AUDIT REPORT

Tennessee State School Bond Authority

For the Year Ended
June 30, 2007

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

May 12, 2008

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
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, 2007. 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/wg
08/018

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, 2007

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 (including the bond resolutions); 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 Report
Tennessee State School Bond Authority
For the Year Ended June 30, 2007

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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. To date, the Authority has not issued debt to fund a student loan program. 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 Tennessee State School Bond Authority is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 2006, through June 30, 2007, and was conducted 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. Financial statements are presented for the year ended June 30, 2007, and for comparative purposes, the year ended June 30, 2006. The Tennessee State School Bond Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

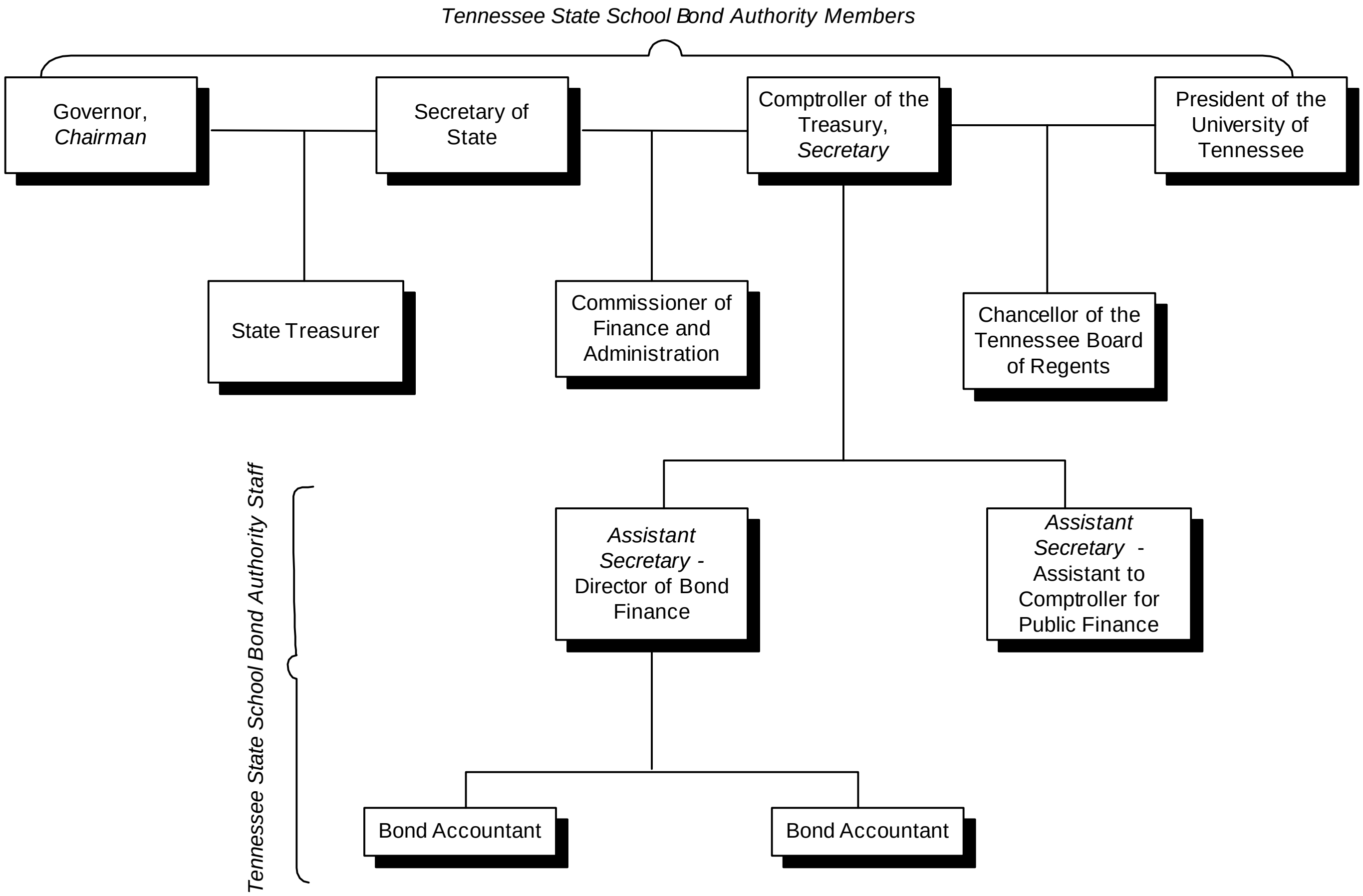
The objectives of the audit were

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 (including the bond resolutions);
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



OBSERVATIONS AND COMMENTS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tennessee State School Bond Authority for its *Comprehensive Annual Financial Report* (CAFR) for the year ended June 30, 2006. This is the fifth year that the Authority has prepared a comprehensive annual financial report and received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Authority has submitted its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2007, to the GFOA Certificate of Achievement Program.

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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, 2007, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by 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. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters 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
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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*

December 7, 2007

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, 2007, and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 (including the bond resolutions), 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*.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/wg

STATE OF TENNESSEE
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Independent Auditor's Report

December 7, 2007

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of June 30, 2007, and June 30, 2006, and the related statements of revenues, expenses, and changes in net assets 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee State School Bond Authority; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain Authority contracts; participating in the negotiation and procurement of services for the state; maintaining the accounting records for the Tennessee State School Bond Authority; and providing support staff to the Authority.

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, 2007, and June 30, 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 11 through 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information on pages 43 through 45 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 audits 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 December 7, 2007, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions) 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 the internal control over financial reporting or on compliance. 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

AAH/ddm

Management's Discussion and Analysis

As management of the Tennessee State School Bond Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities as presented in the financial statements and notes to the financial statements of the Authority for the fiscal year ended June 30, 2007. These activities are compared to the results of the fiscal years ended June 30, 2006, and 2005. This section should be read in conjunction with the Independent Auditor's Report and the audited financial statements and accompanying notes.

Program Activity Highlights

The Authority's purpose is to provide loans to the State's higher education institutions by issuing bonds and notes of the Authority and to local education agencies ("LEAs") through Qualified Zone Academy Bonds ("QZABs"). The tables below summarize this business activity.

	Higher Education Facilities Programs		
	2007	**2006**	**2005**
Number of institutions with outstanding loans	23	23	23
Total number of outstanding loans	301	272	264
Balance of outstanding loans	$695,235,390	$578,693,784	$ 520,133,184
Number of loans approved in fiscal year	18	19	57
Dollar value of loans approved in fiscal year	$ 127,095,000	$ 108,133,760	$ 243,921,382
Dollar value of loans approved in fiscal year - unfunded	$ 126,075,466	$ 107,250,572	$ 224,420,872
Dollar value of loans financed in fiscal year	$ 145,268,339	$ 87,819,428	$ 57,553,324
Bonds issued in fiscal year	$ 137,710,000	$ 66,305,000	$ 131,500,000
Commercial paper issued in fiscal year	$ 131,448,000	$ 66,000,000	$ 44,000,000

	Qualified Zone Academy Bond Program		
	2007	**2006**	**2005**
Number of LEAs with outstanding loans	14	14	13
Total number of outstanding loans	23	23	16
Balance of outstanding loans	$ 28,438,951	$ 22,401,091	$ 15,766,633
Number of loans approved in fiscal year	-	-	7
Dollar value of loans approved in fiscal year	$ -	$ -	$ 14,554,567
Dollar value of loans approved in fiscal year - unfunded	$ -	$ -	$ 14,554,567
Dollar value of loans financed in fiscal year	$ 10,260,932	$ 9,732,516	$ 4,256,804
Bonds issued in fiscal year	$ -	$ 17,545,000	$ 12,600,000

The financial statements and the analysis provided in the remainder of this report reflect the financial results of this activity.

