

# Tennessee State School Bond Authority

A Component Unit of the State of Tennessee



Comprehensive Annual Financial Report  
For the Year Ended June 30, 2006

# **Tennessee State School Bond Authority Comprehensive Annual Financial Report For the Year Ended June 30, 2006**

**PHIL BREDESEN, Governor and Chairman**



**A Component Unit of the State of Tennessee**

**Prepared by the Comptroller of the Treasury, Division of Bond Finance**

**Mary-Margaret Collier**  
*Director, Division of Bond Finance*  
*and*  
*Assistant Secretary, TSSBA*

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2006**

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# INTRODUCTORY SECTION

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## TENNESSEE STATE SCHOOL BOND AUTHORITY

SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING

NASHVILLE, TENNESSEE 37243-0273

PHONE (615) 401-7872

FAX (615) 741-5986

*Governor Phil Bredesen, Chairman*

*John G. Morgan, Secretary*

December 18, 2006

The Honorable Phil Bredesen, Governor and Chairman  
and  
Members of the Tennessee State School Bond Authority

I am pleased to submit the Comprehensive Annual Financial Report of the Tennessee State School Bond Authority (the "Authority"), a component unit of the State of Tennessee, for the fiscal year ended June 30, 2006. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

This letter of transmittal is designed to complement Management's Discussion and Analysis and should be read in conjunction with it. The Authority's Management Discussion and Analysis can be found on pages 3 - 9 of this report.

### BUSINESS ENVIRONMENT

#### Legal Authority

The Tennessee State School Bond Authority, created in 1965, is a corporate governmental agency and instrumentality of the state of Tennessee whose purpose is to finance capital projects for public institutions of higher education located in Tennessee and to finance projects approved pursuant to the Qualified Zone Academy Bond Program of the Federal Government. The Authority has no taxing power. Pursuant to Section 49-3-1204, *Tennessee Code Annotated* ("T.C.A."), the Governor serves as Chairman and the Comptroller of the Treasury serves as Secretary to the Authority.

**Higher Education Facilities Programs.** Pursuant to the General Higher Educational Facilities Bond Resolution adopted in May 1967 ("1967 Resolution"), bonds were issued to provide funds to make loans to the institutions of higher education. In April 1998, the Authority adopted the Higher Educational Facilities Second Program General Bond Resolution ("1998 Resolution") with the same purpose. At that time, the 1967 Resolution was closed, and all bonds are now issued pursuant to the 1998 Resolution. Projects financed by the Authority must be revenue producing. The fee charged for financing of a project includes a debt service as well as an administrative component. The Authority has financed a variety of projects including dormitories, athletic facilities, parking facilities and major equipment purchases among others. These projects could be contrasted with capital projects for basic education needs such as classrooms and libraries that are funded from the proceeds of the State's general obligation bonds.

In 1997, the Authority approved a Commercial Paper Resolution that authorizes the issuance of up to \$150 million. The Commercial Paper is used to fund higher education facilities projects during the construction phase of the project. When the projects are placed in service, long-term, fixed-rate debt is issued to finance the project over its useful payback period and the commercial paper is redeemed. Certain equipment and property acquisitions are financed solely within the

commercial paper program. Equipment financed solely within the commercial paper program has a useful life of five to seven years.

**Qualified Zone Academy Bond Program.** In 1999, the General Assembly authorized the Authority to issue Qualified Zone Academy Bonds (“QZAB”) throughout the State pursuant to program requirements approved by the Congress of the United States in Section 226 of the Taxpayer’s Relief Act of 1997. These bonds are a part of a Federal government program in which a Federal income tax credit is given to investors in lieu of interest payments on the bonds. These bonds are issued under the provisions of the Authority’s Qualified Zone Academy Bonds First Program Resolution. They are not supported by either the 1967 Resolution or the 1998 Resolution for Higher Education Facilities. Through this program, loans are provided to local education agencies to fund the renovation of classroom buildings and to purchase equipment to enhance learning opportunities. Funding for this program is limited to the amount allocated by the federal government.

### **Responsibility of Management**

Management assumes responsibility for the fair presentation of the financial statements found in this report in conformity with accounting principles generally accepted in the United States of America; for compliance with applicable laws, regulations, and the provisions of contracts (including bond resolutions); and for establishing and maintaining effective internal control over financial reporting, operations, and compliance

**Internal Control.** In developing the Authority's accounting system, much consideration was given to the adequacy of internal accounting controls. Such controls are designed to provide reasonable, but not absolute assurance regarding (1) the preventing, deterring, and detecting of fraudulent activity, and (2) the reliability of financial records for preparing financial statements. The concept of reasonable assurances is based on the assumption that the cost of internal accounting controls should not exceed the benefits expected to be derived from their implementation.

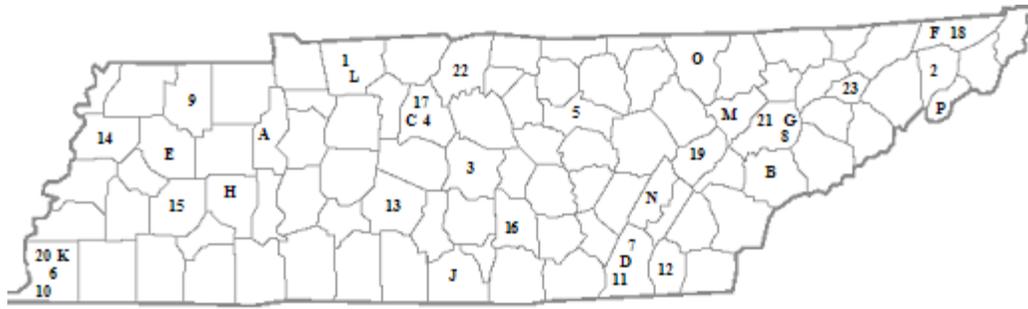
**Independent Audit Committee.** T.C.A. § 4-35-101 requires that a state governing board, council, commission, or equivalent body that (a) has the authority to hire and terminate its employees or (b) is responsible for the preparation of financial statements, whether included in the financial statements of other entities or free standing, shall create an audit committee. The Authority appointed an independent audit committee on August 12, 2004.

