STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE STATE SCHOOL BOND AUTHORITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2015

Justin P. Wilson, Comptroller

Division of State Audit
Financial and Compliance Section

Deborah V. Loveless, CPA, CGFM, CGMA
Director

Edward Burr, CPA, CGFM
Assistant Director

Derek D. Martin, CPA, CFE, CGFM
Audit Manager

Erica Pettway, CFE
In-Charge Auditor

Mark Faughn, CFE
Chris Varkey, CPA, CFE, CGMA
Staff Auditors

Gerry C. Boaz, CPA, CGFM, CGMA
Technical Manager

Amy Brack
Editor

Amanda Adams
Assistant Editor

Comptroller of the Treasury, Division of State Audit
Suite 1500, James K. Polk State Office Building
505 Deaderick Street
Nashville, TN 37243-1402
(615) 401-7897

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The mission of the Comptroller's Office is to improve the quality of life for all Tennesseans by making government work better.

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

February 9, 2016

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee State School Bond Authority

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State School Bond Authority for the year ended June 30, 2015. You will note from the independent auditor's report that an unmodified 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,

Deborah V. Loveless, CPA
Director

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Tennessee State School Bond Authority
For the Year Ended June 30, 2015

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Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee State School Bond Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of and for the years ended June 30, 2015, and June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Authority.

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, 2015, and June 30, 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the Tennessee State School Bond 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee State School Bond Authority's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 14, 2015

TENNESSEE STATE SCHOOL BOND AUTHORITY
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, 2015. These activities are compared to the results of the fiscal years ended June 30, 2014, and June 30, 2013. We encourage readers to consider the information presented here in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes of this report.

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 governments on behalf of local education agencies (LEAs) through Qualified Zone Academy Bonds (QZABs) and Qualified School Construction Bonds (QSCBs). The tables below summarize this business activity.

Higher Education Facilities Programs

	2015	2014	2013
Number of higher education facilities with outstanding loans	19	19	20
Balance of outstanding loans	$1,480,594,673	$1,391,546,528	$1,301,313,983
Total number of projects with outstanding loans	225	217	224
Number of loans approved in fiscal year	11	13	12
Dollar amount of loans approved in fiscal year	$ 230,579,240	$ 377,266,000	$ 55,688,000
Dollar amount of loans approved in fiscal year - unspent	$ 224,941,981	$ 368,232,834	$ 42,692,636
Dollar amount of loans financed in fiscal year	$ 83,154,335	$ 133,890,012	$ 170,967,267
Balance of outstanding debt	$1,784,191,852	$1,504,789,384	$1,452,141,240
Bonds issued in fiscal year	$ 808,815,000	$ 149,130,000	$ 437,720,000
Commercial paper issued in fiscal year	$ -	$ 54,600,000	$ 123,000,000
Revolving credit facility issued in fiscal year	$ 50,000,000	$ 159,500,000	$ -

Qualified Zone Academy Bond Program

	2015	2014	2013
Number of LEAs with outstanding loans	12	12	12
Total number of outstanding loans	16	16	16
Balance of outstanding loans	$12,984,352	$16,009,555	$18,962,582
Balance held in Sinking Fund	$30,834,174	$27,808,970	$24,958,453
Balance of outstanding debt	$43,920,000	$43,920,000	$43,920,000

Qualified School Construction Bond Program

	2015	2014	2013
Number of LEAs with outstanding loans	23	23	23
Total number of outstanding loans	28	28	28
Balance of outstanding loans	$284,021,020	$308,233,864	$330,122,385
Balance held in Sinking Fund	$106,050,986	$ 80,133,016	$ 56,308,825
Balance of outstanding debt	$389,440,000	$389,440,000	$389,440,000
Dollar amount of loan proceeds disbursed in fiscal year	$ -	$ 7,542,927	$ 70,165,187

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 revenue 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. The statute was amended in 1999 to authorize the Authority to issue QZABs and again in 2009 to authorize the Authority to issue QSCBs on behalf of LEAs 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.

The state is not liable on the bonds, and the bonds are not a debt of the State of Tennessee.

Higher Education Facilities Programs. When a higher education facility applies for project funding through the Authority, an analysis of the financial feasibility of each loan application is undertaken by comparing the projected debt service to the pledged revenue before it is approved by the Authority. Once approved by the Authority, the project will be included in the financing agreement between the Authority and the respective higher education system (the Board of Trustees of the University of Tennessee and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee, referred to collectively as the Boards). The Boards covenant and agree in the financing agreements to establish and collect fees and charges at each institution at a level sufficient to produce in each fiscal year no less than two times the amount required for the payment of total debt service. Fees and charges include all revenues, fees, rental, and other charges received by or on behalf of an institution which are available to pay debt service. In addition, the Boards agree in the financing agreements that the Commissioner of Finance and Administration, after notice from the Authority that a Board has failed to pay its annual financing charges or administrative fees, shall deduct from the institution's appropriations the amount required to make it current with respect to the unpaid charges and fees.

Prior to March 20, 2014, under the financing program for higher education facilities, a project was funded through the Authority's commercial paper program during its construction phase. The range of the commercial paper interest rates are shown below for the fiscal years 2014 and 2013.

Higher Education Facilities Programs
Commercial Paper Interest Rates Range

	Tax-Exempt		Federally Taxable	
Fiscal Year	**Low**	**High**	**Low**	**High**
2014	0.05%	0.18%	0.10%	0.18%
2013	0.10%	0.22%	0.12%	0.22%

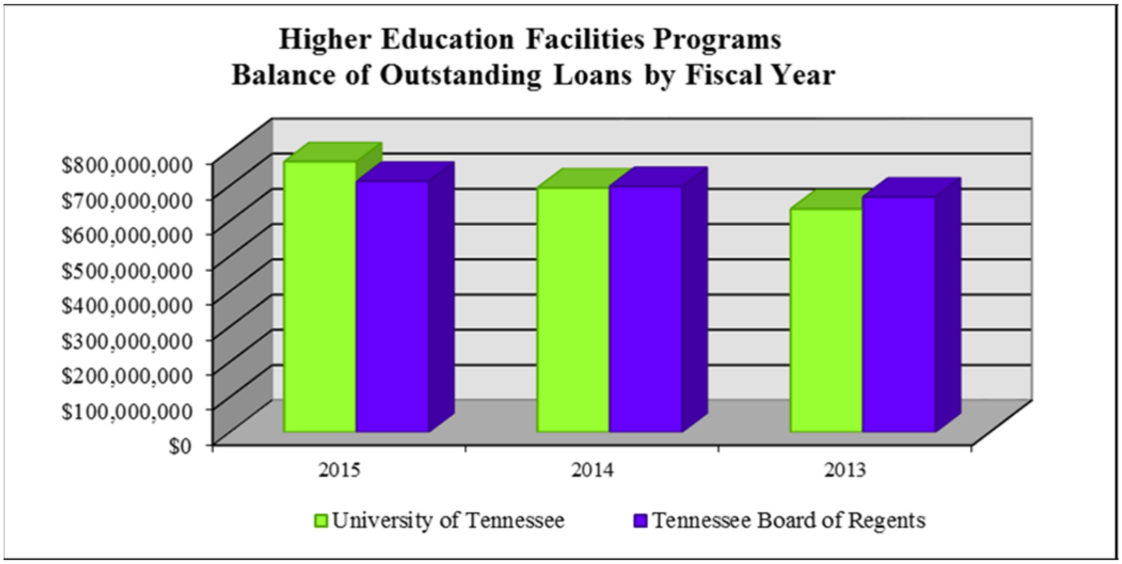
On March 20, 2014, all outstanding commercial paper was redeemed and the commercial paper program was terminated when the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. As of March 20, 2014, and thereafter, projects are funded through the RCA program during its construction phase. For projects in the construction phase that are completed or near completion, the Authority may fix the interest rate for the term of the projects by issuing long-term debt. The range of RCA interest rates are shown below for the fiscal year ended June 30, 2015, as compared to fiscal year 2014.

