Tennessee State School Bond Authority

For the Year Ended
June 30, 2000

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Elizabeth M. Birchett, CPA
Audit Manager

Donna Jewel
In-Charge Auditor

Sam Alzoubi
Cindy Dunn
Amy Mallicote
Staff Auditors

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Financial/compliance audits of state departments and agencies are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at www.comptroller.state.tn.us.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 28, 2001

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
and
Members of the Tennessee State School Bond Authority
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State School Bond Authority for the year ended June 30, 2000. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/mb
01/019

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Tennessee State School Bond Authority
For the Year Ended June 30, 2000

AUDIT OBJECTIVES

The objectives of the audit were to consider the authority's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at
www.comptroller.state.tn.us.

Audit Report
Tennessee State School Bond Authority
For the Year Ended June 30, 2000

TABLE OF CONTENTS

Tennessee State School Bond Authority
For the Year Ended June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee State School Bond Authority. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee State School Bond Authority was established by the Tennessee State School Bond Authority Act, Chapter 256 of the Public Acts of 1965. As provided in this act and in Chapter 429 of the Public Acts of 1999, the authority is to act as a corporate governmental agency of the State of Tennessee for financing projects of the state's higher education institutions and qualified zone academy projects for primary and secondary schools of local government. The authority is empowered to issue negotiable bonds and notes as a means of providing funds for financing approved projects. These projects include buildings, equipment, structures, and improvements. In 1980, the legislature amended the original act to include, as a project, a program for student loans. The amount of funds provided should be sufficient to cover the actual project costs, as well as the authority's administrative expenses, including the cost of conducting the bond and note sales.

ORGANIZATION

The Tennessee State School Bond Authority consists of seven members: the Governor, the State Treasurer, the Secretary of State, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Chancellor of the Tennessee Board of Regents, and the President of the University of Tennessee. The Governor serves as chairman, and the Comptroller of the Treasury serves as secretary. The Director of the Division of Bond Finance serves as the assistant secretary; the division provides administrative and financial services to the Tennessee State School Bond Authority.

An organization chart for the authority is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1999, through June 30, 2000, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2000, and, for comparative purposes, for the year ended June 30, 1999. The Tennessee State School Bond Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 32 of the State of Tennessee Accounting and Reporting System (allotment code 307.07).

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the authority's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, and contracts,

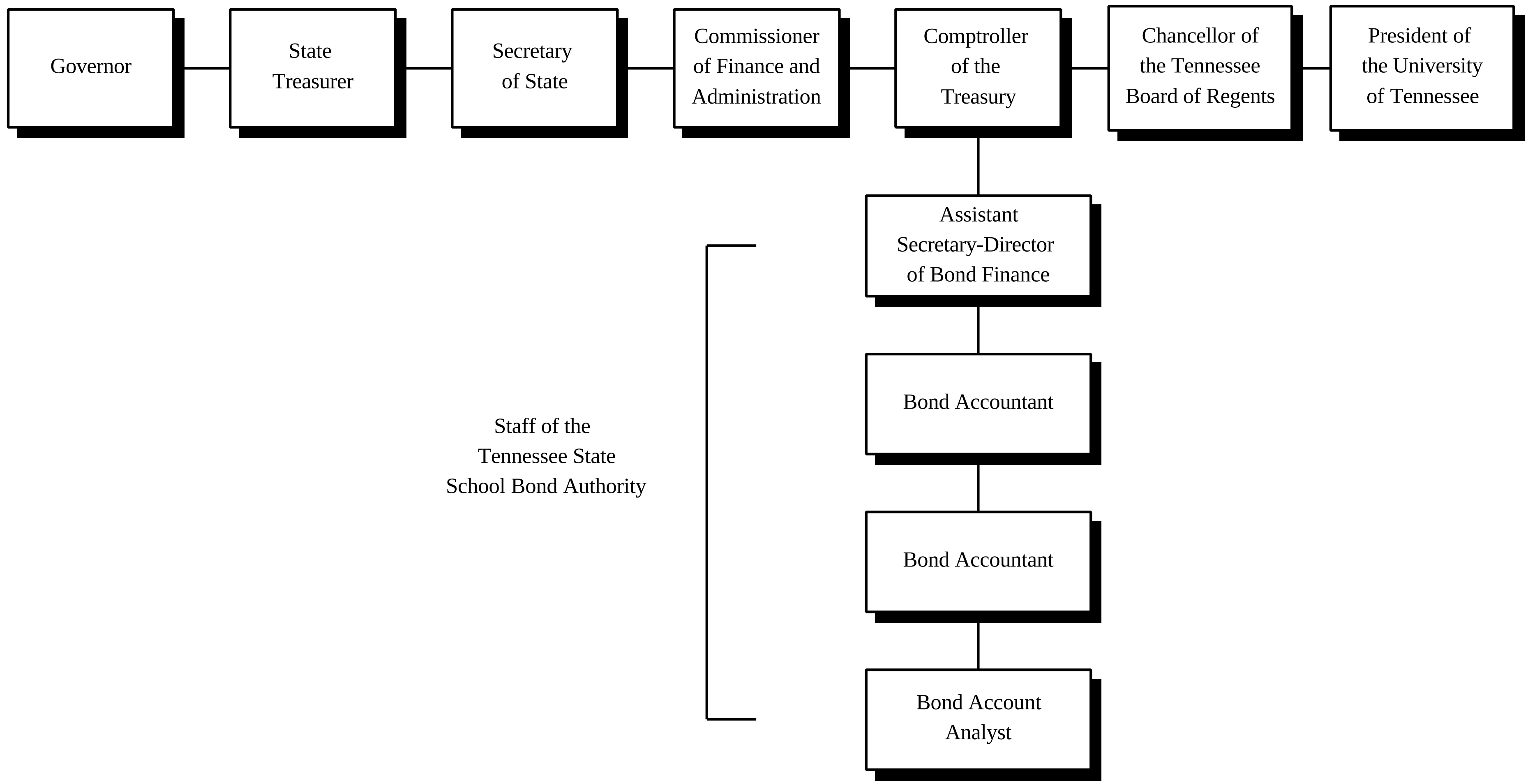
3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