The Authority approved an Audit Charter created by the Audit Committee on September 14, 2006. The Audit Charter defines the responsibilities of the Audit Committee as follows:

- Overseeing the Authority’s financial reporting and related disclosures, especially when financial statements are issued;
- Reviewing management’s process for assessment of risk, including fraud risk, for adequacy;
- Reviewing documentation of assessment results to determine that internal controls are sufficient to mitigate the assessed risks in the agency;
- Formally reiterating, on a regular basis, to the Authority or its management and staff, the responsibility of the Authority or its management and staff to prevent, detect and report fraud, waste and abuse;
- Serving as a facilitator of any audits or investigations of the Authority, including advising auditors and investigators of any information the Committee may receive pertinent to audit or instigative matters;
- Promptly notifying the Comptroller of the Treasury of any indications of fraud; and
- Establishing a process by which employees, taxpayers, investors, investors or other citizens may confidentially report suspected illegal, improper, wasteful or fraudulent activity and ensure procedures exist for the receipt, retention, and treatment of such complaints.

Authority staff completed its risk assessment and submitted the risk assessment to the Audit Committee on June 27, 2006. The analysis of the risk assessment is currently under review by the Audit Committee.

**The Borrowers**



**Eligible Higher Education Institutions**

- |    |  |    |   |
|----|--|----|---|
| 1  | Austin Peay State University                             | 13 | Columbia State Community College              |
| 2  | East Tennessee State University                          | 14 | Dyersburg State Community College             |
| 3  | Middle Tennessee State University                        | 15 | Jackson State Community College               |
| 4  | Tennessee State University                               | 16 | Motlow State Community College                |
| 5  | Tennessee Technological University                       | 17 | Nashville State Technical Community College   |
| 6  | University of Memphis                                    | 18 | Northeast State Technical Community College   |
| 7  | University of Tennessee at Chattanooga                   | 19 | Roane State Community College                 |
| 8  | University of Tennessee at Knoxville                     | 20 | Southwest Tennessee Community College         |
| 9  | University of Tennessee at Martin                        | 21 | Pellissippi State Technical Community College |
| 10 | University of Tennessee Health Science Center at Memphis | 22 | Volunteer State Community College             |
| 11 | Chattanooga State Technical Community College            | 23 | Walters State Community College               |
| 12 | Cleveland State Community College                        |    |   |

**Participating QZAB Local Education Agencies**

- |   |                         |   |                           |
|---|-------------------------|---|---------------------------|
| A | Benton County Schools   | J | Lincoln County Schools    |
| B | Blount County Schools   | K | Memphis City Schools      |
| C | Davidson County Schools | L | Montgomery County Schools |
| D | Hamilton County Schools | M | Oak Ridge City Schools    |
| E | Humboldt City Schools   | N | Rhea County Schools       |
| F | Kingsport City Schools  | O | Scott County Schools      |
| G | Knox County Schools     | P | Unicoi County Schools     |
| H | Lexington City Schools  |   |                           |

**Higher Education Facilities Programs.** Public higher education in Tennessee is coordinated by the Tennessee Higher Education Commission and consists of two systems: The University of Tennessee campuses governed by the University of Tennessee Board of Trustees and the state universities, community colleges, technical institutes and state technology centers governed by the Tennessee Board of Regents of the State University and Community College System of Tennessee. The Boards are governing bodies for all public higher education in Tennessee.

The University of Tennessee has four campuses (at Knoxville, Martin, Memphis, and Chattanooga), with 33 colleges, schools and divisions, all of which constitute a single “Institution”. The Tennessee Board of Regents governs the State University and Community College System. It currently includes six universities, 13 community colleges, and 26 state technology centers. The technology centers are not permitted to borrow from the Authority.

The Authority and each Board have entered into separate financing agreements under which the Authority agrees to finance projects and the respective boards agree to make payments to the Authority of among other amounts, (i) Annual Financing Charges for the payment of debt service on the Bonds and certain other purposes and (ii), if necessary in connection with the bonds or notes issued for a project for an institution, amounts appropriated by the General Assembly of the State for the operation and maintenance of the related institution.

Under each financing agreement, the relevant board covenants and agrees 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 the aggregate of financing charges.

**Qualified Zone Academy Bond Program.** In Tennessee, local education agencies do not have taxing power. The power to tax is vested in cities and counties. Local education agencies receive their funding from the city and/or county where they are located. To receive a QZAB loan, a local education agency, in cooperation with its city or county must complete an application provided by the Tennessee Department of Education. The Department of Education reviews the applications and recommends to the Authority those projects it deems worthy of funding. Each local education agency and the respective city or county enters into a loan agreement with the Authority under which, the Authority agrees to finance the projects and the respective city or county agrees to repay the loan.