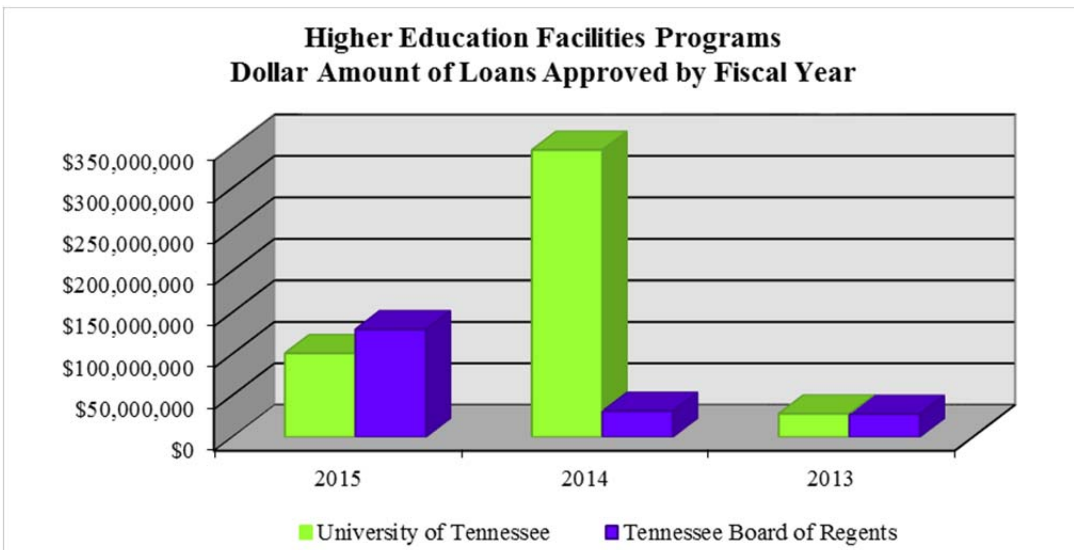
Higher Education Facilities Programs
Revolving Credit Facilty Interest Rates Range

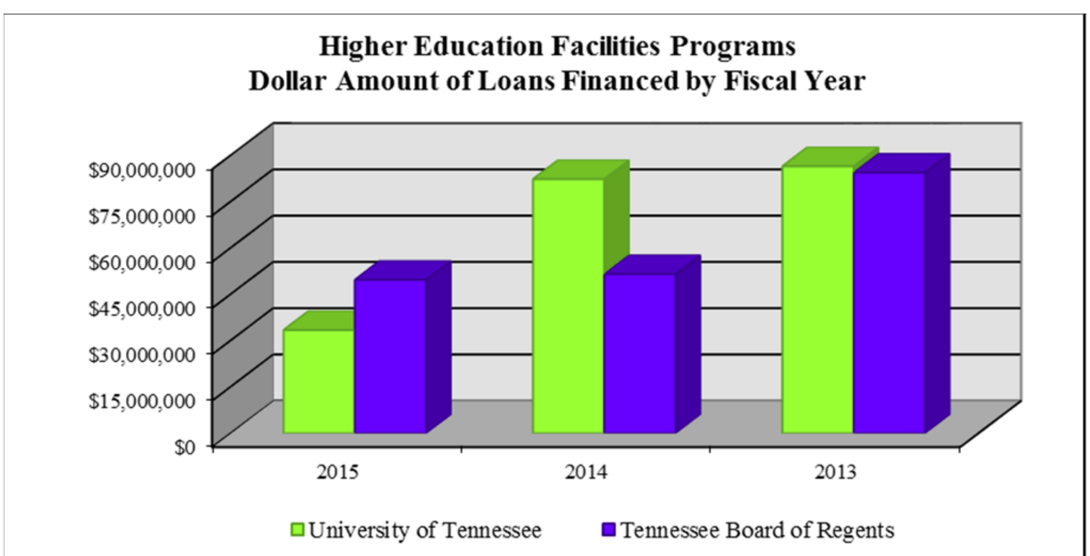
	Tax-Exempt		Federally Taxable	
Fiscal Year	**Low**	**High**	**Low**	**High**
2015	0.476%	0.499%	0.652%	0.684%
2014	0.476%	0.478%	0.651%	0.655%

For the fiscal year ended June 30, 2015, interest rates on the higher education facilities long-term fixed-rate tax-exempt bonds ranged from a low of 2.00% to a high of 5.20%, and the interest rates on the higher education facilities long-term fixed-rate federally taxable bonds ranged from a low of 0.35% to a high of 5.67%. By pooling the financing of the capital needs for all public higher education facilities, management believes that economic efficiency is achieved through a single large borrowing administered by one agency. The creditworthiness of both large and small institutions is blended 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.

Higher Education Facilities Programs Debt Ratings. As of the fiscal year ended June 30, 2015, the Authority's higher education facilities program is rated AA+ and AA by Fitch and Standard & Poor's Rating Group, respectively. Moody's Investors Service has assigned the Authority's bonds an enhanced rating of Aa1 and a programmatic rating of Aa1.


Higher Education Facilities Programs
Balance of Outstanding Loans by Fiscal Year
$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
2015
2014
2013
University of Tennessee
Tennessee Board of Regents

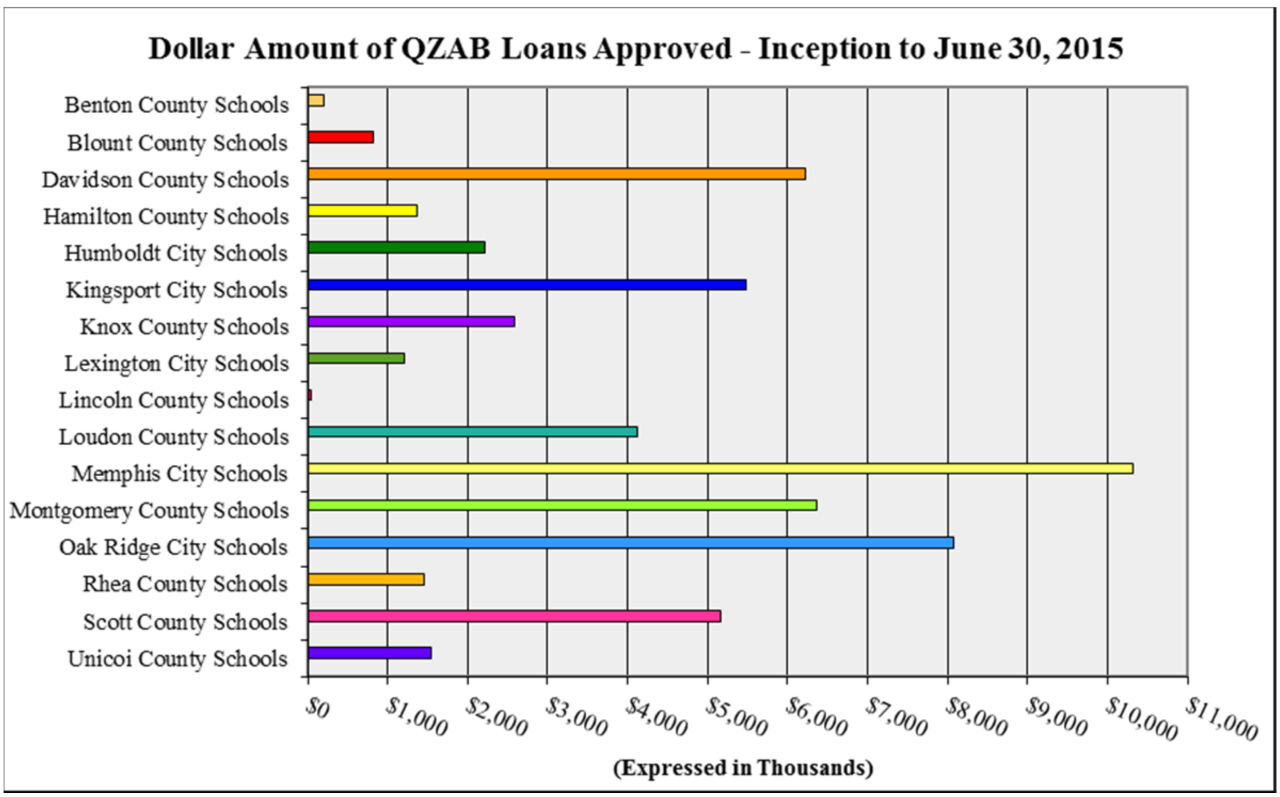

Higher Education Facilities Programs
Dollar Amount of Loans Approved by Fiscal Year
$350,000,000
$300,000,000
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2015
2014
2013
University of Tennessee
Tennessee Board of Regents


Higher Education Facilities Programs
Dollar Amount of Loans Financed by Fiscal Year
$90,000,000
$75,000,000
$60,000,000
$45,000,000
$30,000,000
$15,000,000
$0
2015
2014
2013
University of Tennessee
Tennessee Board of Regents

Qualified Zone Academy Bond Program. The QZAB program is a capital financing program authorized by the federal government under the Taxpayer Relief Act of 1997, Section 227(a). A QZAB is a taxable bond issued by the Authority, 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 LEAs in the state. The department recommends those projects that best meet the requirements of the program to the Authority for funding.

The LEA 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 LEA/local government fail to repay its loan timely.

As of June 30, 2015, the QZAB program has unused allocations totaling $18,862,000. Of this amount, $9,431,000 of the 2013 allocation will expire on December 31, 2015. 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. The Authority last issued bonds for the QZAB program on December 28, 2005, and does not have any intention to issue additional QZAB bonds.