TENNESSEE STATE SCHOOL BOND AUTHORITY
ORGANIZATION CHART



RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee State School Bond Authority's financial statements for the year ended June 30, 2000, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee State School Bond Authority's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

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

November 29, 2000

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

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of and for the year ended June 30, 2000, and have issued our report thereon dated November 29, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the authority's financial statements are free of material misstatement, we performed tests of the authority's compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management 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.

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

AAH/mb

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Independent Auditor's Report

November 29, 2000

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of June 30, 2000, and June 30, 1999, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State School Bond Authority as of June 30, 2000, and June 30, 1999, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying financial information on pages 23 through 25 is presented for purposes of additional analysis 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2000, on our consideration of the authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr.

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

AAH/mb

Exhibit A

TENNESSEE STATE SCHOOL BOND AUTHORITY
COMPARATIVE BALANCE SHEETS
JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

		June 30, 2000		June 30, 1999
Assets				
Current assets:				
Cash (Note 2)	$	26,720	$	24,067
Cash with fiscal agent (Note 2)		30		137
Investments with fiscal agent (Note 2)		53		596
Loans receivable (Note 3)		16,894		19,332
Interest receivable		2,633		1,960
Due from other component units		272		368
Total current assets		46,602		46,460
Restricted assets (Notes 2 and 4):				
Crossover refunding investments		-		4,368
Debt service reserve		14,672		21,195
Total restricted assets		14,672		25,563
Other assets:				
Advances to other component units (Note 3)		330,110		438,010
Deferred charges		2,111		2,196
Total other assets		332,221		440,206
Total assets	$	393,495	$	512,229
Liabilities and Equity				
Liabilities:				
Current liabilities:				
Warrants/wires payable	$	25	$	58
Due to other component units		-		5,655
Due to local governments		5		-
Accrued interest payable		2,661		2,661
Commercial paper payable (Note 5)		102,700		162,050
Bonds payable (Note 5)		16,894		19,332
Deferred revenue		9,560		5,720
Total current liabilities		131,845		195,476
Noncurrent liabilities:				
Net bonds payable (Note 5)		254,920		310,230
Total liabilities		386,765		505,706
Equity:				
Retained earnings, unreserved		6,730		6,523
Total liabilities and equity	$	393,495	$	512,229

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

Exhibit B

TENNESSEE STATE SCHOOL BOND AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	Year Ended June 30, 2000	Year Ended June 30, 1999
OPERATING REVENUES		
Revenue from loans	$ 17,193	$ 21,345
Interest income	1,604	1,926
Net increase in the fair value of investments	952	962
Total operating revenues	19,749	24,233
OPERATING EXPENSES		
Interest expense:		
Commercial paper	3,699	4,034
Bonds	13,926	18,641
Credits to local governments	445	-
Total interest expense	18,070	22,675
Administrative expense	448	353
Amortization of bond issuance costs	94	103
Total operating expenses	18,612	23,131
Operating income	1,137	1,102
EXTRAORDINARY ITEM		
Loss on extinguishment of debt	930	699
Net income	207	403
Retained earnings, July 1	6,523	6,120
Retained earnings, June 30	$ 6,730	$ 6,523