### **Future Outlook**

**Enrollment Trends in Higher Education.** Enrollment, on a full-time equivalent basis, in four-year public institutions of higher education has increased 16.0% over the past ten years and 9.1% in two-year public institutions with a combined increase of 13.8%. The number of graduates produced by public and private high schools in Tennessee is expected to remain fairly constant through 2007, but then is expected to grow over the next three years by about 4,000 graduates. More Tennesseans have been able to attend college since the advent of the lottery in 2002, which provides funding for the Tennessee Education Lottery Scholarship program. In Fall of 2005, the lottery provided funding to more than 56,000 students. The growing demand will guarantee that the higher education system will sustain its long-term debt commitments well into the future

**Infrastructure Demand, K-12 Education.** The Tennessee Advisory Commission on Intergovernmental Relations (“TACIR”) reports that during the five year period of June 2003 to June 2008 the demand for improvements to existing schools and for technology upgrades total over \$1.9 billion with \$700 million of that being for technology. The State was allocated \$8.758 million of QZABs in 2005 to aid in funding of this demand. The Authority also has the power to intercept state-shared taxes should the community fail to make timely debt service payments.

## **FINANCIAL INFORMATION**

**Budget.** The Authority has no formally approved operating budget. However, controls are in place to assure financial compliance for each project. All loans made and bonds issued must be approved by the Authority in public meetings. T.C.A. § 49-3-1201 et. seq. permits the Authority to make and collect charges from the borrowers for all fees and charges that it determines to be reasonable. These fees and charges include but are not limited to: costs of issuance for bonds, other financial fees such as the cost of bond insurance, liquidity facilities, trustee fees, and administrative costs of staff. All such fees and charges are independently audited for reporting and compliance purposes.

**Financial Statements.** A discussion of the financial statements is included on pages 7 - 9 in the Management’s Discussion and Analysis section of this Comprehensive Annual Financial Report.

**Cash Management.** Permitted investments are identified in the various bond and note resolutions. Unexpended bond and note proceeds are invested by the State Treasurer in the State Pooled Investment Fund. Investments of moneys held in the debt service reserve fund are held by the Trustee. Decisions on investments in the debt service reserve fund are made by the State Treasurer’s staff in consultation with the staff to the Authority and the Trustee.

Payments made into the sinking fund for the Series 1999, 2001, and 2003 QZAB bonds are held in the State Pooled Investment Fund and invested by the State Treasurer. For the Series 2004 and 2005 bonds, however, the Authority entered into a Forward Delivery Agreements (the "Agreement") with the Bank of America, N.A. (the "Bank") and J.P. Morgan Chase Bank, N.A. ("the Bank") whereby the Bank selects the sinking fund investments from eligible securities defined in the Agreement. Such investments will be held by the State Treasurer in the Authority's name. Investments are described in the Notes to the Financial Statements, Note 2, of this report.

## OTHER INFORMATION

**Securities and Exchange Commission Disclosures.** The Tennessee State School Bond Authority has entered into a Continuing Disclosure Undertaking ("Undertaking") with respect to certain debt issues. The Undertaking was made for the benefit of the holders of the debt pursuant to U.S. Securities and Exchange Commission Rule 15c2-12. The Authority has covenanted to provide certain annual financial information, including audited financial statements, as well as, certain additional financial and operating data. Financial and operating data required pursuant to the Undertakings is included in the Comprehensive Annual Financial Report of the State of Tennessee, not in this report. The reader of the State's Comprehensive Annual Financial Report should use the index located at the end of that report to identify the specific pages where the information is presented.

**Independent Audit.** T.C.A. § 4-3-304 requires that the department of audit performs currently a post-audit of all accounts and other financial records of the state government, and any department, institution, office or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller of the treasury.

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tennessee State School Bond Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the fourth consecutive year that the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

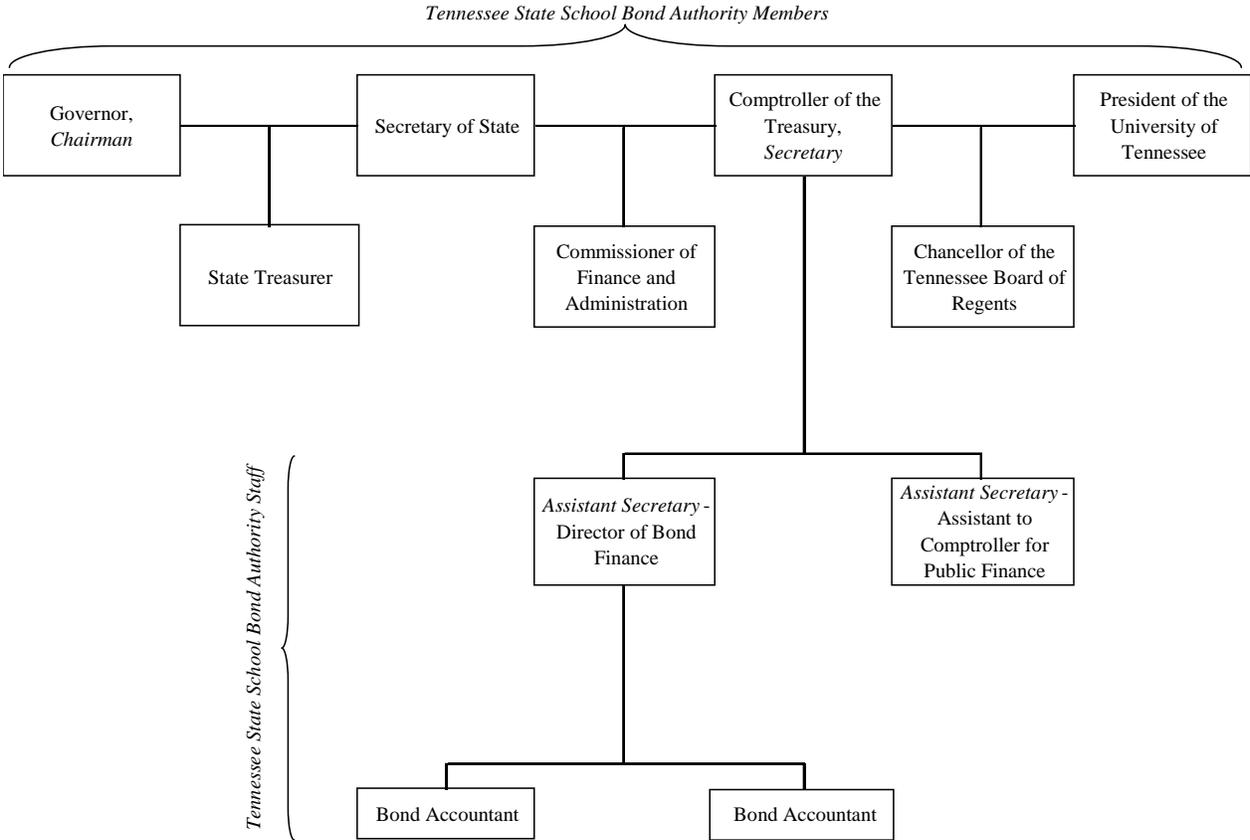
**Acknowledgements.** The preparation of the comprehensive annual financial report was made possible by the dedication of the staff of the Division of Bond Finance in the Office of the Comptroller of the Treasury.