Debt Administration

Pursuant to Section 49-3-1201 et seq., *Tennessee Code Annotated*, the General Assembly of the State created the Tennessee State School Bond Authority to issue bonds and notes to fund capital projects for the higher education institutions including both four-year institutions and two-year community colleges. Such loans are payable from user fees or savings generated from the projects in the case of energy conservation projects. In 1999 the statute was amended to authorize the Authority to issue QZABs on behalf of local education agencies throughout the State. For more specific financial information on long-term debt activity, see Note 5, Debt Payable, in the Notes to the Financial Statements.

Higher Education Facilities Programs. When an institution applies for project funding through the Authority, an analysis of the financial feasibility of each loan application is undertaken before it is approved by the Authority. Each higher education system (the University of Tennessee and the Tennessee Board of Regents) must include in its annual budget sufficient funds to repay total debt service. This pledge is a gross revenue pledge of the institution and its system. The Authority is also authorized by statute to intercept the state appropriation to that institution and system if the institution fails to make timely debt service payments to the Authority.

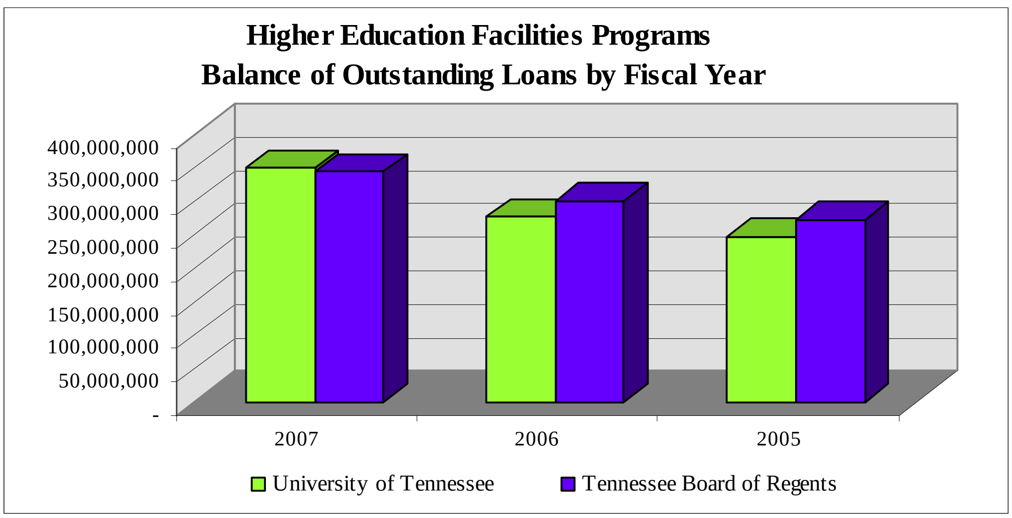
Generally under the financing program for higher education institutions, a project is funded through the Authority's commercial paper program during its construction phase. When projects totaling $50 million or greater are completed or near completion, the Authority fixes the interest rate for the term of the project by issuing long-term debt. The range of the commercial paper interest rates are shown below for the fiscal year ended June 30, 2007, as compared to the fiscal years 2006 and 2005. The range of the commercial paper interest rates were a function of the term of the commercial paper and a volatile capital market.

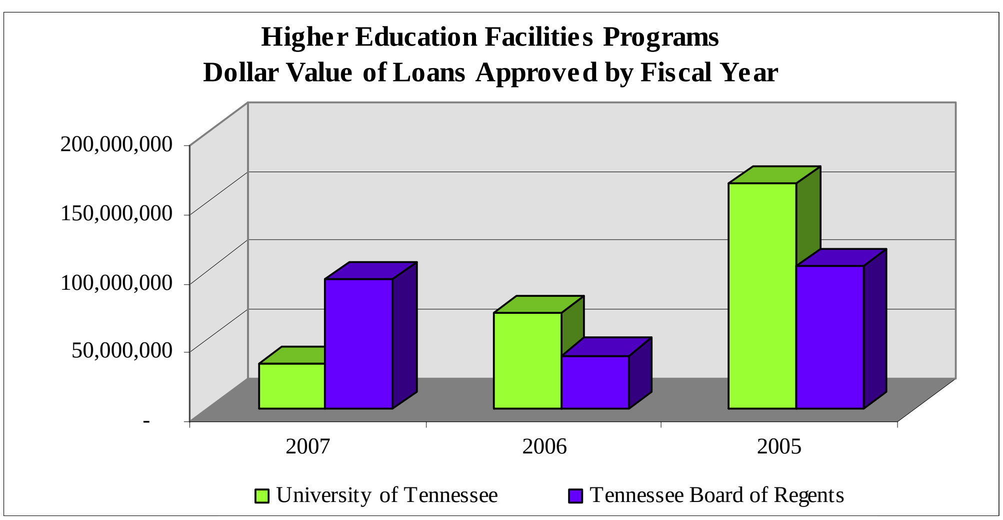
Higher Education Facilities Programs
Commercial Paper Interest Rates Range

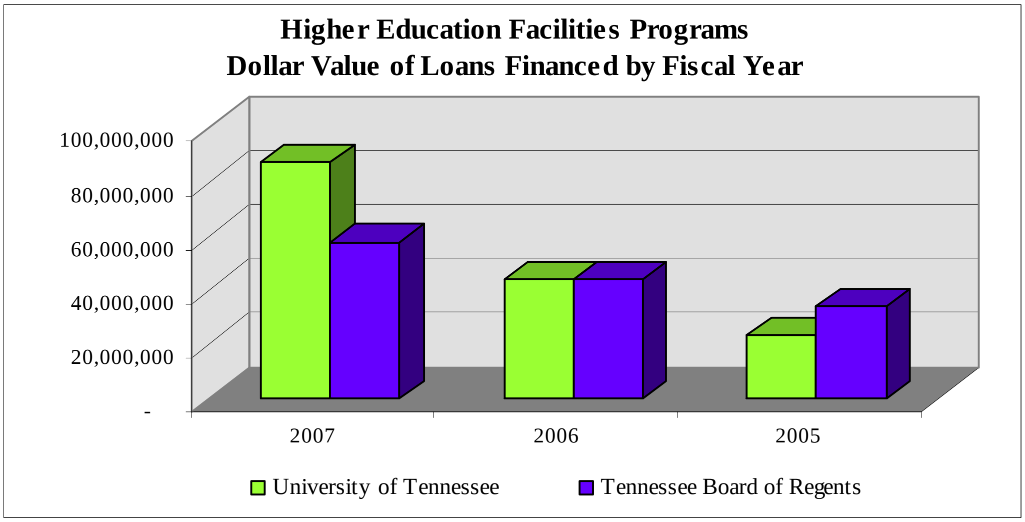
	Tax-Exempt		Taxable	
Fiscal Year	**Low**	**High**	**Low**	**High**
2007	3.20%	3.85%	5.08%	5.42%
2006	2.10%	3.63%	3.07%	5.00%
2005	1.00%	3.00%	1.20%	2.80%

Effective March 30, 2007, the Authority changed liquidity providers for the commercial paper program from WestLB to State Street Bank and Trust Company under a Credit Agreement which states an expiry date of March 30, 2014, subject to extension and earlier termination. The commitment fee is .095% paid quarterly in arrears. If the liquidity facility is called upon, the Authority must repay the advance on the earlier of (i) the date of such Advance or (ii) the Termination Date. Should the Authority fail to repay the advance by the Term Loan Closing Date, the principal amount will convert to a term loan with six equal semi-annual payments. As of the fiscal year ended June 30, 2007, the Authority has not had to call upon the liquidity facility.

Interest rates on the higher educational facilities long-term fixed-rate tax-exempt bonds range from a low of 2.25% to a high of 5.00% and the interest rates on the higher educational facilities long-term fixed-rate taxable bonds range from a low of 2.80% to a high of 7.15%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency is achieved. The creditworthiness of both large and small institutions is homogenized into one credit resulting in a lower cost of borrowing and providing a more equitable cost to students and other users who repay the debt through various user fees and charges and student debt service fees. Additional benefits accrue to the higher education institutions and the two systems by having one point of debt issuance and administration for all institutions of higher education throughout the state.