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

Exhibit C

TENNESSEE STATE SCHOOL BOND AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	Year Ended June 30, 2000	Year Ended June 30, 1999
Cash flows from operating activities:		
Operating income	$ 1,137	$ 1,102
Adjustments to reconcile operating income to net cash used by operating activities:		
Amortization of bond issuance costs	94	103
Investment income	(2,556)	(2,888)
Interest expense	18,070	22,675
Interest income from loans	(16,581)	(20,647)
Changes in assets and liabilities:		
Increase in due from other component units	96	187
Decrease in accounts payable	-	(8)
Decrease in warrants/wires payable	(33)	(25)
Decrease in matured bonds and interest payable	-	(1,333)
Increase (decrease) in deferred revenue	(308)	329
Total adjustments	(1,218)	(1,607)
Net cash used by operating activities	(81)	(505)
Cash flows from noncapital financing activities:		
Proceeds from sale of bonds	12,925	152,370
Proceeds from sale of commercial paper	37,050	117,600
Payments for escrow	(5,996)	-
Bond issuance costs paid	(62)	(764)
Refunding bond proceeds placed in escrow	-	(118,415)
Call premiums paid	(65)	(78)
Principal paid - bonds and commercial paper	(117,625)	(73,002)
Interest paid - bonds and commercial paper	(16,964)	(21,143)
Net cash provided (used) by noncapital financing activities	(90,737)	56,568
Cash flows from investing activities:		
Purchases of investments	(34,108)	(50,888)
Proceeds from sales and maturities of investments	46,448	73,223
Interest received on investments	1,670	2,123
Loans issued	(48,445)	(104,765)
Collections of loan principal	112,802	22,125
Interest received on loans	14,997	16,053
Net cash provided (used) by investing activities	93,364	(42,129)
Net increase in cash	2,546	13,934
Cash, July 1	24,204	10,270
Cash, June 30	$ 26,750	$ 24,204
Reconciliation of cash to the balance sheet:		
Cash	$ 26,720	$ 24,067
Cash with fiscal agent	30	137
Cash, June 30	$ 26,750	$ 24,204
Noncash financing activities:		
Accretion of capital appreciation bonds	$ 1,445	$ 1,386
Bond issuance costs	365	720
Defeasance of bonds third party (Note 5)	52,850	-
Total noncash financing activities	$ 54,660	$ 2,106

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee State School Bond Authority (the "Authority") was created to provide a mechanism for financing capital projects for the state's higher education institutions. In addition, during 1999, the General Assembly empowered the Authority to issue Qualified Zone Academy Bonds ("QZAB") for financing improvement projects for primary and secondary schools of local government.

The Authority is a component unit of the State of Tennessee (the "State") and a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement 14, *The Financial Reporting Entity*, the Authority is discretely presented in the *Tennessee Comprehensive Annual Financial Report* because the Authority's board consists of state officials and, therefore, the state has the ability to affect the day-to-day operations of the Authority.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the GASB. The Tennessee State School Bond Authority follows all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989. Certain amounts presented for the preceding year have been reclassified for comparative purposes.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Investments

Investments are stated at fair value.

Amortized Amounts

1. Bond Issuance Costs. The Authority amortizes bond issuance costs using the straight-line method over the life of the bonds. Unamortized bond issuance costs are reported as deferred charges.

2. Bond Discounts, Premiums, and Deferred Amount on Refundings. The Authority amortizes bond discounts and premiums using the straight-line method over the life of the bonds. The deferred amount on refundings is amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Bonds payable are reported net of the applicable unamortized bond discount or premium and the unamortized deferred amount on refundings.

3. Accretion. The difference between the face amount of College Saver Bonds (capital appreciation bonds) and the public offering price is not treated as bond discount. Capital appreciation bonds are subject to redemption at prices which increase from the initial public offering price to the face amount. The carrying amount of these bonds is adjusted semi-annually and at June 30 to reflect the increased liability, with a corresponding charge to interest expense.

4. Deferred Revenue. When the Authority issues bonds to finance capital projects, the par amount of the bonds is adjusted by certain amounts (such as bond discount/premium, underwriters' fees, and other costs of issuance) in order to arrive at the amount of bond proceeds available for capital expenditures. These amounts, discussed above, are capitalized and amortized pursuant to generally accepted accounting principles. A similar situation arises when accounting for the loans to the higher education institutions and local government education authorities. Because of the adjustments mentioned above (discount, costs of issuance, etc.), the principal amount of the loan differs from the actual amount of funds available for capital expenditures. Because the higher education institutions and the local government education authorities bear the cost of this difference, it is carried on the balance sheet as deferred revenue and amortized over the life of the bonds.