Respectfully submitted,



Mary-Margaret Collier, Assistant Secretary  
Tennessee State School Bond Authority

# Tennessee State School Bond Authority Organization Chart





## TENNESSEE STATE SCHOOL BOND AUTHORITY

### MEMBERS

Phil Bredesen, Governor, *Chairman*

John G. Morgan, Comptroller of the Treasury, *Secretary*

Riley C. Darnell, Secretary of State

Dale Sims, State Treasurer

Dave Goetz, Commissioner of Finance and Administration

Dr. John Petersen, President of the University of Tennessee

Dr. Charles Manning, Chancellor of the Tennessee Board of Regents

### STAFF

Mary-Margaret Collier, Director of Bond Finance, *Assistant Secretary*

Ann V. Butterworth, Assistant to Comptroller for Public Finance, *Assistant Secretary*

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Tennessee State School Bond Authority

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Carla E. Perry*

President

*Jeffrey R. Emer*

Executive Director

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# FINANCIAL SECTION

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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  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Auditor's Report**

December 18, 2006

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of June 30, 2006, and June 30, 2005, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee State School Bond Authority; approving accounting policies of the state as prepared by the state's Department of Finance and Administration; approving certain Authority contracts; participating in the negotiation and procurement of services; maintaining the accounting records for the Tennessee State School Bond Authority; and providing support staff to the Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006, and June 30, 2005, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries

The Honorable John G. Morgan  
December 18, 2006  
Page Two

of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supplementary schedules 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions) and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/ddm

## Management's Discussion and Analysis

As management of the Tennessee State School Bond Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. These activities are compared to the results of the fiscal years ended June 30, 2005, and 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - v 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 education agencies ("LEAs") through Qualified Zone Academy Bonds ("QZABs"). The tables below summarize this business activity.

	<b>Higher Education Facilities Programs</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Number of institutions with outstanding loans	23	23	14
Total number of outstanding loans	272	264	208
Balance of outstanding loans	\$578,693,784	\$ 520,133,184	\$ 477,867,414
Number of loans approved in fiscal year	19	57	20
Dollar value of loans approved in fiscal year	\$ 108,133,760	\$ 243,921,382	\$ 113,686,550
Dollar value of loans approved in fiscal year - unfunded	\$ 107,250,572	\$ 224,420,872	\$ 109,417,744
Dollar value of loans issued in fiscal year	\$ 87,819,428	\$ 57,553,324	\$ 46,155,418
Bonds issued in fiscal year	\$ 66,305,000	\$ 131,500,000	\$ 165,770,000
Commercial paper issued in fiscal year	\$ 66,000,000	\$ 44,000,000	\$ 39,000,000

	<b>Qualified Zone Academy Bond Program</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Number of LEAs with outstanding loans	14	13	10
Total number of outstanding loans	23	16	12
Balance of outstanding loans	\$ 22,401,091	\$ 15,766,633	\$ 17,375,137
Number of loans approved in fiscal year	-	7	6
Dollar value of loans approved in fiscal year	\$ -	\$ 14,554,567	\$ 14,956,774
Dollar value of loans approved in fiscal year - unfunded	\$ -	\$ 14,554,567	\$ 14,243,867
Dollar value of loans issued in fiscal year	\$ 9,732,516	\$ 4,256,804	\$ 5,205,991
Bonds issued in fiscal year	\$ 17,545,000	\$ 12,600,000	\$ 2,445,000

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

## **Debt Administration**

Pursuant to Section 49-3-1201 et seq., *Tennessee Code Annotated*, the General Assembly of the State created the Tennessee State School Bond Authority to issue bonds and notes to fund capital projects for the higher education institutions including both four-year institutions and two-year community colleges as well as to issue the QZABs on behalf of local education agencies throughout the State. For more specific financial information on long-term debt activity, see Note 5, Debt Payable, on pages 22 - 26 in the Notes to the Financial Statements.

