 - RETIREMENT PLAN (Continued)

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 66.42% funded. The actuarial accrued liability for benefits was $1.41 million, and the actuarial value of assets was $0.93 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.47 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.68 million, and the ratio of the UAAL to the covered payroll was 68.96%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)		Actuarial Accrued Liability (AAL) - Entry Age (b)		Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	$	934	$	1,406	$	472	66.42%	$	685	68.96%
July 1, 2011	$	758	$	758	$	0	100.00%	$	487	0.00%
July 1, 2009	$	499	$	607	$	108	82.23%	$	893	12.08%

GASB Statement No. 68 Adoption in 2015

In fiscal year 2015 (effective July 1, 2014), the Bond Fund will adopt GASB Statement No. 68, which establishes new financial reporting standards for governmental employers who provide pensions to their employees through plans administered as trusts, such as TCRS. An actuarial valuation for accounting purposes will be performed on an annual basis. Based on the results of the actuarial valuation, TCRS will provide the Bond Fund with its Net Pension Liability (NPL), which is the difference between the total pension liability and the market value of assets held in trust for the participants. With the adoption of GASB 68, the Bond Fund will be required to include its NPL (often called unfunded liability) and pension expense in its financial statements. In addition, expanded disclosures regarding the pension plan and additional required supplementary information are required by this Statement. The amount of the NPL and the reduction to the Bond Fund's net position to record its NPL cannot be reasonably determined at this time by TCRS.

NOTE 12 - RISK MANAGEMENT

The Bond Fund is exposed to various risks of loss similar to a commercial business, such as general liability, errors and omissions, injuries to employees, claims and assessments, and other situations. The Bond Fund purchases commercial insurance for the significant risks of loss. Settled claims have not exceeded the insurance coverage limits in any of the past three fiscal years. It is the opinion of management that the disposition or ultimate resolution of any claims and assessments will not have a material adverse effect on the financial position of the Bond Fund.

REQUIRED SUPPLEMENTARY INFORMATION

THE TENNESSEE MUNICIPAL BOND FUND

SCHEDULE OF FUNDING PROGRESS FOR PSPP ADMINISTERED BY TCRS

As of June 30, 2014

(Dollar amounts in thousands)

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	AAL (UAAL) AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	$ 934	$ 1,406	$ 472	66.42%	$ 685	68.96%
July 1, 2011	$ 758	$ 758	$ 0	100.00%	$ 487	0.00%
July 1, 2009	$ 499	$ 607	$ 108	82.23%	$ 893	12.08%

SUPPLEMENTARY INFORMATION

THE TENNESSEE MUNICIPAL BOND FUND

DISCLOSURE PURSUANT TO T.C.A. § 10-7-503

For the Year Ended June 30, 2014

The Tennessee Municipal Bond Fund (the "Bond Fund") complies with all the requirements of Tennessee Code Annotated Section 10-7-503(d)(A) through (F) and is, therefore, not subject to the public disclosure requirements set forth therein. The audit disclosure requirements of subsection (F) of such statute are set out below:

(A) No compensation, fees or other remuneration were paid by the Bond Fund during the twelve month period commencing July 1, 2013 through and including June 30, 2014 to, or accrued on behalf of, any of the Bond Fund's Board of Directors or its Officers.

(B) The following is a listing, by name of recipient, of all compensation and any other remuneration paid by the Bond Fund during the twelve month period commencing July 1, 2013 through and including June 30, 2014 to, or accrued on behalf of, any employee of the Bond Fund who receives more than twenty-five thousand ($25,000) in remuneration for such period (includes salaries for twelve month period July 1, 2013 through June 30, 2014, and bonuses received for new business generated July 1, 2013 through June 30, 2014):

Name		Compensation
Wade Morrell	$	292,554
Steve Walker		166,644
Linda Mooningham		237,789
Charles G. Seivers		212,583

(C) The following is a listing, by name of beneficiary, of any deferred compensation, salary continuation, retirement or other fringe benefit plan or program (excluding qualified health and life insurance plans available to all employees of the organization on a nondiscriminatory basis) established or maintained by the Bond Fund for the benefit of any of its directors, officers or employees, and the amount of any funds paid or accrued to such plan or program during the twelve month period commencing July 1, 2013 through and including June 30, 2014:

Name		Deferred Compensation		Retirement Plan
Wade Morrell	$	0	$	12,750
Steve Walker		0		8,332
Linda Mooningham		0		11,889

(D) The following is a listing, by name of recipient, of all persons or entities to whom fees were paid by the Bond Fund during the twelve month period commencing July 1, 2013 through and including June 30, 2014 for services as a contractor, professional advisor or other personal services provider, which exceeds two thousand five hundred dollars ($2,500) for such period:

Pugh & Company, P.C. - Audit of financial statements.

Charles “Bones”Seivers - Independent contractor for marketing and program development.

Russ Farrar - Legal consultant.

Bond Logistix, Inc. - Rebate services.

Bone McAllester Norton, PLLC - Bond & tax counsel.

Ogden Stokes - Organizational and legal consultant

Mona Lawrence - Administrative assistance

Randa Solutions - IT consultant

Runion & Runion - Issuer counsel

Tommy Green - Marketing consultant

Brad Waterman - Attorney

Cozen O’Conner - Attorney

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PUGH & COMPANY, P.C.
www.pughcpas.com

INDEPENDENT AUDITOR'S 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

The Board of Directors and Senior Management
The Tennessee Municipal Bond Fund
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Tennessee Municipal Bond Fund, which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended and the related notes to the financial statements, and have issued our report thereon dated November 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Tennessee Municipal Bond Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Tennessee Municipal Bond Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of The Tennessee Municipal Bond Fund's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Tennessee Municipal Bond Fund's financial statements are free from 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 *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
November 18, 2014