NOTE 2. DEPOSITS AND INVESTMENTS

Under the general bond resolutions of the Tennessee State School Bond Authority, the funds of the Authority can be invested in obligations of the State or United States government or obligations for which the principal and interest are guaranteed by the State or United States government, obligations of the United States or its agencies under flexible repurchase agreements which are fully collateralized by obligations of the United States or obligations the timely payment of the principal of and interest on which are guaranteed by the United States, the state investment pool, and any other investment authorized by the state investment policy adopted by the state funding board pursuant to *Tennessee Code Annotated*, Section 9-4-602. Deposits and investments of the Authority meet the requirements of the general bond resolutions.

Deposits. The Authority's deposits are held in a financial institution which participates in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. At June 30, 2000, the Authority had $29,862 on deposit with the fiscal agent. At June 30, 1999, the Authority had $136,907 on deposit with the fiscal agent.

The carrying amount of cash on deposit in the State Treasurer's pooled investment fund was $26,719,786 on June 30, 2000, and $24,067,076 on June 30, 1999.

Investments. Investments are categorized to indicate the level of custodial risk assumed by the Authority at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Authority's name.

Authority investments at June 30, 2000, expressed in thousands:

	Category		
	1	2	3
Federal Home Loan Bank Discount Notes	$14,725	$ -	$ -

Authority investments at June 30, 1999, expressed in thousands:

	Category		
	1	2	3
Federal Home Loan Bank Discount Notes	$21,791	$ -	$ -
U.S. Treasury Securities– State and Local Government Series	4,368	-	-
	$26,159	$ -	$ -

NOTE 3. LOANS TO HIGHER EDUCATION INSTITUTIONS

The Authority has entered into financing agreements with both the Board of Trustees of the University of Tennessee ("Board of Trustees") and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee ("Tennessee Board of Regents"). Each agreement is dated November 1, 1997, as amended. Under the agreements, the Authority agrees to finance construction projects for the Board of Trustees or the Tennessee Board of Regents. Annual financing charges payable under the agreements must be sufficient to pay the debt service of the notes and bonds of the Authority and the costs of administering the programs.

NOTE 4. RESTRICTED ASSETS

Crossover Refunding Investments. This account represents the proceeds of the 1996 Series D refunding bonds placed in an irrevocable trust with the trustee for the redemption of the outstanding 1990 Series B Bonds maturing in 2004-2011.

Debt Service Reserve. The first general bond resolution of the Authority requires that an amount equal to the maximum annual debt service requirement be placed in a debt service reserve account with the trustee. The amount held in trust was $14,672,017 at June 30, 2000, and $21,194,955 at June 30, 1999. The first general bond resolution is effective for all bonds issued prior to 1998.

The second general bond resolution, effective for all bonds issued in 1998 and subsequently, permits the Authority to satisfy the debt service reserve requirement by maintaining a Reserve Fund Credit Facility. The Authority obtained a surety bond, constituting a Reserve Fund Credit Facility under the Resolution, in lieu of maintaining a debt service reserve fund for the 1998 Series A, B, C, and D bonds.

NOTE 5. DEBT PAYABLE

Higher Education Facilities Programs

Bonds. The bonds issued under the First and Second Program Higher Education Facilities Bond Resolutions constitute special obligations of the Authority. The First Program, which commenced in 1967, is no longer utilized, but any payments by the Boards thereunder will be superior to the Boards' payments under the Second Program Higher Education Facilities Bond Resolution. The principal; sinking fund installments, if any; and redemption price of and interest on the bonds are payable solely from the annual financing charges, legislative appropriations, and other moneys and securities held or set aside under the Resolutions.

Commercial Paper. Commercial paper constitutes a special obligation of the Authority. Principal of and interest on the commercial paper is payable from the following sources: (i) as to principal only, the proceeds of the sale of commercial paper issued to pay the principal of other outstanding commercial paper, (ii) the proceeds of draws on the Liquidity Facility, (iii) available revenues, (iv) the moneys and securities (if any) on deposit in the Reimbursement Fund and in the Debt Service Fund, (v) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (vi) the proceeds of bonds or notes issued to make such payments.

Qualified Zone Academy Bonds Program

On September 9, 1999, the members of the Authority adopted a Qualified Zone Academy Bond Resolution authorizing the issuance of Qualified Zone Academy Bonds (QZAB) to local governments for the purpose of financing eligible costs of certain projects. The Tennessee Department of Education recommends the projects to the Authority that should be funded under the QZAB program. The Taxpayer Relief Act of 1997 provided this financial tool whereby interest on QZAB is paid by the federal government in the form of an annual tax credit to the financial institutions that hold the QZAB. The bonds are not general obligations of the State of Tennessee and are secured by the general obligation pledge of the local jurisdiction and the state-shared taxes of the local jurisdiction.