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

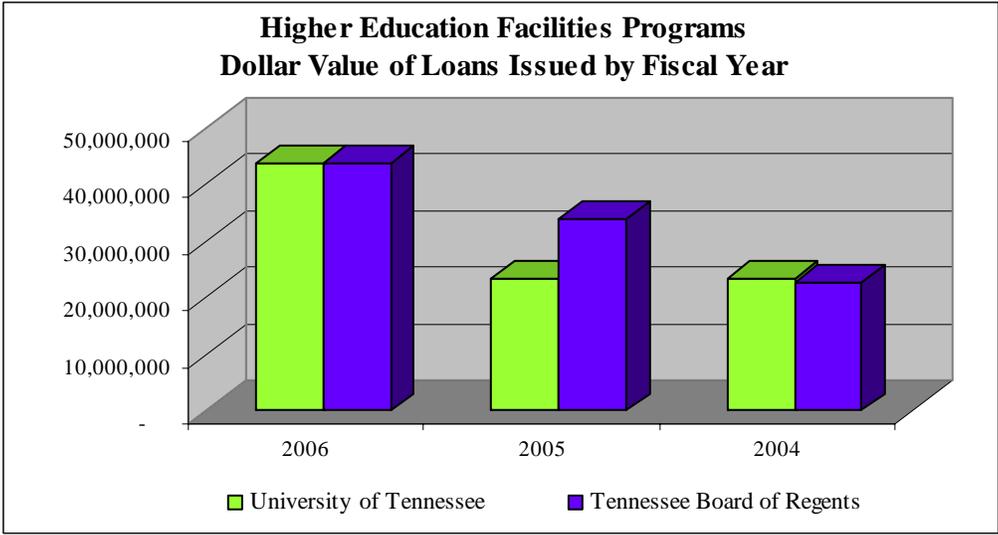
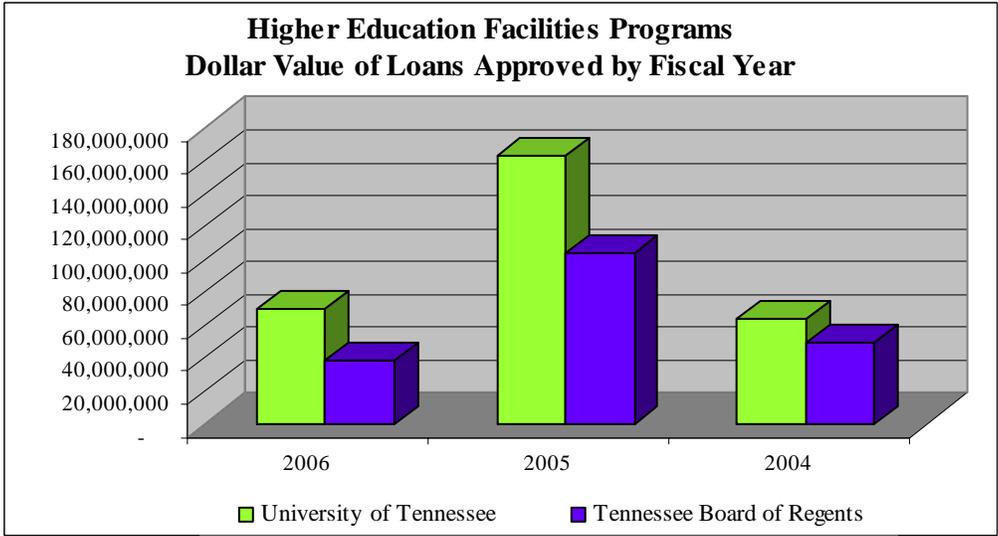
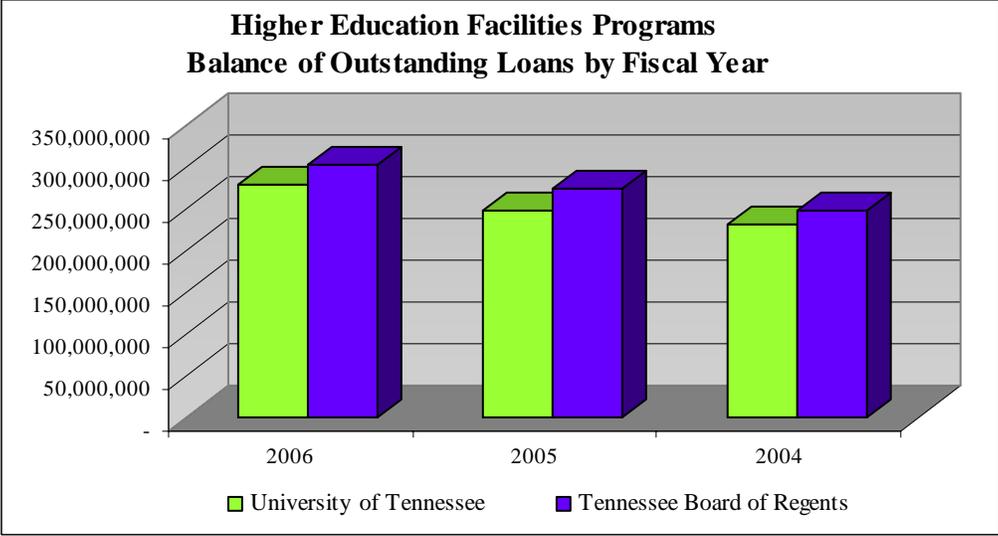
Generally under the financing program for higher education institutions, a project is funded through the Authority's commercial paper program during its construction phase. When projects totaling \$50 million or greater are completed or near completion, the Authority fixes the interest rate for the term of the project by issuing long-term debt. The range of the commercial paper interest rates are shown below for fiscal year ended June 30, 2006 as compared to fiscal years 2005 and 2004. These rates were a function of the term of the commercial paper and a volatile capital market.