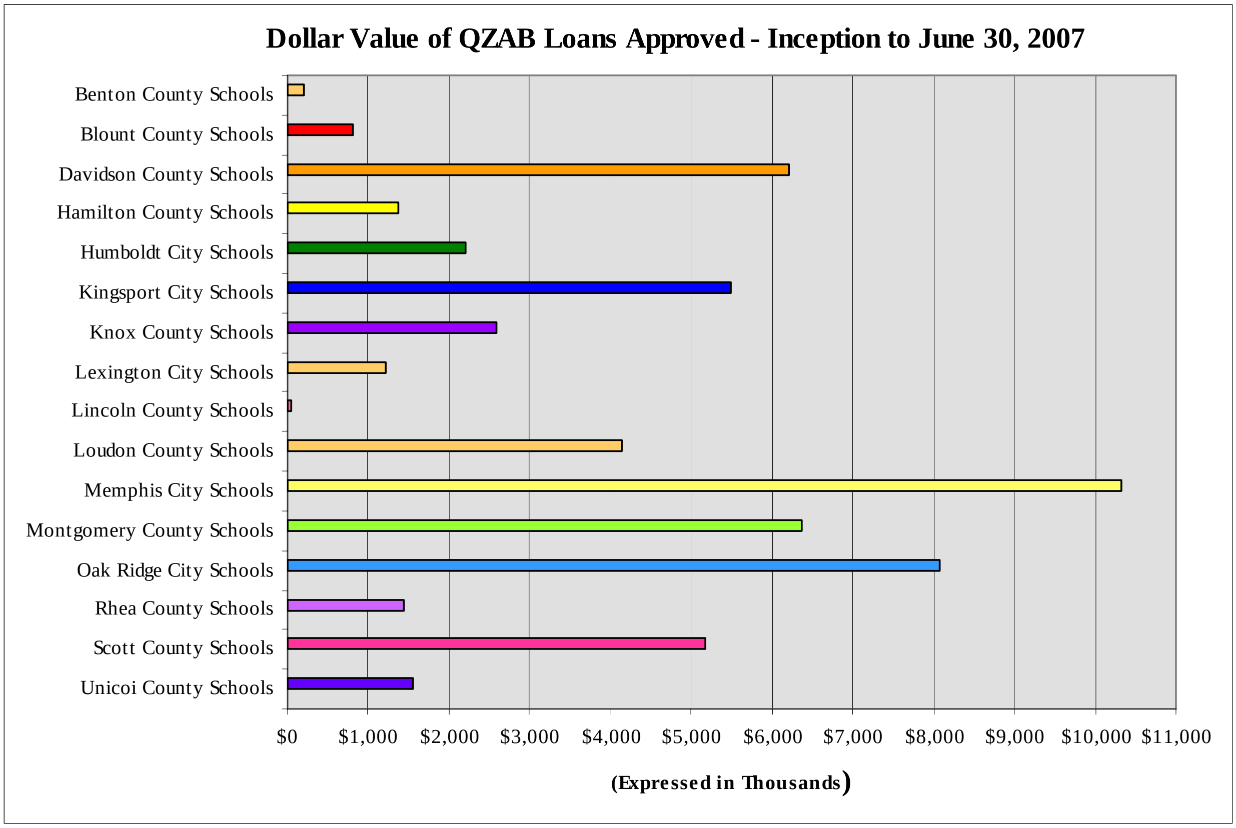




As of the fiscal year ended June 30, 2007, the Authority's higher education facilities program was rated AA, Aa3, and AA- by Fitch, Moody's Investors Service and Standard & Poor's Rating Group, respectively. During the fiscal year, the Authority hosted a rating presentation at the University of Memphis, Memphis, Tennessee, for each of the rating agencies. As a result of the presentation in August 2007, Moody's upgraded the Authority's rating to Aa2, Standard & Poor's upgraded the Authority's rating to AA, and Fitch maintained its rating of AA. Moody's commented that the upgrade reflected the improved prospects for state funding for public higher education in the state and the centralized stewardship of higher education capital and debt programs, combined with the strong fundamental credit quality of the public higher education system in Tennessee. Standard & Poor's cited the reason for the upgrade was the increasing system revenue fees which provide strong debt service coverage, as well as an improved state funding environment and strong debt management.

Qualified Zone Academy Bond Program. The QZAB program is a capital financing program originally authorized by the federal government under the Taxpayer Relief Act of 1997, Section 227(a). A QZAB is a taxable bond issued by the State, the proceeds of which are used to finance certain eligible public schools' renovation projects and equipment purchases. During the time the bond is outstanding, an eligible holder of a QZAB is generally allowed annual federal income tax credits in lieu of receiving periodic interest payments from the issuer. These credits compensate the holder for lending money to the borrower and function as payments of interest on the bonds. The Tennessee Department of Education distributes the application for a QZAB allocation to all local education agencies in the State. The Department recommends those projects that best meet the requirements of the program to the Authority for funding.

The local education agencies and the city or county supporting the agency must provide a general obligation pledge to the Authority for the repayment of its loans. The Authority is authorized to intercept the local community's state-shared taxes, should the local education agency/local government fail to repay its loan timely.



<u>Overview of the Financial Statements</u>

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting and the flow of economic resources measurement focus. This basis recognizes revenues when earned and expenses at the time liabilities are incurred. Using the economic resources measurement focus, a reader is presented information that allows him/her to determine the transactions and events that have increased or decreased the total economic resources for the period.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) the basic financial statements and 2) notes to the financial statements. The basic financial statements consist of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Statements of Net Assets depict the Authority's financial position at June 30, 2007, and June 30, 2006. The Statements of Revenues, Expenses and Changes in Net Assets portray the results of operations and the change in net assets for the years presented. The Statements of Cash Flows summarize the sources and uses of cash for the fiscal years presented. These statements are accompanied by notes to the financial statements that provide information that is essential to the reader's understanding of the financial statements. The Authority's basic financial statements are followed by supplementary information containing the financial statement information at the program level.

Financial Analysis of the Authority

Standard indicators of financial success are not applicable to the Authority. The financial goal of the Authority is to provide timely access to the capital markets for qualified educational institutions at the lowest possible cost. The Authority successfully achieved this goal. The Authority frequently entered the short-term market with great success. Likewise, when long-term debt was sold in 2006, at competitive sale, eight syndicates placed bids for the offered bonds. There were no incidents requiring the Authority to draw from the debt service reserve fund or refuse a loan from an applicant due to the inability to obtain capital funding. In the fiscal years ending June 30, 2005, and June 30, 2007, the Authority issued refunding bonds that were sold at a negotiated sale which generated net present value savings of $7,238,342 and $3,629,728, respectively.

Statements of Net Assets Summary
(in thousands)

	2007	2006	2005
Current assets	$ 66,939	$ 139,409	$ 81,717
Noncurrent assets	725,350	599,791	536,800
Total assets	792,289	739,200	618,517
Current liabilities	35,945	35,680	27,532
Noncurrent liabilities	748,787	696,923	584,185
Total liabilites	784,732	732,603	611,717
Net assets (unrestricted)	$ 7,557	$ 6,597	$ 6,800

Note: The Authority owns no capital assets.

Current assets include approximately $15,828,845 of unexpended bond proceeds and commercial paper at June 30, 2007, that will fund approved loans, as compared to approximately $97,900,057 at June 30, 2006, and approximately $45,889,000 at June 30, 2005. During the fiscal year ending June 30, 2007, the Authority issued $137,710,000 in Higher Education Facilities Second Program Bonds which were used to retire $28,735,849 of commercial paper proceeds and partially refund a portion of the 1996B, 1996C, 1998A and 2002A bonds with the remainder to fund various costs for the projects involved. The refunding resulted in a net present value savings of $3,629,728. During the year ended June 30, 2006, the Authority issued $66,305,000 in Higher Education Facilities Second Program Bonds which were used to retire $55,474,000 of commercial paper proceeds with the remaining proceeds used to fund various costs needed to complete the projects involved in the bond issue. During the fiscal year 2005, the Authority issued $131,500,000 in Higher Education Facilities Second Program Bonds which were used to refund $126,955,000 aggregate principal amount from a portion of the 1998A, 1998B, 1998C, 2000A, 2000B, and 2002A bonds that resulted in net present value savings of

$7,242,141. The Authority also issued $17,545,000 of Qualified Zone Academy Bonds during the year ended June 30, 2006, and $12,600,000 during the year ended June 30, 2005. Principal payments were made on the long-term bonds in the amount of $28,497,000 in 2007; $22,201,000 in 2006; and $22,569,000 in 2005. During 2007 the Authority issued $131,448,000 in new commercial paper and redeemed $96,299,000. The Authority issued $66,000,000 in new commercial paper and redeemed $11,196,000 during 2006 and issued $44,000,000 in new commercial paper and redeemed $1,914,000 during 2005. There were no QZAB's issued in the fiscal year ended June 30, 2007.