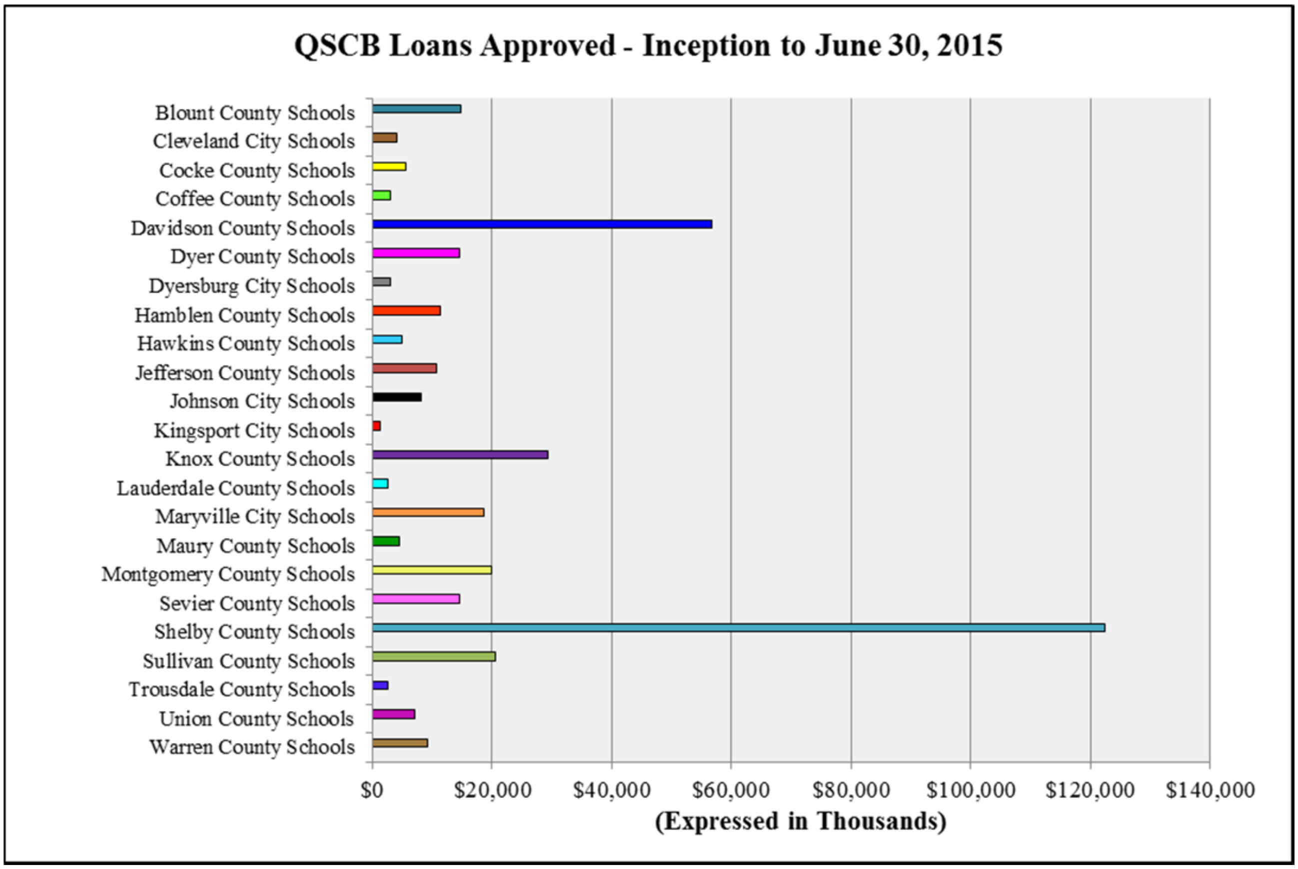


Qualified Zone Academy Bond Program Debt Ratings. All of the QZABs have been placed with private investors. The QZABs are not rated.

Qualified School Construction Bond Program. The QSCB program is a capital financing program originally authorized by the federal government under the American Recovery and Reinvestment Act of 2009 and Section 49-3-12, *Tennessee Code Annotated*, as amended. The QSCBs are bonds issued by the Authority, the proceeds of which are used to finance certain eligible public schools' renovation and rehabilitation projects, equipment purchases, new building construction, and land acquisition. The

Series 2009 QSCB is structured as a tax credit bond under which an eligible holder of a QSCB is generally allowed quarterly federal income tax credits in addition to quarterly supplemental interest payments from the issuer during the period the bond is outstanding. These credits compensate the bondholder for lending money to the Authority and function as partial payments of interest on the bonds. The Series 2010 QSCB is structured as a direct subsidy payment bond under which the holder of the bond is compensated with a semi-annual cash interest payment that is subsidized by the federal government. The Authority elects to receive the direct interest subsidy payments from the United States Treasury, and the loan agreements provide that the subsidy payments received by the Authority will then be transferred to the borrowers.

The city or county supporting the LEA 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 government fail to repay its loan timely.



Qualified School Construction Bonds Program Debt Ratings. As of the fiscal year ended June 30, 2015, the Authority's QSCB program is rated Aa2, AA, and AA by Moody's Investors Service, Inc.; Standard & Poor's Ratings Service; and Fitch Ratings, respectively.

Overview of the Financial Statements

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in accordance 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 are comprised of two components: 1) the financial statements and 2) notes to the financial statements. The financial statements consist of the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

The statements of net position present the Authority's financial position at June 30, 2015, and June 30, 2014. The statements of revenues, expenses, and changes in net position portray the results of operations and the change in net position 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 goals of the Authority are to provide timely access to the capital markets for public higher educational institutions and local governments on behalf of LEAs at the lowest possible cost, to repay debt timely, and to achieve the highest possible rating for its debt. During the fiscal year ended June 30, 2015, the Authority sold four series of bonds. At no time did the Authority deny approval of a loan application due to its inability to access the capital market. For long-term debt, the Authority made all debt service payments timely without having to withdraw funds from the debt service reserve fund or intercept the state appropriations for the higher education institutions. For short-term debt, No Event of Default, as defined in the RCA, has occurred. The Authority maintained both its long- and short-term credit ratings with all rating agencies.

Statements of Net Position Summary
(in thousands of dollars)

	2015	2014	2013
Current assets	$ 403,912	$ 171,718	$ 195,192
Restricted assets	1,861,495	1,779,323	1,704,025
Total assets	2,265,407	1,951,041	1,899,217
Deferred outflows of resources	45,569	17,762	19,145
Current liabilities	144,427	78,823	78,461
Noncurrent liabilities	2,157,180	1,881,728	1,830,374
Total liabilities	2,301,607	1,960,551	1,908,835
Deferred inflows of resources	832	616	357
Net position (unrestricted)	$ 8,537	$ 7,636	$ 9,170

Note: The Authority owns no capital assets.

At June 30, 2015, current assets include $224,121,627 of unexpended proceeds from prior debt issued that will fund approved higher education loans as compared to $63,175,259 at June 30, 2014, and $87,850,086 at June 30, 2013. During the fiscal year ended June 30, 2015, the Authority issued $808,815,000 in Higher Education Facilities Second Program bonds which were used to redeem $141,896,739 of the Authority's revolving credit facility and refund $468,010,000 of the Authority's outstanding long-term debt with the balance of the bond proceeds to be used to fund various project costs and costs of issuance. During the fiscal year ended June 30, 2014, the Authority issued $149,130,000 in Higher Education Facilities Second Program bonds which were used to retire $135,755,922 of commercial paper proceeds with the balance to be used to fund various project costs and costs of issuance. During the fiscal year ended June 30, 2013, the Authority issued $437,720,000 in Higher Education Facilities Second Program bonds which were used to retire $163,345,386 of commercial paper proceeds with the balance to be used to fund various project costs and costs of issuance.

Principal was repaid on the higher education outstanding long-term bonds in the amounts of $56,435,000 in 2015; $55,140,000 in 2014; and $53,870,000 in 2013. Deposits to the Sinking Fund for the QZABs were made in the amounts of $3,025,204 in 2015; $2,850,517 in 2014; and $3,402,835 in 2013. No QZAB bonds were retired during the fiscal years 2015, 2014, or 2013. Deposits to the Sinking Fund for the QSCBs were made in the amounts of $25,917,970 in 2015; $23,824,191 in 2014; and $23,455,247 in 2013. No QSCB bonds were retired during the fiscal years 2015, 2014, or 2013.

Net position is available to fund ongoing operations and other expenses necessary to meet the goals of the Authority. Assets and liabilities increase and decrease together in correlation to the issuance and repayment of debt and the resulting loans. The change in net position from fiscal year ending June 30, 2015, to fiscal year ending June 30, 2014, was mostly due to the issuance of the bonds and the amount of unexpended bond proceeds. The change in net position from fiscal year ending June 30, 2014, to fiscal year ending June 30, 2013, was mostly due to the use of the unexpended bond proceeds and revolving credit facility.