### **Higher Education Facilities Programs Commercial Paper Interest Rates Range**

<b>Fiscal Year</b>	<b>Tax-Exempt</b>		<b>Taxable</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
<b>2006</b>	2.10%	3.63%	3.07%	5.00%
<b>2005</b>	1.00%	3.00%	1.20%	2.80%
<b>2004</b>	0.75%	1.12%	1.03%	1.28%

Liquidity for the commercial paper program is provided by an Advance Agreement with WestLB. The commitment fee is .120% paid quarterly in arrears. The Agreement terminates on March 7, 2011, subject to extension and earlier termination. If the liquidity facility is called upon, the Authority has ninety days to repay the advance from the facility. Should the Authority fail to repay the loan within the ninety-day period, the loan converts to a term loan with the bank with four semi-annual payments. Thus, the commercial paper is reported as a long-term liability.

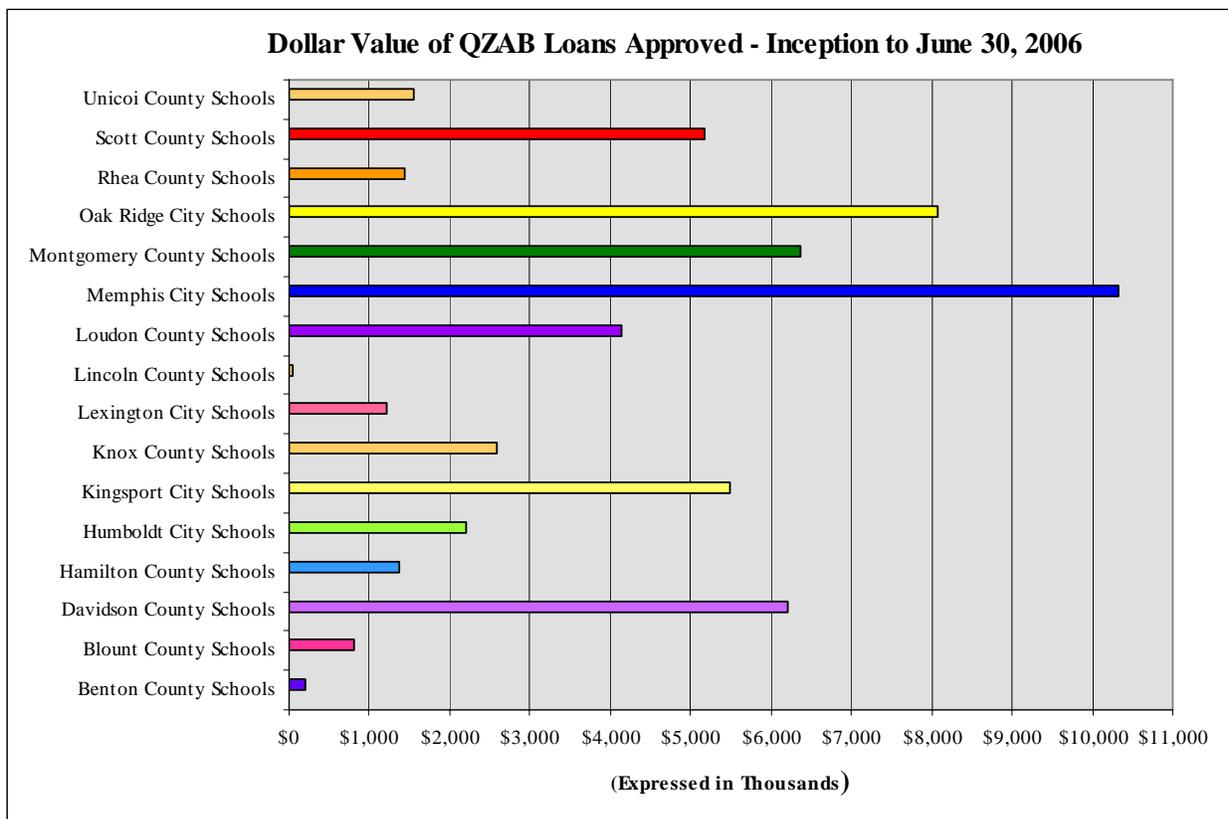
Interest rates on the higher educational facilities long-term fixed-rate tax-exempt bonds range from a low of 2.25% to a high of 6.00% and the interest rates on the higher educational facilities long-term fixed-rate taxable bonds range from a low of 2.30% to a high of 7.15%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency were achieved. The creditworthiness of both large and small institutions is homogenized into one credit resulting in a lower cost of borrowing and providing a more equitable cost to students who repay the debt through their student debt service fees. Additional benefits accrue to the higher education institutions and the two systems by having one point of debt issuance and administration for all institutions of higher education throughout the state.



The Authority's higher education facilities program is rated AA, Aa3, and AA- by Fitch, Moody's Investors Service and Standard & Poor's Rating Group, respectively. Fitch comments that the rating reflects the broad coverage provided by higher education fees and charges, the provision to intercept state appropriations and the State's intrinsic role in the Authority and its financings as the reason for the AA rating. Moody's mentions that the rating of Aa3 reflects a strong demand for the state's educational institutions, support derived from the state's high rating, and the structural provisions of the program. Standard & Poor's cites the broad pledge of fees and revenue, the intercept of the state appropriation and the underlying strong operating support as reasons for the AA- rating.