The net assets are available to fund ongoing operations and other expenses necessary to meet the goals of the Authority. The increase in net assets during the year ending 2007 was primarily related to the increase in earnings on the Authority's loans and investments. The decrease in net assets during the year ended June 30, 2006, was mostly due to the issuance of the 2006 Series A and Series B bonds. The funds from the 2006 series bonds will be used to refund commercial paper proceeds, however, the commercial paper proceeds were not refunded until after the year ended June 30, 2006, thus leaving the commercial paper payable due at year end. The Authority continues to absorb certain administrative costs associated with bonded indebtedness of the higher education facilities program rather than passing those costs to the borrowers of the higher education facilities program.

Statements of Revenues, Expenses, and Changes in Net Assets Summary (in thousands)

	2007	2006	2005
Operating Revenues			
Revenue from loans	$ 30,157	$ 26,841	$ 27,027
Investment earnings	1,975	1,761	1,138
Total operating revenue	32,132	28,602	28,165
Operating Expenses			
Interest expense	28,496	26,476	25,855
Subsidy to borrowers	1,578	1,440	847
Other expenses	1,098	889	843
Total operating expenses	31,172	28,805	27,545
Operating income (loss) and change in net assets	$ 960	$ (203)	$ 620

Note: The Authority has no non-operating revenues or expenses.

The Authority's operating revenues include revenue from loans in the form of administrative fees, interest on loans, and investment income earned on cash. Operating expenses include interest expense on outstanding bonds and commercial paper, administrative expenses, and the amortization of bond costs of issuance. The Authority elected to return the investment income that it earns on funds held by the Trustee and interest earned on unspent bond proceeds as a subsidy to its borrowers in the higher education facilities program.

Pursuant to the bond resolution for the QZABs, Sinking Fund payments are invested in the State Pooled Investment Fund (the "SPIF"). SPIF rates for 2007 ranged from 5.09% to 5.30%. Investment earnings related to the QZAB program are held by the Authority for the benefit of the local education agencies and credited to their individual loans annually. Pursuant to the bond resolution for the 2004 and 2005 Series QZABs, sinking fund payments are invested in Forward Delivery Agreements which guarantees a fixed rate of interest of 3.00% and 3.64%, respectively, on investments. The investments are held by the State Treasurer in the Authority's name.

The increase in operating income and change in net assets between the fiscal years 2007 and 2006 was mostly affected by the Authority's investments and proceeds from the collection on loans earning a higher rate in fiscal year 2007 than in fiscal year 2006. The majority of the investment earnings pertain to the funds invested in the State Pooled Investment Fund which earned at an average interest rate of 5.254% in fiscal year 2007 as compared to an average interest rate of 4.063% in fiscal year 2006. The decrease in operating income and change in net assets between the fiscal years 2006 and 2005 was mostly affected by the Authority's increase in interest expense due to the markets rising rates and an increase to subsidy to borrowers. The investment earnings are a function of prevailing market interest rates and the daily invested balance.

Economic and Demographic Factors Affecting Future Financing Activities

Higher Education Facilities Programs. As Tennessee enters an economic era that emphasizes the human capital potential of its citizens rather than physical capital and natural resources, the higher education system must be positioned to serve the broader-based need for access to post-secondary education. A host of policy and environmental factors influence both demands for access and the means through which this demand will be met. These factors include:

- The advent of the Tennessee Education Lottery Scholarship program allowed more Tennesseans to attend college. In 2007-2008, the Tennessee Lottery will provide an estimated $233 million in scholarships to more than 78,000 students.
- Tennessee will experience sustained enrollment growth throughout the remainder of the decade as a result of the baby-boom echo. According to the Southern Regional Education Board, the number of high school graduates in the state of Tennessee will increase by more than 1,600 students through the end of this decade. We anticipate that many of these students will matriculate through Tennessee's higher education system.
- The demographic composition of the state is changing dramatically and the higher education system must position itself to serve the needs of an increasingly diverse population.

In the Knowledge Economy, the importance of receiving training beyond high school is significant. Presently, 21.7 percent of Tennesseans aged 25 and older hold a college degree, compared to the national average of 27.0 percent. In order to reach the average educational attainment levels of our border-states, Tennessee would need to immediately create more than 108,600 new college graduates. Furthermore, the percentage of adults in the state with an associate degree or some college in 2006 was 24.9 percent, in comparison with the national average of 26.9 percent. The availability of new and/or improved learning facilities near work and home will have a major impact on the State's success in achieving these goals.

Qualified Zone Academy Bond Program. As of June 30, 2007, the QZAB program had unused allocations totaling $20,055,000. Of this amount, $2,155,000 remains from the 2005 federal government allocation. If bonds are not issued on or prior to December 31, 2007, the remaining 2005 allocation will be forfeited. During fiscal year 2007, the federal government issued the 2006 and 2007 allocations of $8,950,000 for each year. The State has up to two years after the yearly allocations are made by the federal government to issue bonds or the allocations will be forfeited. Also, during the fiscal year, the federal government put in new regulations with changes to the issuance of QZAB bonds and the treatment of arbitrage and rebate. The Authority staff along with the staff of the Department of Education is encouraging local education authorities, cities and counties to take advantage of these interest-free loans.

Contacting the Authority's Management Team

This discussion and analysis is designed to provide our citizens, education agencies, investors and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of Bond Finance, State of Tennessee, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, visit our website at www.comptroller.state.tn.us/cpdivbf.htm, or call (615) 401-7872.

Exhibit A

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	June 30, 2007	June 30, 2006
ASSETS		
Current assets:		
Cash (Note 2)	$ 30,494	$ 104,857
Investments with fiscal agent (Note 2)	32	216
Loans receivable (Note 3)	31,171	29,903
Interest receivable (Note 3)	4,813	4,051
Receivables for administrative fees (Note 3)	429	382
Total current assets	66,939	139,409
Noncurrent assets:		
Restricted cash (Notes 2 and 4)	15,566	11,160
Restricted investments (Notes 2 and 4)	10,525	10,891
Loans receivable (Note 3)	692,504	571,192
Deferred charges	6,755	6,548
Total noncurrent assets	725,350	599,791
Total assets	792,289	739,200
LIABILITIES		
Current liabilities:		
Accounts payable	-	171
Due to local education authorities	-	2,143
Accrued interest payable	4,983	4,611
Unearned revenue (Note 6)	1,461	1,413
Bonds payable (Note 5)	29,501	27,342
Total current liabilities	35,945	35,680
Noncurrent liabilities:		
Unearned revenue (Note 6)	9,345	12,404
Commercial paper payable (Note 5)	164,195	129,046
Bonds payable (Note 5)	575,247	555,473
Total noncurrent liabilities	748,787	696,923
Total liabilities	784,732	732,603
NET ASSETS		
Unrestricted	$ 7,557	$ 6,597

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

Exhibit B

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
OPERATING REVENUES		
Revenue from loans	$ 30,157	$ 26,841
Investment earnings	1,975	1,761
Total operating revenues	32,132	28,602
OPERATING EXPENSES		
Interest expense-commercial paper	4,405	3,482
Interest expense-bonds	24,091	22,994
Subsidy to borrowers	1,578	1,440
Administrative expense	663	539
Amortization of bond issuance costs	435	350
Total operating expenses	31,172	28,805
Operating income (loss) and change in net assets	960	(203)
Net assets, July 1	6,597	6,800
Net assets, June 30	$ 7,557	$ 6,597