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

	2015	2014	2013
Operating Revenues			
Revenue from loans	$66,092	$ 66,625	$ 62,496
Investment earnings	5,697	2,571	1,725
Total operating revenues	71,789	69,196	64,221
Operating Expenses			
Interest expense	64,623	66,033	61,005
Subsidy to borrowers	13,341	12,098	12,314
Other expenses	2,473	1,863	2,334
Total operating expenses	80,437	79,994	75,653
Operating loss	(8,648)	(10,798)	(11,432)
Nonoperating Revenues			
Federal subsidy on bonds	9,549	9,264	10,299
Total nonoperating revenues	9,549	9,264	10,299
Increase (decrease) in Net Position	$ 901	$ (1,534)	$ (1,133)

The Authority's operating revenues include revenue from loans in the form of administrative fees, interest on loans, and income earned on investments. Operating expenses include interest expense on outstanding short-term and long-term debt and administrative expenses. The change in operating revenues and expenses for fiscal year ending June 30, 2015, can be attributed largely to the QSCB program. The QSCB program had an increase in its sinking fund, thus allowing for an increase in investment earnings and then allowing for a larger subsidy to the borrowers. The increase in the investment earnings and the decrease in interest expenses were the major contributor to the decrease in operating loss and increase in the change in net position.

The change in operating revenues and operating expenses for fiscal year ending June 30, 2014, can be attributed largely to the issuance of the 2013 Series bonds, which increased the revenues from loans. With the issuance of the 2013 Series Bonds, revenue from loans and interest expense both increased at approximately the same rate while federal subsidy on bonds decreased due to sequestration. The increase in the investment earnings and the decrease in other expenses due to a lesser amount of administrative expenses was the major contributor to the decrease in operating loss and change in net position.

For the fiscal years ended June 30, 2015, June 30, 2014, and June 30, 2013, the Authority elected to return the investment income that it earned on funds held by the trustee and interest earned on unspent bond proceeds to the borrowers in the higher education facilities program as a subsidy to be applied toward amounts due on debt service from the borrowers.

Pursuant to the bond resolution for the QZABs, Sinking Fund payments are invested in the State Pooled Investment Fund (SPIF). SPIF rates for fiscal year ended June 30, 2015, ranged from 0.07% to 0.11%. Investment earnings related to the QZAB program are held by the Authority for the benefit of the LEAs participating in the program and are applied as a subsidy toward each LEA's individual debt service Sinking Fund payment on an annual basis. Pursuant to the supplemental bond resolutions for the 2004 and 2005 Series QZABs, Sinking Fund payments are invested in Forward Delivery Agreements which guarantee 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.

Investment earnings related to the QSCB program are held by the Authority for the benefit of the local governments participating in the program and are applied as a subsidy on a monthly basis toward the amounts due on each LEA's individual debt service principal and interest payments.

Future Financing Activities

Higher Education Facilities Programs. As Tennessee continues into 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 and to produce degree and certificate holding work-ready citizens. A host of policy and environmental factors influence the demands for access and completion, and the means through which this demand will be met.

These factors include:

- Economic conditions in 2008 led to an enrollment bulge in Tennessee colleges and universities that rippled through 2010. University enrollment increased 7% from 2008 to 2010, while community college enrollment increased 22% in the same time period, the largest increase in more than two decades. These enrollment increases began to wane in 2011. Total enrollments have declined 7.1% from 2011 to 2014 but remain well above the levels before the economic downturn. Compared to 2007, enrollments are up 5% at universities and 10% at community colleges.

- 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.

- The advent of the Tennessee Education Lottery Scholarship program allowed more Tennesseans to attend college. In 2014-15, the Tennessee Lottery provided an estimated $304 million in scholarships to more than 105,000 students.

In January 2010, the Tennessee General Assembly enacted the Complete College Tennessee Act (CCTA), a comprehensive reform agenda that seeks to transform public higher education through changes in academic, fiscal, and administrative policies at the state and institutional level. The primary goal of these reforms is for more Tennesseans to be better educated and trained. At the heart of the CCTA is a new public agenda for higher education which establishes the direct link between the state's economic development and its educational system. The overarching goal of the public agenda is to have Tennessee meet the projected national average in educational attainment by 2025. The primary state policy levers for addressing the state's educational needs include (1) a new funding formula which incorporates outcomes in lieu of enrollment; (2) a new Performance Funding program which focuses on quality assurance; and (3) the establishment of institutional mission statements or profiles which distinguish each institution by degree level, program offerings, and student characteristics. Other major components of the reform agenda include more efficient student transfer, a more integrated community college system, reforms to the delivery of student remediation programs, and an enhanced research focus for the University of Tennessee Knoxville and the University of Memphis, the state's two public Carnegie Research institutions.

With the creation of CCTA, the importance of receiving training beyond high school became more significant. In 2008, 24.5% of Tennessee's working-age adults held a college degree, compared to the national average of 29.5%. To reach the national average educational attainment levels of 2008, Tennessee would have needed an additional 170,000 citizens with a bachelor's degree or higher, more than double the annual degree production of the state's public and private institutions at that time. Furthermore, the percentage of adults in the state with an associate's degree or some college in 2008 was 31.3%, in comparison with the national average of 37.9%. To reach the 2008 national average, Tennessee would have needed an additional 220,000 citizens with an associate's degree or higher. As of 2013, the percentage of adults in the state with a bachelor's degree or higher was 26.3%, compared to the national rate of 31.1%. Those with an associate's degree or higher increased to 33.8% while the national rate was 40%.

While Tennessee continues to trail the national rate, the gap has narrowed for adults with an associate's or bachelor's degree. The increased enrollment during the economic downturn years and demand for advanced education and training put stress on the capital facilities at all campuses. As the State continues to promote educational attainment to its citizens, we anticipate an increased need for funding of various facilities through the Authority.

Qualified Zone Academy Bonds and Qualified School Construction Bonds Programs. The issuance of bonds within the QZAB and QSCB programs is limited to the amounts allocated by the federal government. At this time, the Authority does not anticipate further issuance of debt for the QZAB program due to economic and financial conditions and constraints. The QSCB program expired December 31, 2010.

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 the Office of State and Local Finance, State of Tennessee, Suite 1600, James K. Polk State Office Building, 505 Deaderick St., Nashville, Tennessee 37243-1402; visit our website at www.comptroller.tn.gov/TSSBA/; or call (615) 747-5369.

TENNESSEE STATE SCHOOL BOND AUTHORITY
Statements of Net Position
June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	June 30, 2015	June 30, 2014
Assets		
Current assets:		
Cash (Note 2)	$ 296,686	$ 70,790
Cash with fiscal agent (Note 2)	1,423	1,237
Fair value of derivatives (Notes 1 and 2)	832	616
Loans receivable (Note 3)	90,300	86,175
Interest receivable (Note 3)	11,768	9,890
Federal subsidy receivable	2,785	2,788
Receivables for administrative fees (Note 3)	118	222
Total current assets	403,912	171,718
Noncurrent assets:		
Restricted cash (Notes 2 and 4)	20,560	19,732
Restricted investments (Notes 2 and 4)	153,635	129,976
Loans receivable (Note 3)	1,687,300	1,629,615
Total noncurrent assets	1,861,495	1,779,323
Total assets	2,265,407	1,951,041
Deferred outflows of resources		
Deferred amount on refunding	45,569	17,762
Total deferred outflows of resources	45,569	17,762
Liabilities		
Current liabilities:		
Accounts payable	64,728	16
Accrued liabilities	2,925	7,621
Accrued interest payable	14,246	12,543
Unearned revenue (Note 6)	2,143	2,208
Bonds payable (Note 5)	60,385	56,435
Total current liabilities	144,427	78,823
Noncurrent liabilities:		
Unearned revenue (Note 6)	19	21
Revolving credit facility (Note 5)	61,682	157,584
Bonds payable (Note 5)	2,095,479	1,724,123
Total noncurrent liabilities	2,157,180	1,881,728
Total liabilities	2,301,607	1,960,551
Deferred inflows of resources		
Deferred inflow - derivatives (Notes 1 and 2)	832	616
Total deferred inflows of resources	832	616
Net position		
Unrestricted	$ 8,537	$ 7,636

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

TENNESSEE STATE SCHOOL BOND AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Operating revenues		
Revenue from loans	$66,092	$66,625
Investment earnings	5,697	2,571
Total operating revenues	71,789	69,196
Operating expenses		
Interest expense-commercial paper	-	173
Interest expense-revolving credit facility	679	224
Interest expense-bonds	63,944	65,636
Subsidy to borrowers	13,341	12,098
Administrative expense	2,473	1,863
Total operating expenses	80,437	79,994
Operating loss	(8,648)	(10,798)
Nonoperating revenues		
Federal subsidy on bonds	9,549	9,264
Total nonoperating revenues	9,549	9,264
Decrease in net position	901	(1,534)
Net position		
Net position, July 1	7,636	9,170
Net position, June 30	$ 8,537	$ 7,636