Debt Payable at June 30, 2000, and June 30, 1999, Expressed in Thousands

	June 30, 2000	June 30, 1999
Bonds Payable:		
1967 Series A at an interest rate of 4.1% maturing to 2007	$ 7,760	$ 9,420
1976 Series B at an interest rate of 3.0% maturing to 2011	2,291	2,506
1987 Refunding Series A at an interest rate of 4.0% maturing in 2012	1,170	5,250
1989 Current Interest Bonds at an interest rate of 7.0% maturing in 2020 and 1989 College Saver Bonds with yields of 6.65% to 6.90% maturing to 2010 (at accreted value)	19,643	21,472

1990 Series A (Taxable) and Series B at interest rates of 6.7% to 9.0% maturing to 2011	-	5,915
1996 Series A at interest rates from 5.0% to 6.0% maturing to 2026	78,935	92,625
1996 Refunding Series B at interest rates from 5.0% to 6.0% maturing to 2011	12,830	45,510
1996 Refunding Series C at interest rates from 5.375% to 6.0% maturing to 2020	4,045	4,045
1996 Refunding Series D at interest rates from 5.0% to 5.5% maturing to 2011	-	4,400
1998 Series A at interest rates from 4.3% to 5.0% maturing to 2028	53,675	54,865
1998 Series B (Taxable) at interest rates from 5.8% to 6.7% maturing to 2028	15,325	15,460
1998 Refunding Series C at interest rates from 3.65% to 5.00% maturing to 2014	36,300	41,285
1998 Refunding Series D at interest rates from 3.65% to 4.85% maturing to 2021	29,275	31,125
1999 Qualified Zone Academy Bonds non-interest bearing maturing in 2011	13,290	-
Total Par Amount of Bonds Payable	274,539	333,878
Plus Unamortized Premium/Less Unamortized Discount	17	425
Bonds Payable Net of Unamortized Premium/Discount	274,556	334,303
Less: Deferred Amount on Refundings	(2,742)	(4,741)
Net Bonds Payable	$ 271,814	$ 329,562
Commercial paper, variable rate	$ 102,700	$ 162,050

Debt Service Requirements to Maturity of Bonds Payable at June 30, 2000, Expressed in Thousands

For the Year(s) Ending June 30	Principal	Interest	Total
2001	$15,660	$13,666	$29,326
2002	15,612	13,095	28,707
2003	14,756	12,502	27,258
2004	15,336	11,927	27,263
2005	12,641	11,282	23,923
2006-2028	190,612	109,027	299,639
Total	$264,617	$171,499	$436,116

The above principal for bonds is less than that presented on the accompanying financial statements by $7.197 million. Of this amount, $9.939 million represents accretion to date on the unmatured portion of the 1989 College Saver Bonds. This accretion has been reported as bond principal in the accompanying financial statements. In the debt service schedule above, however, it has been reported as interest in the years (2001-2010) in which the bonds mature. The $7.197 million also includes $2.742 million, representing the deferred amount on bond refundings. This amount is presented as a deduction from bonds payable in the accompanying financial statements but is not reflected in the debt service schedule above.

Bond Issues and Refundings

On November 30, 1999, the Authority issued $13,290,000 of Qualified Zone Academy Bonds (QZAB) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The bonds are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each November 30, the QZAB borrowers make annual principal payments into a bond fund held by the trustee to pay the bonds at maturity on November 30, 2011.

On July 16, 1999, the University of Tennessee (the “University”) transferred its sole ownership in a component unit, UHS Ventures, Inc., formerly known as University Health System, Inc., to a newly formed 501(c) 3 corporation also named University Health System, Inc. On July 29, 1999, the University transferred ownership and control of its hospital, UT Memorial Research Center and Hospital, located in Knoxville, Tennessee, to University Health Systems, Inc. (“UHS”). In conjunction with the University’s hospital conversion, the Authority defeased $96,400,000 of commercial paper and $52,850,000 of bonds on July 29, 1999. The bonds included

$4,080,000 of 1987 Series A, $1,605,000 of 1990 Series A, $11,290,000 of 1996 Series A, $31,475,000 of 1996 Series B, and $4,400,000 of 1996 Series D. Defeasance of the bonds resulted in a difference of $809,585 between the reacquisition price and the net carrying amount of the old debt adjusted for unamortized deferred revenue. This difference is reported on the financial statements as a loss on extinguishment of debt.

On May 1, 2000, the Authority liquidated $4,375,000 of crossover refunding investments to call $4,310,000 of 1990 Series B bonds. Call premiums of $64,650 were paid on the refunding. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $120,055, which is reported as a loss on extinguishment of debt. The 1996 Series D crossover refunding bonds were defeased in conjunction with the University hospital conversion.