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

Exhibit C

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from borrowers for administrative fees	$ 392	$ 373
Payment to suppliers	(682)	(539)
Receipts from borrowers to the interest rate reserve fund	541	349
Payments to borrowers from the interest rate reserve fund	(427)	(50)
Net cash provided by (used in) operating activities	(176)	133
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from sale of bonds	48,264	83,239
Proceeds from sale of refunding bonds	95,929	-
Proceeds from sale of commercial paper	131,448	66,000
Bond issuance costs paid	(291)	(472)
Refunding bond proceeds placed in escrow	(95,881)	-
Principal paid - bonds and commercial paper	(124,796)	(33,397)
Interest paid - bonds and commercial paper	(27,473)	(25,005)
Subsidy to borrowers	(1,621)	(1,459)
Net cash provided by noncapital financing activities	25,579	88,906
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(11,950)	(16,823)
Proceeds from sales and maturities of investments	12,608	18,980
Interest received on investments	1,719	1,372
Loans issued	(157,854)	(96,024)
Collection of loan escrow	-	1,048
Loan escrow paid	(130)	(44)
Collections of loan principal	32,701	33,433
Interest received on loans	27,546	24,514
Net cash used in investing activities	(95,360)	(33,544)
Net increase (decrease) in cash	(69,957)	55,495
Cash, July 1	116,017	60,522
Cash, June 30	$ 46,060	$ 116,017

Exhibit C (Cont.)

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	Year Ended June 30, 2007	Year Ended June 30, 2006
Reconciliation of cash to the Statement of Net Assets:		
Cash	$ 30,494	$ 104,857
Restricted cash	15,566	11,160
Cash, June 30	$ 46,060	$ 116,017
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 960	$ (203)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Amortization of bond issuance costs	435	350
Investment earnings	(1,975)	(1,761)
Interest expense	28,496	26,476
Subsidy to borrowers	1,578	1,440
Interest income from loans	(29,719)	(26,455)
Changes in assets and liabilities:		
(Increase) decrease in receivables for administrative fees	(46)	(13)
(Increase) decrease in payables for administrative fees	(19)	-
Increase (decrease) in unearned revenue	114	299
Total adjustments	(1,136)	336
Net cash provided by (used in) operating activities	$ (176)	$ 133
Noncash financing activities:		
Accretion of capital appreciation bonds	$ 631	$ 769
Bond issuance costs	(6,077)	491
Total noncash financing activities	$ (5,446)	$ 1,260
Noncash investing activities:		
Net appreciation in value of investments reported at fair value	$ 29	$ 75

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 (QZABs) for financing improvement projects to local education agencies pursuant to the federal program authorized in the Taxpayer Relief Act of 1997.

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 No. 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has the option of following subsequent private-sector guidance subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

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.

The Tennessee State School Bond Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The Authority's principal operation is to provide loans to higher educational facilities and to local government units pursuant to the criteria set for by the federal government for the QZAB program. Therefore, the Authority also recognizes income on investments as operating revenue. The Authority's operating expenses include interest paid on borrowings, subsidies to borrowers, bond issuance costs, arbitrage, and administrative expenses. Any revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

Investments

Investments are stated at fair value.

Amortized Amounts

A. 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.

B. 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.

   Amortization of bond discount, premium, and deferred amount on refundings is reported with bond interest expense in the financial statements.

C. 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.

D. Unearned 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 accounting principles generally accepted in the United States of America. A similar situation arises when accounting for the loans to the higher education institutions and local education agencies. 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 education agencies bear the cost of this difference, it is carried on the statement of net assets as unearned revenue and amortized on a straight-line basis over the life of the related bond.

The Authority requires the higher education institutions to contribute funds to the Interest Rate Reserve Fund based on the amount of outstanding commercial paper. The principal of the Interest Rate Reserve Fund is credited back to the institution as commercial paper is redeemed. The Interest Rate Reserve Fund is reported on the statement of net assets as unearned revenue and is not amortized.

NOTE 2. DEPOSITS AND INVESTMENTS

The investments under the Higher Education First Program General Bond Resolution of the Tennessee State School Bond Authority can be invested in direct obligations of the United States, or obligations of which the principal and interest are guaranteed by the United States. Moneys pertaining to the Higher Education Second Program General Bond Resolution and the Qualified Zone Academy Bonds First Program Resolution of the Tennessee State School Bond Authority, pursuant to *Tennessee Code Annotated*, Section 49-3-1205, can be invested in 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 Pooled Investment Fund as provided in *Tennessee Code Annotated*, Section 9-4-603, 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

The Tennessee State School Bond Authority has cash on deposit in the Pooled Investment Fund administered by the State Treasurer. The fund's investment policy and required risk disclosures are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2007, and June 30, 2006. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee

Tower, 312 Eight Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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.

Investments

As of June 30, 2007, the Authority had the following investments:

Investment	Maturity	Fair Value
U.S. Treasury Bills	October 25, 2007	$ 3,025,361
	December 6, 2007	911,398
	July 26, 2007	1,285,871
U.S. Treasury Securities:		
State and Local Government Series		5,334,802
Total Investments		$10,557,432

As of June 30, 2007, the Tennessee State School Bond Authority holds two separate State and Local Government Series U.S. Treasury Securities. One security covers the debt of the QZAB borrower's remaining loan balance of $4,419,476, and the other security covers the remaining loan balance of $915,326 of the Higher Education borrower's debt.

As of June 30, 2006, the Authority had the following investments:

Investment	Maturity	Fair Value
U.S. Treasury Bills	October 26, 2006	$ 5,046,159
	September 28, 2006	631,588
U.S. Treasury Securities:		
State and Local Government Series		5,428,862
Total Investments		$11,106,609

During the fiscal year ended June 30, 2006, one Higher Education borrower paid $1,047,741 to defease a portion of its debt due to a transaction involving the project in which the debt was issued. The total remaining debt for the borrower was $277,189,791. The Tennessee State School Bond Authority holds two separate State and Local Government Series U.S. Treasury Securities. One security covers the debt of the QZAB borrower's remaining loan balance, and the other security covers the remaining loan balance of the Higher Education borrower's debt.

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2007, and June 30, 2006, the Authority's investments were in U.S. Government obligations which are not considered to have credit risk.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. At June 30, 2007, and June 30, 2006, the Authority's investments were registered in the name of the Authority.

Concentration of Credit Risk

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. At June 30, 2007, and June 30, 2006, the Authority's investments were in U.S. Treasury securities.

Forward Delivery Agreements

On November 24, 2004, the Authority entered into a Forward Delivery Agreement (the "Agreement") with Bank of America, N.A. related to the series 2004 QZAB Bonds. The Agreement guarantees a fixed rate of interest of 3%. Cash from borrowers' loan repayments will be used to purchase securities in accordance with the Agreement. The accumulated funds will be used to redeem the $12,600,000 series 2004 QZAB Bonds at maturity. As a result of the Agreement, borrowers will repay only $9,984,800 of the $12,600,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2007, there is $1,285,871 invested through the Agreement. As of June 30, 2006, there was $631,588 invested through the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also has the right to optionally terminate the Agreement at any time.

On December 28, 2005, the Authority entered into a Forward Delivery Agreement (the "Agreement") with J.P. Morgan Chase Bank, N.A. related to the series 2005 QZAB Bonds. The Agreement guarantees a fixed rate of interest of 3.64%. Cash from borrowers' loan repayments will be used to purchase securities in accordance with the Agreement. The accumulated funds will be used to redeem the $17,545,000 series 2005 QZAB Bonds at maturity. As a result of the Agreement, borrowers will repay only $13,438,510 of the $17,545,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2007, there is $911,398 invested through the Agreement. As of June 30, 2006, there were no funds invested in the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also has the right to optionally terminate the Agreement at any time.

The total marked to market value of the State's Forward Delivery Agreements for fiscal year 2007 is $(3,093,126), as reflected in the table below.