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

TENNESSEE STATE SCHOOL BOND AUTHORITY
Statements of Cash Flows
For the Years Ended June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Cash flows from operating activities		
Receipts from borrowers for administrative fees	$ 912	$ 867
Payment to suppliers	(819)	(1,090)
Receipts from borrowers to the interest rate reserve fund	-	264
Net cash provided by operating activities	93	41
Cash flows from noncapital financing activities		
Proceeds from sale of bonds	414,503	163,166
Proceeds from sale of refunding bonds	509,939	-
Proceeds from sale of commercial paper	-	54,600
Proceeds from sale of revolving credit facility	50,000	159,500
Bond interest subsidy from federal government	9,552	9,480
Bond issuance costs paid	(1,558)	(728)
Refunding bond proceeds placed in escrow	(508,894)	-
Debt service reserve fund released in escrow	(9,307)	-
Principal paid - bonds and commercial paper	(202,337)	(321,085)
Interest paid - bonds and commercial paper	(65,227)	(67,376)
Subsidy to borrowers	(9,552)	(9,480)
Net cash provided by (used in) noncapital financing activities	187,119	(11,923)
Cash flows from investing activities		
Purchases of investments	(69,593)	(108,098)
Proceeds from sales and maturities of investments	49,355	90,265
Interest received on investments	2,668	2,400
Loans issued	(83,154)	(141,433)
Collections of loan principal	83,657	82,927
Interest received on loans	56,765	54,063
Net cash provided by (used in) investing activities	39,698	(19,876)
Net increase (decrease) in cash	226,910	(31,758)
Cash, July 1	91,759	123,517
Cash, June 30	$ 318,669	$ 91,759

TENNESSEE STATE SCHOOL BOND AUTHORITY
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	Year Ended June 30, 2015	Year Ended June 30, 2014
Reconciliation of cash to the statement of net position:		
Cash	$296,686	$ 70,790
Cash with fiscal agent	1,423	1,237
Restricted cash	20,560	19,732
Cash, June 30	$318,669	$ 91,759
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	$ (8,648)	$ (10,798)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Investment earnings	(5,697)	(2,571)
Interest expense	64,623	66,033
Subsidy to borrowers	13,341	12,098
Bond issuance costs	1,558	728
Interest income (loss) from loans	(65,282)	(65,736)
Changes in assets and liabilities:		
Decrease in receivables for administrative fees	104	1,150
Increase in payables for administrative fees	96	45
Decrease in unearned revenue	(2)	(908)
Total adjustments	8,741	10,839
Net cash provided by operating activities	$ 93	$ 41
Noncash investing activities:		
Increase in fair value of investments	$ 2,590	$ 428

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 of Tennessee's higher education institutions. During 1999, the General Assembly empowered the Authority to issue Qualified Zone Academy Bonds (QZABs) for local governments to borrow for financing improvement projects on behalf of local education agencies pursuant to the federal program authorized in the Taxpayer Relief Act of 1997. In addition, under the American Recovery and Reinvestment Act of 2009, the Authority was authorized to issue Qualified School Construction Bonds (QSCBs) for local governments to borrow on behalf of local education agencies at nominal or zero percent interest for financing renovation and rehabilitation projects, equipment purchases, new building construction, and land acquisition.

The Authority is a component unit of the State of Tennessee and a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 14 (as amended), *The Financial Reporting Entity*, the Authority is discretely presented in the *Tennessee Comprehensive Annual Financial Report* because a majority of the Authority's board consists of state officials, which include 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 Office of State and Local Finance serves as the assistant secretary; the office provides administrative and financial services to the Authority. 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 accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

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 Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with principal ongoing operations. The Authority's principal ongoing operation is to provide loans for constructing capital projects; renovating and rehabilitating facilities; and acquiring land and equipment to higher educational facilities and to local government units, pursuant to the criteria set by the federal government for the QZAB and QSCB programs. 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 for the Higher Education, QZAB, and QSCB programs are stated at fair value.

Amortized Amounts

A. *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.

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

B. *Unearned Revenue*. Prior to the issuance of the Revolving Credit Facility, the Authority required the higher education institutions to contribute funds to the Interest Rate Reserve Fund based on the amount of outstanding commercial paper. After the issuance of the Revolving Credit Facility, the Authority decided to no longer collect the Interest Rate Reserve Fund, and the outstanding balance of the Interest Rate Reserve Fund was credited back to the institutions.

   The Authority requires the QSCB borrowers to prepay bondholder interest to the Debt Service Fund as outlined in the loan agreements. The interest of the Debt Service Fund is credited back to the borrower as bondholder interest payments are made. The prepaid interest is reported on the statement of net position as unearned revenue and is not amortized.

Note 2. Deposits and Investments

Moneys pertaining to the Higher Education Second Program General Bond Resolution, the Qualified Zone Academy Bonds First Program Resolution, and the Qualified School Construction Bonds General Bond Resolution of the Tennessee State School Bond Authority, pursuant to *Tennessee Code Annotated*, Section 49-3-1205, may be invested, pursuant to each Bond Resolution listed above, 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's Pooled Investment Fund as provided in Section 9-4-603, *Tennessee*

Code Annotated; and any other investment authorized by the State Investment Policy adopted by the State Funding Board pursuant to Section 9-4-602, *Tennessee Code Annotated*.

Deposits

The Authority has cash on deposit in the State Pooled Investment Fund and Local Government Investment Pool administered by the State Treasurer. The funds' investment policy and required risk disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at www.tn.gov/treasury.

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, 2015, the Authority has the following investments:

Investment	Maturity	Fair Value
U.S. Treasury Bills	October 29, 2015	$ 5,990,760
	November 19, 2015	7,376,189
U.S. Treasury Notes	August 31, 2015	6,673,135
	August 31, 2015	580,273
	November 30, 2015	2,709,526
	November 30, 2015	9,692,780
	April 30, 2016	589,169
	May 31, 2016	3,170,847
	August 31, 2016	3,565,453
	August 31, 2016	256,833
	November 30, 2016	1,171,445
	April 30, 2017	3,046,397
	April 30, 2017	3,733,872
	April 30, 2017	271,371
U.S. Treasury Bonds	August 15, 2026	21,299,967
	August 15, 2027	20,153,520
U.S. Treasury Securities:		
Agency Zeroes & Strips	August 15, 2026	32,891,628
	August 15, 2027	30,462,314
Total Investments		$153,635,479

As of June 30, 2014, the Authority has the following investments:

Investment	Maturity	Fair Value
U.S. Treasury Bills	October 30, 2014	$ 968,874
	November 20, 2014	6,535,693
U.S. Treasury Notes	August 15, 2014	3,538,163
	August 15, 2014	256,316
	November 30, 2014	8,453,576
	November 30, 2014	3,731,376
	November 30, 2014	272,290
	April 30, 2015	20,399
	May 15, 2015	3,254,062
	August 31, 2015	7,929,775
	August 31, 2015	581,450
	November 30, 2015	3,216,178
	April 30, 2016	3,001,876
	May 31, 2016	3,209,220
	November 30, 2016	3,163,329
	April 30, 2017	3,036,456
U.S. Treasury Bonds	August 15, 2026	17,256,922
	August 15, 2027	15,365,236
U.S. Treasury Securities:		
Agency Zeroes & Strips	August 15, 2026	24,427,616
	August 15, 2027	21,757,367
Total Investments		$129,976,174

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 State's Investment Policy does not formally address interest rate risk. As a matter of practice, higher education investments are invested no longer than five years to reduce the interest rate risk. QZAB investments follow the guidelines in the Forward Delivery Agreements, which are limited to six-month maturities so that interest rate risk is contained. The Authority's investments are specifically identified above.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015, and June 30, 2014, the Authority only invested in U.S. Government obligations, or obligations of which the principal and interest are guaranteed by the United States.

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, 2015, and June 30, 2014, 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, 2015, and June 30, 2014, the Authority only invested in U.S. Treasury securities, or obligations of which the principal and interest are guaranteed by the United States.

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 QZABs. The agreement guarantees to the Authority a fixed rate of interest of 3%. Cash from borrowers' loan repayments will be used to purchase securities from Bank of America, N.A. in accordance with the agreement. The accumulated funds will be used to redeem the $12,600,000 Series 2004 QZABs 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, 2015, $7,376,189 is invested through the agreement. As of June 30, 2014, $6,535,693 was 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 QZABs. The agreement guarantees to the Authority a fixed rate of interest of 3.64%. Cash from borrowers' loan repayments will be used to purchase securities from J.P. Morgan Chase Bank, N.A. in accordance with the agreement. The accumulated funds will be used to redeem the $17,545,000 Series 2005 QZABs 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, 2015, $9,692,780 is invested through the agreement. As of June 30, 2014, $8,453,576 was 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.