On October 1, 1998, the Authority issued four series of bonds. The 1998 Series A tax-exempt bonds in the amount of $54,865,000 were issued to redeem $43,700,000 of the Authority's tax-exempt commercial paper, and 1998 Series B taxable bonds in the amount of $15,460,000 were issued to redeem $2,200,000 of the Authority's taxable commercial paper. The balance of the proceeds was used to pay for new construction projects.

The 1998 Series C bonds were issued in the amount of $48,735,000. The bond proceeds, a $12,958,629 debt service reserve contribution, and taxable commercial paper in the amount of $15,000,000 were used to currently refund $18,340,000 of 1972 Series A bonds, $1,780,000 of 1977 Series A bonds, $28,820,000 of 1977 Refunding Bonds, and $26,385,000 of 1985 Series B bonds. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $847,146. Of this amount, $274,486 is recognized on the accompanying financial statements as an extraordinary loss in 1999. The remaining $572,660 is reported as a deduction from bonds payable and is being charged to operations through the year 2014 using the straight-line method. The refunding was completed to reduce the Authority's total debt service payments over the next 15 years by $18,561,874 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $6,380,441.

The 1998 Series D Bonds were issued in the amount of $33,540,000. In addition to the bond proceeds, a $4,378,018 debt service reserve contribution and taxable commercial paper proceeds in the amount of $6,800,000 were used to refund $40,775,000 of 1992 Series A bonds. The monies were placed in an irrevocable trust and the bonds are considered defeased. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of

$2,533,507. Of this amount, $425,012 is recognized on the accompanying financial statements as an extraordinary loss. The remaining $2,108,495 is reported as a deduction from bonds payable and is being charged to operations through the year 2021 using the straight-line method. The refunding was completed to reduce the Authority's total debt service payments over the next 22 years by $11,203,053 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $2,547,920.

On May 1, 1999, the Authority liquidated $3,957,600 of crossover refunding investments in order to call $3,880,000 of 1989 Current Interest Bonds. Call premiums of $77,600 were paid on the refunding. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $103,152, which is reported as a deduction from bonds payable and is being charged to operations through the year 2020 using the straight-line method.

Prior-year Defeasance of Debt

In prior years, certain Authority bonds were defeased by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service 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, 2000, $86,045,000 of bonds outstanding are considered defeased.

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 Authority approved an increase in the maximum principal amount authorized from $150 million to $200 million on January 7, 1999, in anticipation of funding the construction projects that would be related to the University of Tennessee sale of assets to the non-profit corporation. On October 14, 1999, the Authority approved a reduction in the maximum principal amount authorized from $200 million to $150 million. Commercial paper may be issued as tax-exempt or as taxable. At the Program's inception, commercial paper refinanced certain outstanding bond anticipation note indebtedness that the Authority had previously issued to finance capital projects. The commercial paper dealer is J.P. Morgan & Co. At June 30, 2000, $102,700,000 of commercial paper was outstanding ($89,300,000 of tax-exempt and $13,400,000 of federally taxable commercial paper). At June 30, 1999, $162,050,000 of commercial paper was outstanding ($96,600,000 of tax-exempt and $65,450,000 of federally taxable commercial paper).

The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. 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 higher education institutions contribute funds to the Interest Rate Reserve Fund. The principal of the Interest Rate Reserve Fund is credited back to the institution as commercial paper is redeemed. The Interest Rate Reserve Fund consisted of $477,045 at June 30, 2000, and $784,915 at June 30, 1999.

The commercial paper liquidity provider, under an Advance Agreement, is *Westdeutsche Landesbank Girozentrale*, New York branch. The total available commitment is $152,250,000. The obligation of *Westdeutsche Landesbank Girozentrale* is to purchase unremarketed commercial paper.

NOTE 6. DEFERRED REVENUE

Prior to June 30, 1998, the Authority recorded only the Interest Rate Reserve Fund in deferred revenue. Beginning in fiscal year 1999, in conjunction with the sale of the 1998 Series A, B, C, and D bonds, the Authority recorded an amount equal to the discount/premium, underwriters' fees, and other costs of issuance in deferred revenue. During fiscal year 2000, the Authority recorded these same adjustments to its loan receivables and deferred revenue for all bonds issued prior to 1998. This amount is amortized on a straight-line basis over the life of the related bond. In addition, beginning in fiscal year 2000, an amount equal to the interest portion of the maximum annual debt requirement in the Debt Service Reserve Fund is also recorded in deferred revenue. The interest portion is adjusted as the debt service reserve fund maximum annual requirement changes. The Interest Rate Reserve Fund and the interest portion of the Debt Service Reserve Fund are not amortized.