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

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



### 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 conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting and the flow of economic resources measurement

focus. This basis recognizes revenues when earned and expenses at the time liabilities are incurred. Using the economic resources measurement focus, a reader is presented information that allows him/her to determine the transactions and events that have increased or decreased the total economic resources for the period.

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

The Statements of Net Assets found on page 13 depict the Authority's financial position at June 30, 2006, and June 30, 2005. The Statements of Revenues, Expenses and Changes in Net Assets found on page 14 show the results of operations and the change in net assets for the years presented. The Statements of Cash Flows found on pages 15 - 16 summarize the sources and uses of cash for the fiscal years presented. These statements are accompanied by notes to the financial statements that provide information that is essential to the reader's understanding of the financial statements. The Authority's basic financial statements are followed by supplementary information containing the financial statement information at the program level.

**Financial Analysis of the Authority**

Standard indicators of financial success are not applicable to the Authority. The financial goal of the Authority is to provide timely access to the capital markets for qualified educational institutions at the lowest possible cost. The Authority successfully achieved this goal. The Authority frequently entered the short-term market with great success. Likewise, when long-term debt was sold in 2006, at competitive sale, eight syndicates placed bids for the offered bonds. There were no incidents requiring the Authority to draw from the debt service reserve fund or refuse a loan from an applicant due to the inability to obtain capital funding.

<b>Statements of Net Assets Summary</b>			
<b>(in thousands)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 139,409	\$ 81,717	\$ 86,801
Noncurrent assets	<u>599,791</u>	<u>536,800</u>	<u>493,461</u>
Total assets	<u>739,200</u>	<u>618,517</u>	<u>580,262</u>
Current liabilities	35,680	27,532	27,529
Noncurrent liabilities	<u>696,923</u>	<u>584,185</u>	<u>546,553</u>
Total liabilities	<u>732,603</u>	<u>611,717</u>	<u>574,082</u>
Net assets (unrestricted)	<u>\$ 6,597</u>	<u>\$ 6,800</u>	<u>\$ 6,180</u>
<i>Note: The Authority owns no capital assets.</i>			

Current assets include approximately \$97,900,057 of unexpended bond proceeds and commercial paper at June 30, 2006, which includes \$21,389,440 relating to QZAB loans, \$21,036,617 relating to the higher education facilities programs which will fund approved loans and \$55,474,000 of unexpended commercial paper proceeds that will be redeemed by the 2006A and 2006B bond proceeds, as compared to approximately \$45,889,000 at June 30, 2005 and approximately \$51,233,000 in the fiscal year 2004. During the year ended June 30, 2006, the Authority issued \$66,305,000 in Higher Education Facilities Second Program Bonds which were used to retire \$55,474,000 of commercial paper proceeds with the remaining to fund various costs for the projects involved. During the fiscal year 2005, the Authority issued \$131,500,000 in Higher Education Facilities Second Program Bonds which were used to refund \$126,955,000 aggregate principal amount from a portion of the 1998A, 1998B, 1998C, 2000A,

2000B, and 2002A bonds that resulted in net present value savings of \$7,242,140.59. During fiscal year 2004, the Authority issued \$165,770,000 in Higher Education Facilities Second Program Bonds of which \$67,965,000 was used to refund a portion of the 1987 and 1996A bonds that resulted in net present value savings of \$4,044,540. The Authority also issued \$17,545,000 of Qualified Zone Academy Bonds during the year ended June 30, 2006, \$12,600,000 during the year ended June 30, 2005 and \$2,445,000 during the year ended June 30, 2004. Principal payments were made on the long-term bonds in the amount of \$22,201,000 in 2006; \$22,569,000 in 2005; and \$22,911,000 in 2004. During 2006 the Authority issued \$66,000,000 in new commercial paper and redeemed \$11,196,000. The Authority issued \$44,000,000 in new commercial paper and redeemed \$1,914,000 during 2005 and issued \$39,000,000 of new commercial paper and redeemed \$53,591,000 during 2004.

The net assets are available to fund operations and other expenses necessary to meet the goals of the Authority. The decrease in net assets during the year ended June 30, 2006 was mostly due to the purchase of the 2006 Series A and Series B bonds. The funds from the 2006 series bonds will be used to refund commercial paper proceeds, however, the commercial paper proceeds were not refunded until after the year ended June 30, 2006, thus leaving the commercial paper payable due at year end. The increase in net assets during the year ended June 30, 2005, was due to an increase in the funding from the Authority to the higher education facilities and eligible public schools. The Authority continues to absorb certain administrative costs associated with bonded indebtedness of the higher education facilities program rather than passing those costs to the borrowers of the higher education facilities program.

<b>Statements of Revenues, Expenses, and Changes in Net Assets Summary (in thousands)</b>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>			
Revenue from loans	\$ 26,841	\$ 27,027	\$ 22,956
Investment earnings	<u>1,761</u>	<u>1,138</u>	<u>423</u>
Total operating revenue	<u>28,602</u>	<u>28,165</u>	<u>23,379</u>
<b>Operating Expenses</b>			
Interest expense	26,476	25,855	22,273
Subsidy to borrowers	1,440	847	340
Other expenses	<u>889</u>	<u>843</u>	<u>756</u>
Total operating expenses	<u>28,805</u>	<u>27,545</u>	<u>23,369</u>
Operating income (loss) and change in net assets	<u>\$ (203)</u>	<u>\$ 620</u>	<u>\$ 10</u>
<i>Note: The Authority has no non-operating revenues or expenses.</i>			

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

Pursuant to the bond resolution for the QZABs, Sinking Fund payments are invested in the State Pooled Investment Fund (the "SPIF"). SPIF rates for 2006 ranged from 3.21% to 4.93%. Investment earnings related to the QZAB program are held by the Authority for the benefit of the local education agencies and credited to their individual loans annually. Pursuant to the bond resolution for the 2004 and 2005 Series QZABs, sinking fund payments are invested in Forward Delivery Agreements which guarantees a fixed rate of interest of 3.00% and 3.64%, respectively, on investments. The investments will be held by the State Treasurer in the Authority's name.