Terms of Forward Agreements

	QZAB Series 2004	QZAB Series 2005
Trade Date	11/24/2004	12/28/2005
Provider	Bank of America, N.A	J.P Morgan Chase Bank, N.A.
Notional Amount	$12,600,000	$17,545,000
Guaranteed Interest Rate	3.00%	3.64%
Amount Invested in Agreement at 6/30/07	$1,285,871	$911,398
Amount Invested in Agreement at 6/30/06	$631,588	$0
Date of Deposits	Nov. 24, 2005 through 2020	Dec. 8, 2006 through 2020
Market Value at 6/30/07	($1,517,769)	($1,575,357)
Market Value at 6/30/06	($1,113,433)	($1,259,116)

The Authority did not enter into these agreements as interest rate hedges. Borrowers pay no interest on these bonds. The interest rate credit is established by the federal government. The Forward Delivery Agreements are agreed to as one of the terms of purchase to induce the investor to purchase the bond.

Termination Risk

Termination risk is the risk that a counterparty will terminate a Forward Delivery Agreement at a time when the State owes it a termination payment. The State has mitigated this risk by specifying that the counterparty has the right to terminate only as a result of the following events: the failure by the State, for any reason, to purchase Qualified Securities in accordance with the Agreement; the amount to purchase Qualified Securities on the Delivery date is less that the Scheduled Fund Amount; the State is not in compliance with any covenant or obligation, incorporated by reference in, this Agreement; any representation or warranty of the State contained in the Agreement proves to have been incorrect, false or misleading; insolvency of the State; or the principal amount under the Bonds becomes due and payable for any reason prior to the maturity date.

If the current market interest rate is higher than the fixed interest rate agreed to in the Forward Delivery Agreement, the Forward Delivery Agreement has a negative fair value. In the event of termination under this circumstance, the State owes a termination payment to the counterparty. If the fair value is positive, the State is due a termination payment from the counterparty. As of June 30, 2007, the fair value of the State's Forward Delivery Agreements has a total negative value of ($3,093,126). As of June 30, 2006, the fair value of the State's Forward Delivery Agreement had a total negative value of ($2,372,549). Therefore, if the Agreement was terminated, for any reason, the State would owe a termination payment of this amount.

NOTE 3. LOANS RECEIVABLE

Higher Education Facilities Programs

The Authority has entered into financing agreements with both the Board of Trustees of the University of Tennessee (the Board of Trustees) and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee (the Tennessee Board of Regents). The First Financing Agreement and the Second Financing Agreement (the "Agreements"), are dated May 1, 1967, and November 1, 1997, respectively, 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 obligations of the Authority and the costs of administering the programs.

Qualified Zone Academy Bonds Program

The Authority has entered into loan agreements with the local education agencies for the 1999 QZABs, dated November 30, 1999; the 2001 QZABs dated December 18, 2001; the 2003 QZABs dated December 23, 2003; the 2004 QZABs dated November 24, 2004; and the 2005 QZABs dated December 28, 2005. Under the agreements, the Authority agrees to finance renovation projects and equipment for the local education agencies. On the annual date of the agreements, the borrower makes an annual principal payment into a bond sinking fund held by the State Treasurer that will pay the bonds at maturity.

NOTE 4. RESTRICTED ASSETS

Cash and Investments

The General Higher Education Facilities Bond Resolution (the First Program) requires that an amount equal to the maximum annual debt service requirement be placed in a debt service reserve account with the trustee. The first general bond resolution is effective for all bonds issued prior to 1998.

The Higher Education Facilities Second Program General Bond Resolution, effective for all bonds issued in 1998 and thereafter, 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; 2000 Series A and B; 2002 Series A; 2004 Series A, B, and C; and 2005 Series A and B Bonds, 2006 Series A and B Bonds, and 2007 Series A, B and C.

The first program bond resolution of the QZABs requires the establishment of a special trust fund, the bond sinking fund account. These accounts represent the funds set aside to redeem the QZABs at maturity.

NOTE 5. DEBT PAYABLE

Higher Education Facilities Programs

A. 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.

B. 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 Authority adopted a Qualified Zone Academy Bond Resolution authorizing the issuance of Qualified Zone Academy Bonds to local education agencies for the purpose of financing eligible costs of certain projects. The State Department of Education recommends the projects to the Authority that should be funded under the QZABs program. The Taxpayer Relief Act of 1997 provided this financial tool whereby interest on QZABs is paid by the federal government in the form of an annual tax credit to the financial institutions that hold the QZABs. The bonds are secured solely by the payments made by the borrowers under the Loan Agreements, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local education agencies and by certain funds held under the Qualified Zone Academy Bond Resolution. The Authority has no taxing power. Furthermore, the State of Tennessee shall not be liable on the bonds and the bonds shall not be a debt of the State of Tennessee.

Changes in debt payable for the year ended June 30, 2007, and 2006 are as follows (expressed in thousands):

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
Commercial paper	$ 129,046	$ 131,448	$ 96,299	$ 164,195	$ -
Bonds payable	$ 589,104	$ 138,341	$ 119,512	$ 607,933	$ 29,501
Less: unamortized bond discount	(854)	-	(294)	(560)	-
Add: unamortized bond premium	12,927	7,228	1,260	18,895	-
Less: unamortized deferred amount on refundings	(18,362)	(4,292)	(1,133)	(21,521)	-
Total bonds payable	$ 582,815	$ 141,277	$ 119,345	$ 604,747	$ 29,501

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
Commercial paper	$ 74,242	$ 66,000	$ 11,196	$ 129,046	$ -
Bonds payable	$ 526,686	$ 84,619	$ 22,201	$ 589,104	$ 27,342
Less: unamortized bond discount	(949)	-	(95)	(854)	-
Add: unamortized bond premium	13,643	93	809	12,927	-
Less: unamortized deferred amount on refundings	(19,293)	-	(931)	(18,362)	-
Total bonds payable	$ 520,087	$ 84,712	$ 21,984	$ 582,815	$ 27,342

Additions to bonds payable include accretion of interest in the amount of $630,632 in 2007 and $769,346 in 2006.

Bonds and commercial paper payable at June 30, 2007, and June 30, 2006, are as follows (expressed in thousands):

	June 30, 2007	June 30, 2006
Bonds Payable:		
1976 Series B at an interest rate of 3.0% maturing to 2011 (original par - $6,037)	$ 699	$ 861
1989 College Saver Bonds with yields of 6.85% to 6.9% maturing to 2010 (at accreted value); (original principal - $21,935)	7,324	9,453
1996 Refunding Series B at interest rates from 5.0% to 5.25% maturing to 2007 (original par - $55,300)	-	6,140
1996 Refunding Series C at interest rates from 5.375% to 6.0% maturing to 2007 (original - par $4,045)	-	4,045
1998 Series A at an interest rate of 4.30% maturing to 2008 (original par - $54,865); see	1,690	23,280

additional disclosures regarding the 2007 advance refunding		
1998 Series B (Federally Taxable) at interest rates from 5.90% to 6.00% maturing to 2009 (original - par $15,460)	755	1,095
1998 Refunding Series C at an interest rate of 4.20% maturing to 2008 (original par - $48,735)	1,460	2,850
1998 Refunding Series D at interest rates from 4.20% to 4.85% maturing to 2021 (original par - $33,540)	19,265	20,350
2000 Series A at interest rates from 4.625% to 5.125% maturing to 2010 (original par - $70,680)	6,440	8,395
2000 Series B (Federally Taxable) at an interest rate of 7.15% maturing to 2010 (original par - $33,730)	7,890	10,170
2002 Series A at an interest rate of 5.00% maturing to 2012 (original par - $119,135); see additional disclosures regarding the 2007 advance refunding	21,410	87,155
2004 Series A at interest rates from 2.25% to 4.50% maturing to 2026 (original par - $67,965)	64,030	67,130
2004 Series B at interest rates from 2.25% to 4.50% maturing to 2034 (original par - $60,575)	55,120	57,065
2004 Series C (Federally Taxable) at interest rates from 2.80% to 5.50% maturing to 2034 (original par - $37,230)	35,030	36,100
2005 Series A at interest rates from 3.25% to 5.00% maturing to 2030 (original par - $100,540)	100,540	100,540