Terms of the Forward Delivery 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 6/30/15 at Fair Value	$7,376,189	$9,692,780
Amount Invested in Agreement at 6/30/14 at Fair Value	$6,535,693	$8,453,576
Date of Deposits	Nov. 24, 2005 through 2020	Dec. 8, 2006 through 2020

For the fiscal year ended June 30, 2015, the Agreement for the 2004 QZABs has a positive fair value of $190,093, and the Agreement for the 2005 QZABs has a positive fair value of $642,052. For the fiscal year ended June 30, 2014, the Agreement for the 2004 QZABs had a positive fair value of $82,897, and the Agreement for the 2005 QZABs had a positive fair value of $532,801. The positive fair value is reported as a deferred inflow of resources on the statement of net position. The Authority did not enter into these agreements as interest rate hedges. The agreements were valued by an independent investment advisor using the parameters contained in the agreements and prevailing market conditions and benchmark yields on June 30, 2015, upon which the fair values depend. Borrowers pay no interest on these bonds. The interest rate credit is established by the federal government. The agreements are agreed to as one of the terms of purchase to induce the investor to purchase the bond. The Authority has a scheduled amount of qualified securities required to be on deposit on specified delivery dates. These agreements are forward contracts or commitments to deliver the same qualified securities on the scheduled dates at a pre-determined rate; therefore, these are hedging derivative instruments employed as a fair value hedge of the qualified securities for the required deposits. These forward contracts meet all criteria under GASB 53, Paragraph 39, which addresses the consistent critical terms method for forward contracts. All terms of the required deposits and the agreements are consistent; therefore, hedge accounting is applied.

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 than 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 agreement, the 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, 2015, the fair value of the state's agreements is a total positive value of $832,145. As of June 30, 2014, the fair value of the state's agreements was a total positive value of $615,698.

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 Second Financing Agreement (the agreement), is dated November 1, 1997, and was amended and restated on May 9, 2013. Under the agreement, the Authority agrees to finance construction projects for the Board of Trustees or the Tennessee Board of Regents. Annual financing charges payable under the agreement must be sufficient to pay the debt obligations of the Authority and the costs of administering the programs.

When the Authority issues bonds to finance capital projects for the higher education institutions and local governments, the principal amount of the loan differs from the actual amount of funds available for capital expenditures because the par amount of the bonds is adjusted by bond discounts and premiums in order to arrive at the amount of bond proceeds available for capital expenditures. These discounts and premiums are amortized on a straight-line basis over the life of the related bond because the higher education institutions and the local governments either receive the benefit or bear the cost of this difference. These differences are included in loans receivable on the statement of net position.

Qualified Zone Academy Bonds Program

The Authority has entered into loan agreements with the local governments on behalf of 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 date designated in the agreements, annual financing charges must be paid by the borrower sufficient to pay the annual principal payment, which is deposited into a bond sinking fund held by the State Treasurer that will pay the bonds at maturity, and the costs of administering the program.

Qualified School Construction Bonds Program

The Authority has entered into loan agreements with the local governments on behalf of local education agencies for the 2009 QSCBs, dated December 1, 2009, and the 2010 QSCBs, dated October 1, 2010. Under the agreements, the Authority agrees to finance renovation and rehabilitation projects, equipment purchases, new building construction, and land acquisition for the local education agencies. On the dates designated in the agreements, monthly financing charges must be paid by the borrower sufficient to pay the monthly principal payment, which is deposited into a bond sinking fund held by the State Treasurer that will pay the bonds at maturity, interest payment, and the costs of administering the program.

Note 4. Restricted Assets

Cash and Investments

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 either placing an amount equal to the maximum semiannual debt service requirement in a debt service reserve account or 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 2005 Series A and B; 2006 Series A; 2007 Series A, B, and C; and 2008 Series A Bonds. Due to market conditions at the time of issuance of the 2008 Series B; 2009 Series A; and 2010 Series A and B Bonds, the Authority deposited funds into a debt service reserve account equal to the maximum semiannual debt service for those bonds. The Authority elected to establish a separate debt service reserve fund solely for the 2012 Series A, B, and C; 2013 Series A; 2014 Series A and B; and 2015 Series A and B bonds with no current funding requirement.

The first program bond resolution of the QZABs requires the establishment of a special trust fund, the bond Sinking Fund account. This account represents the funds set aside to redeem the QZABs at maturity.

The first program bond resolution of the QSCBs requires the establishment of a special trust fund, the bond Sinking Fund account. This account represents the funds set aside to redeem the QSCBs at maturity.

Note 5. Debt Payable

The State of Tennessee shall not be liable on the bonds issued by the Authority, and the bonds shall not be a debt of the state.

Higher Education Facilities Programs

A. *Bonds*. 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. *Revolving Credit Facility*. Revolving credit facility constitutes a special obligation of the Authority. Principal and interest on the revolving credit facility is payable from the following sources: (i) as to principal only, the proceeds of the draw on the revolving credit facility to pay the principal of other outstanding revolving credit facility; (ii) available revenues; (iii) the money and securities (if any) on deposit in the Reimbursement Fund and in the Debt Service Fund; (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects; and (v) 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 QZABs to make loans to local governments on behalf of 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 QZAB 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 governments and by certain funds held under the Qualified Zone Academy Bond Resolution.

Qualified School Construction Bonds Program

On November 5, 2009, the Authority adopted a Qualified School Construction Bond Resolution authorizing the issuance of QSCBs to make loans to local governments on behalf of local education agencies for the purpose of financing eligible costs of certain projects. The Tennessee Advisory Commission on Intergovernmental Relations recommended the projects to be funded by the Authority under the QSCB program. The American Recovery and Reinvestment Act of 2009 provided this financial tool whereby interest on QSCBs, Series 2009, is paid by the federal government in the form of a quarterly tax credit to the financial institutions that hold the QSCBs. Market conditions at the time of issuance demanded the borrowers pay an additional quarterly interest payment to supplement the tax credit to the investors. The 2010 QSCBs were issued as direct subsidy payment bonds, a financial tool whereby the interest on the QSCBs is intended to be fully subsidized by the federal government. 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 governments and by certain funds held under the Qualified School Construction Bond Resolution.

The September 15, 2014, federal interest subsidy payment for the 2010 QSCBs was reduced by 7.2%, or $370,767.29, as a part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year, September 30, 2014. On October 1, 2014, the Internal Revenue Service announced that federal subsidy payments will be cut by 7.3% during the 2015 federal fiscal year.

Changes in debt payable for the years ended June 30, 2015, and June 30, 2014, are as follows (expressed in thousands):

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
Revolving Credit Facility	$ 157,584	$ 50,000	$145,902	$ 61,682	$ -
Bonds payable	$1,695,470	$808,815	$524,445	$1,979,840	$60,385
Less: unamortized bond discount	(18)	(51)	(13)	(56)	-
Add: unamortized bond premium	85,106	115,678	24,704	176,080	-
Total bonds payable	$1,780,558	$924,442	$549,136	$2,155,864	$60,385

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
Commercial paper	$ 209,429	$ 54,600	$264,029	$ -	$ -
Revolving Credit Facility	$ -	$159,500	$ 1,916	$ 157,584	$ -
Bonds payable	$1,601,480	$149,130	$ 55,140	$1,695,470	$56,435
Less: unamortized bond discount	(30)	-	(12)	(18)	-
Add: unamortized bond premium	74,613	14,036	3,543	85,106	-
Total bonds payable	$1,676,063	$163,166	$ 58,671	$1,780,558	$56,435

Bonds and revolving credit facility at June 30, 2015, and June 30, 2014, are as follows (expressed in thousands):

Bonds Payable:	June 30, 2015	June 30, 2014
2005 Series A at interest rates from 3.750% to 5.00% maturing to 2030 (original par - $100,540)	$ 0	$ 65,445
2005 Series B (Federally Taxable) interest rates at 4.46% maturing to 2015 (original par - $30,960)	0	2,360
2006 Series A at interest rates from 4.00% to 4.60% maturing to 2036 (original par - $53,820)	0	4,590
2007 Series A at interest rates from 4.00% to 4.25% maturing to 2036 (original par - $33,730)	4,990	25,200
2007 Series B (Federally Taxable) at interest rate of 5.243% maturing to 2017 (original par - $14,040)	1,230	9,665
2007 Series C at interest rates from 4.00% to 5.00% maturing to 2032 (original par - $89,940)	42,440	83,365
2008 Series A at interest rates of 4.00% maturing to 2016 (original par - $118,530)	3,860	98,650
2008 Series B at interest rates from 4.25% to 5.00% maturing to 2018 (original par - $166,990)	20,970	138,315
2009 Series A at interest rates from 3.50% to 5.00% maturing to 2019 (original par - $109,905)	14,000	70,790
2010 Series A at interest rates from 3.125% to 4.250% maturing to 2040 (original par - $213,920)	89,005	182,455
2010 Series B at interest rates from 2.5% to 5.20% maturing to 2040 (original par - $18,015)	15,850	16,335
2012 Series A at interest rates from 2.50% to 5.00% maturing to 2042 (original par - $208,295)	198,860	203,060
2012 Series B (Federally Taxable) at interest rates from 1.275% to 3.845% maturing to 2042 (original par - $103,790)	98,135	101,360
2012 Refunding Series C at interest rates from 3.00% to 5.00% maturing to 2034 (original par - $125,635)	102,960	111,390
2013 Series A at interest rates from 2.00% to 5.000% maturing to 2044 (original par - $149,130)	145,365	149,130
2014 Series A (Federally Taxable) at interest rates from 0.350% to 4.207% maturing to 2045 (original par - $132,450)	132,450	0
2014 Refunding Series B at interest rates from 3.00% to 5.000% maturing to 2037 (original par - $212,200)	212,200	0