Deferred revenue at June 30, 2000, and June 30, 1999, expressed in thousands:

	June 30, 2000	June 30, 1999
Interest Rate Reserve Fund	$ 477	$ 785
Interest portion of Debt Service Reserve Funds	3,361	–
1998 Series B – Cash held for debt service interest	–	539
Difference in bond proceeds available for capital expenditure and the par value of bonds to be repaid – adjustments for discount/premium, underwriters fees, and other costs of issuance		
1996 Series A bonds; amortized through 2026	610	–

1996 Series B bonds; amortized through 2011	495	–
1996 Series C bonds, which was a crossover refunding of the 1989 Current Interest Bonds; amortized through 2020	156	164
1998 Series A bonds; amortized through 2028	645	667
1998 Series B bonds; amortized through 2028	209	217
1998 Series C bonds; amortized through 2014	270	290
1998 Series D bonds; which was an advance refunding of the 1992 Series A bonds; amortized through 2021	2,918	3,058
1999 Qualified Zone Academy Bonds; amortized through 2012	419	–
	$ 9,560	$ 5,720

NOTE 7. SUBSEQUENT EVENTS

On November 22, 2000, the Authority had outstanding $111,700,000 in tax-exempt and $19,550,000 in federally taxable Commercial Paper Notes. Between June 30, 2000, and November 22, 2000, the Authority has issued $28,550,000 in Commercial Paper to pay construction expenditures.

On November 8, 2000, the Authority issued two bond series. The 2000 Series A tax-exempt bond was for $70,680,000 and will be used to redeem approximately $67,400,000 of commercial paper, and the 2000 Series B taxable bonds was for $33,730,000 and will be used to redeem approximately $19,300,000 of commercial paper. The balance of the proceeds will be used for new construction projects. The bonds are expected to mature at varying amounts through May 1, 2030, for Series A and May 1, 2020, for Series B.

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY BALANCE SHEETS - PROGRAM LEVEL
JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	June 30, 2000			June 30, 1999		
	Higher Education Facilities Program	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Program	Qualified Zone Academy Bonds Program	Total
Assets						
Current assets:						
Cash	$ 13,407	$ 13,313	$ 26,720	$ 24,067	$ -	$ 24,067
Cash with fiscal agent	30	-	30	137	-	137
Investments with fiscal agent	53	-	53	596	-	596
Loans receivable	16,894	-	16,894	19,332	-	19,332
Interest receivable	2,633	-	2,633	1,960	-	1,960
Due from other component units	272	-	272	368	-	368
Total current assets	33,289	13,313	46,602	46,460	-	46,460
Restricted assets:						
Crossover refunding investments	-	-	-	4,368	-	4,368
Debt service reserve	14,672	-	14,672	21,195	-	21,195
			-			
Total restricted assets	14,672	-	14,672	25,563	-	25,563
Other assets:						
Advances to other component units	330,110	-	330,110	438,010	-	438,010
Deferred charges	1,831	280	2,111	2,196	-	2,196
Total other assets	331,941	280	332,221	440,206	-	440,206
Total assets	$ 379,902	$ 13,593	$ 393,495	$ 512,229	$ -	$ 512,229
Liabilities and Equity						
Liabilities:						
Current liabilities:						
Warrants/wires payable	$ 25	$ -	$ 25	$ 58	$ -	$ 58
Due to other component units	-	-	-	5,655	-	5,655
Due to local governments	-	5	5	-	-	-
Accrued interest payable	2,661	-	2,661	2,661	-	2,661
Commercial paper payable	102,700	-	102,700	162,050	-	162,050
Bonds payable	16,894	-	16,894	19,332	-	19,332
Deferred revenue	9,141	419	9,560	5,720	-	5,720
Total current liabilities	131,421	424	131,845	195,476	-	195,476
Noncurrent liabilities:						
Net bonds payable	241,757	13,163	254,920	310,230	-	310,230
Total liabilities	373,178	13,587	386,765	505,706	-	505,706
Equity:						
Retained earnings, unreserved	6,725	5	6,730	6,523	-	6,523
Total liabilities and equity	$ 379,903	$ 13,592	$ 393,495	$ 512,229	$ -	$ 512,229