2005 Series B (Federally Taxable) at interest rates from 4.15% to 4.88% maturing to 2028 (original par - $30,960)	30,960	30,960
2006 Series A at interest rates from 4.00% to 4.60% maturing to 2036 (original par - $53,820)	51,805	53,820
2006 Series B at interest rates of 4.00% maturing to 2011 (original par - $12,485)	9,600	12,485
2007 Series A at interest rates from 4.00% to 5.00% maturing to 2036 (original par - $33,730)	33,060	-
2007 Series B (Federally Taxable) at interest rates from 5.243% to 5.666% maturing to 2036 (original par - $14,040)	13,705	-
2007 Series C at interest rates from 4.00% to 5.00% maturing to 2032 (original par - $89,940)	89,940	-
1999 Qualified Zone Academy Bonds non-interest bearing maturing in 2011 (original par - $13,290)	13,290	13,290
2001 Qualified Zone Academy Bonds non-interest bearing maturing in 2015 (original par - $11,330)	11,330	11,330
2003 Qualified Zone Academy Bonds non-interest bearing maturing in 2018 (original par - $2,445)	2,445	2,445
2004 Qualified Zone Academy Bonds non-interest bearing maturing in 2020 (original par - $12,600)	12,600	12,600
2005 Qualified Zone Academy Bonds non-interest bearing maturing in 2020 (original par - $17,545)	17,545	17,545
Total Par Amount of Bonds Payable	607,933	589,104

Plus Unamortized Premium/Less Unamortized Discount		18,335		12,073
Bonds Payable Net of Unamortized Premium/ Discount		626,268		601,177
Less: Deferred Amount on Refundings		(21,521)		(18,362)
Net Bonds Payable	$	604,747	$	582,815
Commercial paper, at interest rates from 3.20% to 5.42%	$	164,195	$	129,046

Debt service requirements to maturity of the bonds payable at June 30, 2007, are as follows (expressed in thousands):

For the Year(s) Ending June 30		Principal		Interest		Total
2008	$	28,669	$	25,965	$	54,634
2009		29,842		24,964		54,806
2010		31,024		23,859		54,883
2011		26,332		20,470		46,802
2012		25,677		19,438		45,115
2013-2017		138,457		81,173		219,630
2018-2022		137,291		53,588		190,879
2023-2027		115,413		27,226		142,639
2028-2032		76,442		8,564		85,006
2033-2036		12,025		1,176		13,201
	$	621,172	$	286,423	$	907,595

The above principal for bonds is more than that presented on the accompanying financial statements by $16.425 million. Of this amount, $5.096 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 (2008-2011) in which the bonds mature. The $16.425 million also includes $21.521 million, representing the deferred amount on bond refundings. This amount is deducted from bonds payable in the accompanying financial statements but is included in the debt service schedule above.

The Authority may issue taxable and/or tax-exempt bonds. Proceeds for the tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform

Act. The Authority invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. Arbitrage liabilities, when applicable, are reported as a current accrued liability. At June 30, 2007, and 2006, the Authority did not have a liability for arbitrage.

On January 23, 2007, the Authority issued three new series of bonds, 2007 Series A, B and C. The 2007 Series A tax-exempt bond proceeds in the amount of $33,730,000 were issued to redeem $25,183,588 of the Authority's tax-exempt commercial paper and the 2007 Series B taxable bond proceeds in the amount of $14,040,000 were issued to redeem $3,552,261 of the Authority's taxable commercial paper. The balance of the proceeds of the 2007 Series A and B was used to pay for new construction projects and various costs of issuance. The 2007 Series C tax-exempt bond proceeds in the amount of $89,940,000 were issued to current refund $4,940,000 of the 1996 Series B bonds and $4,045,000 of the 1996 Series C and to advance refund $19,970,000 aggregate principal amount of the 1998 Series A bonds and $62,060,000 aggregate principal amount of the 2002 Series A bonds. The 2007 Series C refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $4,292,157. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2032. The 2005 Series A refunding resulted in a reduction of total debt service payments of $5,678,795 over the next 26 years and an economic gain (difference between the present values of the old and new debt service payments) of $3,747,405. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption the redemption price then due on the refunded bonds

On June 14, 2006, the Authority issued two new series of tax-exempt bonds, 2006 Series A and B. The 2006 Series A bonds in the amount of $53,820,000 and the 2006 Series B bonds in the amount of $12,485,000 were issued to redeem $55,474,000 of the Authority's tax-exempt commercial paper. The balance of the proceeds was used to pay for new construction projects and various costs of issuance.

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, 2007, $146,255,000 of bonds outstanding is 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 maximum principal to be issued by the Authority is $250,000,000. 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 Chase. At June 30, 2007, $150,607,000 of tax-exempt commercial paper and $13,588,000 of taxable commercial paper was outstanding. At June 30, 2006, $121,726,000 of tax-exempt commercial paper and $7,320,000 of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. Interest rates on commercial paper ranged from 3.20% to 5.42% during the fiscal year. Interest is payable upon maturity.

During the fiscal year ended, June 30, 2007, the Authority changed liquidity providers from WestLB to State Street Bank and Trust Company under a Credit Agreement with an expiry date of March 30, 2014, subject to extension and earlier termination. The total available commitment is $253,828,125. The obligation of State Street Bank and Trust Company is to purchase unremarketed commercial paper. In the event the liquidity facility is called upon, the Authority must repay the advance on the earlier of (i) the date of such Advance or (ii) the Termination Date. Unless the Authority repays the advance by the Term Loan Closing Date, the principal amount will convert to a term loan with six equal semi-annual payments. In accordance with Financial Accounting Standards Board Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced*, this agreement meets the criteria of a financing agreement; thus, the commercial paper payable is classified as a long-term liability.

NOTE 6. UNEARNED REVENUE

Changes in unearned revenue for the year ended June 30, 2007, and 2006, are as follows (expressed in thousands):

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Interest rate reserve fund	$ 579	$ 541	$ 427	$ 693
Other unearned revenue	13,238	4,682	7,807	10,113
Total unearned revenue	$ 13,817	$ 5,223	$ 8,234	$ 10,806

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Interest rate reserve fund	$ 279	$ 350	$ 50	$ 579
Other unearned revenue	12,662	1,352	776	13,238
Total unearned revenue	$ 12,941	$ 1,702	$ 826	$ 13,817

Unearned revenue at June 30, 2007, and June 30, 2006, is as follows (expressed in thousands):

	June 30, 2007	June 30, 2006
Interest Rate Reserve Fund	$ 693	$ 579
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 B bonds; amortized through 2007	-	225
1996 Series C bonds, which was a cross-over refunding of the 1989 Current Interest Bonds; amortized through 2007	-	109

1998 Series A bonds; amortized through 2008	32	268
1998 Series B bonds; amortized through 2009	9	13
1998 Series C bonds; amortized through 2008	23	46
1998 Series D bonds, which was an advance refunding of the 1992 Series A bonds; amortized through 2021	1,938	2,078
1999 Qualified Zone Academy Bonds; amortized through 2012	172	211
2000 Series A bonds; amortized through 2010	75	100
2000 Series B bonds; amortized through 2010	49	65
2001 Qualified Zone Academy Bonds; amortized through 2016	178	199
2002 Series A bonds; amortized through 2012	181	683
2003 Qualified Zone Academy Bonds; amortized through 2019	93	101
2004 Series A bonds; amortized through 2026	4,141	4,362
2004 Series B bonds; amortized through 2034	(1,363)	(1,414)
2004 Series C bonds; amortized through 2034	433	449
2004 Qualified Zone Academy Bonds; amortized through 2020	73	78
2005 Series A bonds; amortized through 2030	82	86
2005 Series B bonds; amortized through		

2028	4,051	4,245
2005 Qualified Zone Academy Bonds; amortized through 2021	515	533
2006 Series A bonds, amortized through 2021	678	726
2006 Series B bonds, amortized through 2011	41	51
2007 Series A bonds; amortized through 2026	(397)	-
2007 Series B bonds; amortized through 2036	142	-
2007 Series C bonds; amortized through 2032	(1,057)	-
Other unearned revenue	24	24
Total	$ 10,806	$ 13,817

NOTE 7. SUBSEQUENT EVENTS

On December 7, 2007, the Authority had outstanding $234,412,000 in tax-exempt commercial paper and $15,588,000 in taxable commercial paper. Between June 30, 2007, and December 7, 2007, the Authority has issued $88,376,000 in commercial paper to pay construction expenditures.