	June 30, 2015	June 30, 2014
2015 Series A (Federally Taxable) at interest rates from 0.670% to 3.950% maturing to 2046 (original par - $75,550)	75,550	0
2015 Series B at interest rates from 4.00% to 5.000% maturing to 2046 (original par - $388,615)	388,615	0
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
2009 Qualified School Construction Bonds at an interest rate of 1.515% and a federal tax credit rate of 5.86% maturing in 2026 (original par - $177,000)	177,000	177,000
2010 Qualified School Construction Bonds at an interest rate of 4.848% maturing in 2027 (original par - $212,440)	212,440	212,440
Total Par Amount of Bonds Payable	$1,979,840	$1,695,470
Plus: Unamortized Premium/Less Unamortized Discount	176,024	85,088
Net Bonds Payable	$2,155,864	$1,780,558
Revolving Credit Facility, at interest rates from 0.476% to 0.655%	$61,682	$157,584

Debt service requirements to maturity of the bonds payable at June 30, 2015, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2016	$ 71,715	$ 66,478	$ 138,193
2017	66,595	64,637	131,232
2018	68,265	62,372	130,637
2019	72,275	59,433	131,708
2020	68,665	56,313	124,978
2021-2025	361,210	239,846	601,056
2026-2030	699,210	168,782	867,992
2031-2035	234,050	105,447	339,497
2036-2040	197,865	55,896	253,761
2041-2045	127,020	16,212	143,232
2046	12,970	322	13,292
	$1,979,840	$895,738	$2,875,578

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. For the years ended June 30, 2015, and June 30, 2014, the Authority did not have a liability for arbitrage.

On May 7, 2015, the Authority issued two new series of bonds, 2015 Series A and B. The 2015 Series A taxable bond proceeds in the amount of $75,550,000 were issued to redeem $10,600,432 of the Authority's taxable revolving credit facility and to advance refund $40,545,000 of the 2007 Series C bonds. The 2015 Series B tax-exempt bond proceeds in the amount of $388,615,000 were issued to redeem $86,453,306 of the Authority's tax-exempt revolving credit facility and to advance refund $6,950,000 of the 2008 Series A bonds, $11,845,000 of the 2008 Series B bonds, $31,175,000 of the 2009 Series A bonds, and $84,135,000 of the 2010 Series A bonds. The balance of the proceeds of the 2015 Series A and B was used to pay for new construction projects and various costs of issuance. The 2015 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,847,500. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2025. The 2015 Series A refunding resulted in a reduction of total debt service payments of $4,548,899 over the next 10 years and an economic gain (difference between the present values of the old and new debt service payments) of $4,122,985. The 2015 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $6,805,826. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2038. The 2015 Series B refunding resulted in a reduction of total debt service payments of $21,723,485 over the next 24 years and an economic gain (difference between the present values of the old and new debt service payments) of $16,176,450. 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 price then due on the refunded bonds.

On August 27, 2014, the Authority issued two new series of bonds, 2014 Series A and B. The 2014 Series A taxable bond proceeds in the amount of $132,450,000 were issued to redeem $44,843,001 of the Authority's taxable revolving credit facility and to advance refund $56,680,000 of the 2005 Series A bonds and $7,725,000 of the 2007 Series B bonds. The 2014 Series B tax-exempt bond proceeds in the amount of $212,200,000 were issued to current refund $4,590,000 of the 2006 Series A bonds and advance refund $18,890,000 of the 2007 Series A bonds, $84,135,000 of the 2008 Series A bonds, $99,115,000 of the 2008 Series B bonds, and $22,225,000 of the 2009 Series A bonds. The balance of the proceeds of the 2014 Series A and B was used to pay for new construction projects and various costs of issuance. The 2014 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,320,467. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2036. The 2014 Series A refunding resulted in a reduction of total debt service payments of $8,297,682 over the next 22 years and an economic gain (difference between the present values of the old and new debt service payments) of $7,330,312.74. The 2014 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $23,037,977. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2038. The 2014 Series B refunding resulted in a reduction of total debt service payments of $29,059,618 over the next 24 years and an economic gain (difference between the present values of the old and new debt service payments) of $24,666,277. 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 price then due on the refunded bonds.

On November 21, 2013, the Authority issued the 2013 Series A bonds. The 2013 Series A tax-exempt bond proceeds in the amount of $149,130,000 were sold with an original issue premium of $14,036,286.39. The bond proceeds redeemed $132,991,992 of the Authority's tax-exempt commercial paper and $2,763,930 of the Authority's taxable commercial paper. A portion of a project funded under the 2013 Series A Bonds was being funded with taxable commercial paper. With a change in scope and a review from bond counsel, it was decided that this project could be financed with tax-exempt bonds and the project was included in the 2013 Series A Bond issuance. The balance of the proceeds were used to pay for construction costs of certain projects and various costs of issuance.

Revolving Credit Facility

The Authority issues short-term debt to finance certain capital projects for the state's higher education institutions. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National

Association. The Revolving Credit Agreement permits loans (the Revolving Credit Facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed $300,000,000. The Revolving Credit Agreement expires March 20, 2017, subject to extension. The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2015, $51,443,643 of tax-exempt revolving credit facility and $10,238,386 of taxable revolving credit facility loans were outstanding. At June 30, 2014, $90,500,000 of tax-exempt revolving credit facility and $67,084,392 of taxable revolving credit facility loans were outstanding.

Commercial Paper Program

Prior to March 20, 2014, the Commercial Paper program was short-term debt used to finance certain capital projects for the state's higher education institutions. Commercial paper had been issued as tax-exempt and as taxable. The commercial paper dealer was J.P. Morgan Chase.

Note 6. Unearned Revenue

Changes in unearned revenue for the years ended June 30, 2015, and June 30, 2014, are as follows (expressed in thousands):

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Prepaid Interest	$2,207	$2,141	$2,207	$2,141
Other unearned revenue	22	-	1	21
Total unearned revenue	$2,229	$2,141	$2,208	$2,162

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Interest rate reserve fund	$ 906	$ 267	$1,173	$ -
Prepaid interest	2,207	2,207	2,207	2,207
Other unearned revenue	23	-	1	22
Total unearned revenue	$3,136	$2,474	$3,381	$2,229

Note 7. Subsequent Events

As of December 14, 2015, the Authority has $61,443,649 outstanding in tax-exempt revolving credit facility and $10,238,380 in taxable revolving credit facility. Between June 30, 2015, and December 14, 2015, the Authority has drawn $10,000,000 in revolving credit facility to pay construction expenditures.

The September 15, 2015, federal interest subsidy payment for the 2010 QSCBs was reduced by 7.3%, or $375,916.83, as a part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year, September 30, 2015. On October 21, 2015, the Internal Revenue Service announced that federal subsidy payments will be cut by 6.8% during the 2016 federal fiscal year.