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY STATEMENTS OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	Year ended June 30, 2000			Year ended June 30, 1999		
	Higher Education Facilities Program	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Program	Qualified Zone Academy Bonds Program	Total
OPERATING REVENUES						
Revenue from loans	$ 17,172	$ 21	$ 17,193	$ 21,345	$ -	$ 21,345
Interest income	1,155	449	1,604	1,926	-	1,926
Net increase in the fair value of investments	952	-	952	962	-	962
Total operating revenues	19,279	470	19,749	24,233	-	24,233
OPERATING EXPENSES						
Interest expense:						
Commercial paper	3,699	-	3,699	4,034	-	4,034
Bonds	13,920	6	13,926	18,641	-	18,641
Credits to local governments	-	445	445	-	-	-
Total interest expense	17,619	451	18,070	22,675	-	22,675
Administrative expense	448	-	448	353	-	353
Amortization of bond issuance costs	80	14	94	103	-	103
Total operating expenses	18,147	465	18,612	23,131	-	23,131
Operating income	1,132	5	1,137	1,102	-	1,102
EXTRAORDINARY ITEM						
Loss on extinguishment of debt	930	-	930	699	-	699
Net income	202	5	207	403	-	403
Retained earnings, July 1	6,523	-	6,523	6,120	-	6,120
Retained earnings, June 30	$ 6,725	$ 5	$ 6,730	$ 6,523	$ -	$ 6,523

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY STATEMENTS OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2000, AND JUNE 30, 1999

(Expressed in Thousands)

	Year Ended June 30, 2000			Year Ended June 30, 1999		
	Higher Education Facilities Program	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Program	Qualified Zone Academy Bonds Program	Total
Cash flows from operating activities:						
Operating income	$ 1,132	$ 5	$ 1,137	$ 1,102	$ -	$ 1,102
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Amortization of bond issuance costs	80	14	94	103	-	103
Investment income	(2,107)	(449)	(2,556)	(2,888)	-	(2,888)
Interest expense	17,618	452	18,070	22,675	-	22,675
Interest income from loans	(16,560)	(21)	(16,581)	(20,647)	-	(20,647)
Changes in assets and liabilities:						
Increase in due from other component units	96	-	96	187	-	187
Decrease in accounts payable	-	-	-	(8)	-	(8)
Decrease in warrants/wires payable	(33)	-	(33)	(25)	-	(25)
Decrease in matured bonds and interest payable	-	-	-	(1,333)	-	(1,333)
Increase (decrease) in deferred revenue	(308)	-	(308)	329	-	329
			-			
Total adjustments	(1,214)	(4)	(1,218)	(1,607)	-	(1,607)
Net cash provided (used) by operating activities	(82)	1	(81)	(505)	-	(505)
Cash flows from noncapital financing activities:						
Proceeds from sale of bonds	-	12,925	12,925	152,370	-	152,370
Proceeds from sale of commercial paper	37,050	-	37,050	117,600	-	117,600
Payments for escrow	(5,996)	-	(5,996)	-	-	-
Bond issuance costs paid	-	(62)	(62)	(764)	-	(764)
Refunding bond proceeds placed in escrow	-	-	-	(118,415)	-	(118,415)
Call premiums paid	(65)	-	(65)	(78)	-	(78)
Principal payments - bonds and commercial paper	(117,625)	-	(117,625)	(73,002)	-	(73,002)
Interest paid - bonds and commercial paper	(16,964)	-	(16,964)	(21,143)	-	(21,143)
Net cash provided (used) by noncapital financing activities	(103,600)	12,863	(90,737)	56,568	-	56,568
Cash flows from investing activities:						
Purchases of investments	(34,108)	-	(34,108)	(50,888)	-	(50,888)
Proceeds from sales and maturities of investments	46,448	-	46,448	73,223	-	73,223
Interest received on investments	1,221	449	1,670	2,123	-	2,123
Loans issued	(48,445)	-	(48,445)	(104,765)	-	(104,765)
Collections of loan principal	112,802	-	112,802	22,125	-	22,125
Interest received on loans	14,997	-	14,997	16,053	-	16,053
Net cash provided (used) by investing activities	92,915	449	93,364	(42,129)	-	(42,129)
Net increase (decrease) in cash	(10,767)	13,313	2,546	13,934	-	13,934
Cash, July 1	24,204	-	24,204	10,270	-	10,270
						-
Cash, June 30	$ 13,437	$ 13,313	$ 26,750	$ 24,204	$ -	$ 24,204
Reconciliation of cash to the balance sheet:						
Cash	$ 13,407	$ 13,313	$ 26,720	$ 24,067	$ -	$ 24,067
Cash with fiscal agent	30	-	30	137	-	137
			-			-
Cash, June 30	$ 13,437	$ 13,313	$ 26,750	$ 24,204	$ -	$ 24,204
Noncash financing activities:						
Accretion of capital appreciation bonds	$ 1,445	$ -	$ 1,445	$ 1,386	$ -	$ 1,386
Bond issuance costs	-	365	365	720	-	720
Defeasance of bonds by third party	52,850	-	52,850	-	-	-
			-			
Total noncash financing activities	$ 54,295	$ 365	$ 54,660	$ 2,106	$ -	$ 2,106