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF NET ASSETS - PROGRAM LEVEL
JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	June 30, 2007			June 30, 2006		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
ASSETS						
Current assets:						
Cash	$ 23,770	$ 6,724	$ 30,494	$ 83,986	$ 20,871	$ 104,857
Cash with fiscal agent	-	-	-	-	-	-
Investments with fiscal agent	32	-	32	216	-	216
Loans receivable	29,406	1,765	31,171	27,249	2,654	29,903
Interest receivable	4,797	16	4,813	4,036	15	4,051
Receivables for administrative fees	418	11	429	372	10	382
Total current assets	58,423	8,516	66,939	115,859	23,550	139,409
Noncurrent assets:						
Restricted cash	5	15,561	15,566	2	11,158	11,160
Restricted investments	3,908	6,617	10,525	5,840	5,051	10,891
Loans receivable	665,830	26,674	692,504	551,444	19,748	571,192
Deferred charges	5,869	886	6,755	5,591	957	6,548
Total noncurrent assets	675,612	49,738	725,350	562,877	36,914	599,791
Total assets	734,035	58,254	792,289	678,736	60,464	739,200
LIABILITIES						
Current liabilities:						
Accounts payable	-	-	-	171	-	171
Due to local education authorities	-	-	-	-	2,143	2,143
Accrued interest payable	4,983	-	4,983	4,611	-	4,611
Unearned revenue	1,353	108	1,461	1,321	92	1,413
Bonds payable	29,501	-	29,501	27,342	-	27,342
Total current liabilities	35,837	108	35,945	33,445	2,235	35,680
Noncurrent liabilities:						
Unearned revenue	8,423	922	9,345	11,373	1,031	12,404
Commercial paper payable	164,195	-	164,195	129,046	-	129,046
Bonds payable	518,104	57,143	575,247	498,343	57,130	555,473
Total noncurrent liabilities	690,722	58,065	748,787	638,762	58,161	696,923
Total liabilities	726,559	58,173	784,732	672,207	60,396	732,603
	-					
NET ASSETS						
Unrestricted	$ 7,476	$ 81	$ 7,557	$ 6,529	$ 68	$ 6,597

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	Year ended June 30, 2007			Year ended June 30, 2006		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
OPERATING REVENUES						
Revenue from loans	$ 30,048	$ 109	$ 30,157	$ 26,734	$ 107	$ 26,841
Investment earnings	1,973	2	1,975	1,746	15	1,761
Total operating revenues	32,021	111	32,132	28,480	122	28,602
OPERATING EXPENSES						
Interest expense-commercial paper	4,405	-	4,405	3,482	-	3,482
Interest expense-bonds	24,078	13	24,091	22,981	13	22,994
Subsidy to borrowers	1,578	-	1,578	1,440	-	1,440
Administrative expense	649	14	663	528	11	539
Amortization of bond issuance costs	364	71	435	279	71	350
Total operating expenses	31,074	98	31,172	28,710	95	28,805
Operating income (loss) and change in net assets	947	13	960	(230)	27	(203)
Net assets, July 1	6,529	68	6,597	6,759	41	6,800
Net assets, June 30	$ 7,476	$ 81	$ 7,557	$ 6,529	$ 68	$ 6,597

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2007, AND JUNE 30, 2006

(Expressed in Thousands)

	Year ended June 30, 2007			Year ended June 30, 2006		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from borrowers for administrative fees	$ 375	$ 17	$ 392	$ 361	$ 12	$ 373
Payment to suppliers	(668)	(14)	(682)	(528)	(11)	(539)
Receipts from borrowers to the interest rate reserve fund	541	-	541	349	-	349
Payments to borrowers from the interest rate reserve fund	(427)	-	(427)	(50)	-	(50)
Net cash provided by (used in) operating activities	(179)	3	(176)	132	1	133
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from sale of bonds	48,264	-	48,264	66,133	17,106	83,239
Proceeds from sale of refunding bonds	95,929	-	95,929	-	-	-
Proceeds from sale of commercial paper	131,448	-	131,448	66,000	-	66,000
Bond issuance costs paid	(291)	-	(291)	(372)	(100)	(472)
Refunding bond proceeds placed in escrow	(95,881)	-	(95,881)	-	-	-
Principal paid - bonds and commercial paper	(124,796)	-	(124,796)	(33,397)	-	(33,397)
Interest paid - bonds and commercial paper	(27,473)	-	(27,473)	(25,005)	-	(25,005)
Subsidy to borrowers	(1,621)	-	(1,621)	(1,459)	-	(1,459)
Net cash provided by noncapital financing activities	25,579	-	25,579	71,900	17,006	88,906
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	(10,383)	(1,567)	(11,950)	(16,192)	(631)	(16,823)
Proceeds from sales and maturities of investments	12,608	-	12,608	18,980	-	18,980
Interest received on investments	1,719	-	1,719	1,372	-	1,372
Loans issued	(145,269)	(12,585)	(157,854)	(87,820)	(8,204)	(96,024)
Collection of loan escrow	-	-	-	1,048	-	1,048
Loan escrow paid	(130)	-	(130)	(44)	-	(44)
Collections of loan principal	28,297	4,404	32,701	29,784	3,649	33,433
Interest received on loans	27,545	1	27,546	24,514	-	24,514
Net cash used in investing activities	(85,613)	(9,747)	(95,360)	(28,358)	(5,186)	(33,544)
Net increase (decrease) in cash	(60,213)	(9,744)	(69,957)	43,674	11,821	55,495
Cash, July 1	83,988	32,029	116,017	40,314	20,208	60,522
Cash, June 30	$ 23,775	$ 22,285	$ 46,060	$ 83,988	$ 32,029	$ 116,017
Reconciliation of cash to the Statement of Net Assets:						
Cash	$ 23,770	$ 6,724	$ 30,494	$ 83,986	$ 20,871	$ 104,857
Restricted cash	5	15,561	15,566	2	11,158	11,160
Cash, June 30	$ 23,775	$ 22,285	$ 46,060	$ 83,988	$ 32,029	$ 116,017
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ 947	$ 13	$ 960	$ (230)	$ 27	$ (203)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Amortization of bond issuance costs	364	71	435	279	71	350
Investment earnings	(1,973)	(2)	(1,975)	(1,746)	(15)	(1,761)
Interest expense	28,483	13	28,496	26,463	13	26,476
Subsidy to borrowers	1,578	-	1,578	1,440	-	1,440
Interest income from loans	(29,627)	(92)	(29,719)	(26,362)	(93)	(26,455)
Changes in assets and liabilities:						
(Increase) decrease in receivables for administrative fees	(46)	-	(46)	(11)	(2)	(13)
(Increase) decrease in payables for administrative fees	(19)	-	(19)	-	-	-
Increase (decrease) in unearned revenue	114	-	114	299	-	299
Total adjustments	(1,126)	(10)	(1,136)	362	(26)	336
Net cash provided by (used in) operating activities	$ (179)	$ 3	$ (176)	$ 132	$ 1	$ 133
Noncash financing activities:						
Accretion of capital appreciation bonds	$ 631	$ -	$ 631	$ 769	$ -	$ 769
Bond issuance costs	(6,077)	-	(6,077)	391	100	491
Total noncash financing activities	$ (5,446)	$ -	$ (5,446)	$ 1,160	$ 100	$ 1,260
Noncash investing activities:						
Net appreciation in value of investments reported at fair value	$ 29	$ -	$ 29	$ 75	$ -	$ 75