TENNESSEE STATE SCHOOL BOND AUTHORITY
Supplementary Schedules of Net Position - Program Level
June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	June 30, 2015				June 30, 2014			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
Assets								
Current assets:								
Cash	$ 294,991	$ 220	$ 1,475	$ 296,686	$ 69,348	$ 220	$ 1,222	$ 70,790
Cash with fiscal agent	1,403	-	20	1,423	1,221	-	16	1,237
Fair value of derivatives	-	832	-	832	-	616	-	616
Loans receivable	63,070	2,929	24,301	90,300	58,945	2,930	24,300	86,175
Interest receivable	11,047	-	721	11,768	9,313	-	577	9,890
Federal subsidy receivable	-	-	2,785	2,785	-	-	2,788	2,788
Receivables for administrative fees	110	8	-	118	214	8	-	222
Total current assets	370,621	3,989	29,302	403,912	139,041	3,774	28,903	171,718
Noncurrent assets:								
Restricted cash	-	14,042	6,518	20,560	-	13,062	6,670	19,732
Restricted investments	31,759	17,069	104,807	153,635	36,180	14,989	78,807	129,976
Loans receivable	1,417,525	10,055	259,720	1,687,300	1,332,602	13,080	283,933	1,629,615
Total noncurrent assets	1,449,284	41,166	371,045	1,861,495	1,368,782	41,131	369,410	1,779,323
Total assets	1,819,905	45,155	400,347	2,265,407	1,507,823	44,905	398,313	1,951,041
Deferred outflows of resources								
Deferred amount on refunding	45,569	-	-	45,569	17,762	-	-	17,762
Total deferred outflows of resources	45,569	-	-	45,569	17,762	-	-	17,762
Liabilities								
Current liabilities:								
Accounts payable	64,728	-	-	64,728	16	-	-	16
Accrued liabilities	130	-	2,795	2,925	4,834	-	2,787	7,621
Accrued interest payable	11,094	-	3,152	14,246	9,391	-	3,152	12,543
Unearned revenue	-	1	2,142	2,143	-	1	2,207	2,208
Bonds payable	60,385	-	-	60,385	56,435	-	-	56,435
Total current liabilities	136,337	1	8,089	144,427	70,676	1	8,146	78,823
Noncurrent liabilities:								
Unearned revenue	14	5	-	19	15	6	-	21
Revolving credit facility	61,682	-	-	61,682	157,584	-	-	157,584
Bonds payable	1,662,125	43,914	389,440	2,095,479	1,290,770	43,913	389,440	1,724,123
Total noncurrent liabilities	1,723,821	43,919	389,440	2,157,180	1,448,369	43,919	389,440	1,881,728
Total liabilities	1,860,158	43,920	397,529	2,301,607	1,519,045	43,920	397,586	1,960,551
Deferred inflows of resources								
Deferred inflow - derivatives	-	832	-	832	-	616	-	616
Total deferred inflows of resources	-	832	-	832	-	616	-	616
Net position								
Unrestricted	$ 5,316	$ 403	$ 2,818	$ 8,537	$ 6,540	$ 369	$ 727	$ 7,636

TENNESSEE STATE SCHOOL BOND AUTHORITY
Supplementary Schedules of Revenues, Expenses, and Changes in Net Position - Program Level
For the Years Ended June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	Year Ended June 30, 2015				Year Ended June 30, 2014			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
Operating revenues								
Revenue from loans	$52,749	$ 15	$13,328	$66,092	$53,282	$ 15	$13,328	$66,625
Investment earnings	322	35	5,340	5,697	290	95	2,186	2,571
Total operating revenues	53,071	50	18,668	71,789	53,572	110	15,514	69,196
Operating expenses								
Interest expense-commercial paper	-	-	-	-	173	-	-	173
Interest expense-revolving credit facility	679	-	-	679	224	-	-	224
Interest expense-bonds	50,961	2	12,981	63,944	52,654	2	12,980	65,636
Subsidy to borrowers	304	-	13,037	13,341	283	-	11,815	12,098
Administrative expense	2,351	14	108	2,473	1,744	20	99	1,863
Total operating expenses	54,295	16	26,126	80,437	55,078	22	24,894	79,994
Operating income (loss)	(1,224)	34	(7,458)	(8,648)	(1,506)	88	(9,380)	(10,798)
Nonoperating revenues								
Federal subsidy on bonds	-	-	9,549	9,549	-	-	9,264	9,264
Total nonoperating revenues	-	-	9,549	9,549	-	-	9,264	9,264
Increase (decrease) in net position	(1,224)	34	2,091	901	(1,506)	88	(116)	(1,534)
Net position								
Net position, July 1	6,540	369	727	7,636	8,046	281	843	9,170
Net position, June 30	$ 5,316	$403	$ 2,818	$ 8,537	$ 6,540	$369	$ 727	$ 7,636

TENNESSEE STATE SCHOOL BOND AUTHORITY
Supplementary Schedules of Cash Flows - Program Level
For the Years Ended June 30, 2015, and June 30, 2014

(Expressed in Thousands)

	Year Ended June 30, 2015				Year Ended June 30, 2014			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
Cash flows from operating activities								
Receipts from borrowers for administrative fees	$ 552	$ 14	$ 346	$ 912	$ 506	$ 14	$ 347	$ 867
Payment to suppliers	(708)	(14)	(97)	(819)	(971)	(20)	(99)	(1,090)
Receipts from borrowers to the interest rate reserve fund	-	-	-	-	264	-	-	264
Net cash provided by (used in) operating activities	(156)	-	249	93	(201)	(6)	248	41
Cash flows from noncapital financing activities								
Proceeds from sale of bonds	414,503	-	-	414,503	163,166	-	-	163,166
Proceeds from the sale of refunding bonds	509,939	-	-	509,939	-	-	-	-
Proceeds from sale of commercial paper	-	-	-	-	54,600	-	-	54,600
Proceeds from sale of revolving credit facility	50,000	-	-	50,000	159,500	-	-	159,500
Bond interest subsidy from federal government	-	-	9,552	9,552	-	-	9,480	9,480
Bond issuance costs paid	(1,558)	-	-	(1,558)	(728)	-	-	(728)
Refunding bond proceeds placed in escrow	(508,894)	-	-	(508,894)	-	-	-	-
Debt service reserve fund release to escrow	(9,307)	-	-	(9,307)	-	-	-	-
Principal paid - bonds and commercial paper	(202,337)	-	-	(202,337)	(321,085)	-	-	(321,085)
Interest paid - bonds and commercial paper	(52,246)	-	(12,981)	(65,227)	(54,396)	-	(12,980)	(67,376)
Subsidy to borrowers	-	-	(9,552)	(9,552)	-	-	(9,480)	(9,480)
Net cash provided by (used in) noncapital financing activities	200,100	-	(12,981)	187,119	1,057	-	(12,980)	(11,923)
Cash flows from investing activities								
Purchases of investments	(13,824)	(33,307)	(22,462)	(69,593)	(55,820)	(29,290)	(22,988)	(108,098)
Proceeds from sales and maturities of investments	18,043	31,262	50	49,355	62,953	27,312	-	90,265
Interest received on investments	523	538	1,607	2,668	684	471	1,245	2,400
Loans issued	(83,154)	-	-	(83,154)	(133,890)	-	(7,543)	(141,433)
Collections of loan principal	60,441	2,487	20,729	83,657	58,709	2,483	21,735	82,927
Interest received on loans	43,852	-	12,913	56,765	41,087	-	12,976	54,063
Net cash provided by (used in) investing activities	25,881	980	12,837	39,698	(26,277)	976	5,425	(19,876)
Net increase (decrease) in cash	225,825	980	105	226,910	(25,421)	970	(7,307)	(31,758)
Cash, July 1	70,569	13,282	7,908	91,759	95,990	12,312	15,215	123,517
Cash, June 30	$ 296,394	$ 14,262	$ 8,013	$ 318,669	$ 70,569	$ 13,282	$ 7,908	$ 91,759
Reconciliation of cash to the statement of net position:								
Cash	$ 294,991	$ 220	$ 1,475	$ 296,686	$ 69,348	$ 220	$ 1,222	$ 70,790
Cash with fiscal agent	1,403	-	20	1,423	1,221	-	16	1,237
Restricted cash	-	14,042	6,518	20,560	-	13,062	6,670	19,732
Cash, June 30	$ 296,394	$ 14,262	$ 8,013	$ 318,669	$ 70,569	$ 13,282	$ 7,908	$ 91,759
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:								
Operating income (loss)	$ (1,224)	$ 34	$ (7,458)	$ (8,648)	$ (1,506)	$ 88	$ (9,380)	$ (10,798)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Investment earnings	(322)	(35)	(5,340)	(5,697)	(290)	(94)	(2,187)	(2,571)
Interest expense	51,640	2	12,981	64,623	53,050	2	12,981	66,033
Subsidy to borrowers	305	-	13,037	13,342	283	-	11,815	12,098
Bond issuance costs	1,558	-	-	1,558	728	-	-	728
Interest income (loss) from loans	(52,302)	-	(12,981)	(65,283)	(52,755)	-	(12,981)	(65,736)
Changes in assets and liabilities:								
Decrease in receivables for administrative fees	104	-	-	104	1,150	-	-	1,150
Increase in payabless for administrative fees	85	-	11	96	45	-	-	45
Decrease in unearned revenue	-	(1)	(1)	(2)	(906)	(2)	-	(908)
Total adjustments	1,068	(34)	7,707	8,741	1,305	(94)	9,628	10,839
Net cash provided by (used in) operating activitie	$ (156)	$ -	$ 249	$ 93	$ (201)	$ (6)	$ 248	$ 41
Noncash investing activities:								
Increase in fair value of investments	$ 142	$ -	$ 2,448	$ 2,590	$ 428	$ -	$ -	$ 428

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING
505 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897
FAX (615) 532-2765

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

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee State School Bond Authority

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, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 14, 2015. 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 of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its 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*.

Purpose of this Report

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

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
December 14, 2015