The decrease in operating income and change in net assets between the fiscal years 2006 and 2005 was mostly affected by the Authority's increase in interest expense due to the markets rising rates and an increase to subsidy to borrowers. The increase in operating income and change in net assets between the fiscal years 2005 and 2004 was

mostly affected by the Authority's investments earning at a higher rate in fiscal year 2005 than in fiscal year 2004. The investment earnings are a function of prevailing market interest rates and the daily invested balance.

### **Economic and Demographic Factors Affecting Future Financing Activities**

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

- The advent of the Tennessee Education Lottery Scholarship program allowed more Tennesseans to attend college. In Fall 2005, the Tennessee Lottery provided \$160 million in scholarships to more than 56,000 students.
- Tennessee will experience sustained enrollment growth throughout the remainder of the decade as a result of the baby-boom echo. According to the Southern Regional Education Board, the number of high school graduates in the state of Tennessee will increase by more than 4,000 students through the end of this decade. We anticipate that many of these students will matriculate through Tennessee's higher education system.
- The demographic composition of the state is changing dramatically and the higher education system must position itself to serve the needs of an increasingly diverse population.

In the Knowledge Economy, the importance of receiving training beyond high school is significant. Presently, 19.6 percent of Tennesseans aged 25 and older hold a college degree, compared to the national average of 25.2 percent. In order to reach the average educational attainment levels of our border-states, Tennessee would need to immediately create more than 181,500 new college graduates. Furthermore, the percentage of adults in the state with an associate degree or some college in 2000 was 27.1 percent, in comparison with the national average of 29.6 percent. The availability of new and/or improved learning facilities near work and home will have a major impact on the State's success in achieving these goals.

**Qualified Zone Academy Bond Program.** As of June 30, 2006, the QZAB program had unused allocations totaling \$2,155,000. The State has up to two years after the yearly allocations are made by the Federal government to issue bonds or the allocation is forfeited. After the issuance of the QZAB bonds, dated December 28, 2005, the total unused allocation will expire on December 31, 2007. The Federal government has not issued the 2006 allocations. The Authority staff along with the staff of the State Department of Education is encouraging local education authorities, cities and counties to take advantage of these interest-free loans.

### **Contacting the Authority's Management Team**

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



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# BASIC FINANCIAL STATEMENTS

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TENNESSEE STATE SCHOOL BOND AUTHORITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2006, AND JUNE 30, 2005

(Expressed in Thousands)		
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<b>ASSETS</b>		
Current assets:		
Cash (Note 2)	\$ 104,857	\$ 53,013
Investments with fiscal agent (Note 2)	216	370
Loans receivable (Note 3)	29,903	24,369
Interest receivable (Note 3)	4,051	3,596
Receivables for administrative fees (Note 3)	382	369
Total current assets	139,409	81,717
Noncurrent assets:		
Restricted cash (Notes 2 and 4)	11,160	7,509
Restricted investments (Notes 2 and 4)	10,891	12,300
Loans receivable (Note 3)	571,192	511,515
Deferred charges	6,548	5,476
Total noncurrent assets	599,791	536,800
Total assets	739,200	618,517
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	171	31
Due to local education authorities	2,143	615
Accrued interest payable	4,611	3,801
Unearned revenue (Note 6)	1,413	1,035
Bonds payable (Note 5)	27,342	22,050
Total current liabilities	35,680	27,532
Noncurrent liabilities:		
Unearned revenue (Note 6)	12,404	11,906
Commercial paper payable (Note 5)	129,046	74,242
Bonds payable (Note 5)	555,473	498,037
Total noncurrent liabilities	696,923	584,185
Total liabilities	732,603	611,717
<b>NET ASSETS</b>		
Unrestricted	\$ 6,597	\$ 6,800

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 ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

(Expressed in Thousands)

	<u>Year Ended June 30, 2006</u>	<u>Year Ended June 30, 2005</u>
<b>OPERATING REVENUES</b>		
Revenue from loans	\$ 26,841	\$ 27,027
Investment earnings	<u>1,761</u>	<u>1,138</u>
Total operating revenues	<u>28,602</u>	<u>28,165</u>
<b>OPERATING EXPENSES</b>		
Interest expense-commercial paper	3,482	939
Interest expense-bonds	22,994	24,916
Subsidy to borrowers	1,440	847
Administrative expense	539	548
Amortization of bond issuance costs	<u>350</u>	<u>295</u>
Total operating expenses	<u>28,805</u>	<u>27,545</u>
Operating income (loss) and change in net assets	(203)	620
Net assets, July 1	<u>6,800</u>	<u>6,180</u>
Net assets, June 30	<u><u>\$ 6,597</u></u>	<u><u>\$ 6,800</u></u>

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, 2006 AND JUNE 30, 2005

(Expressed in Thousands)

	Year Ended June 30, 2006	Year Ended June 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from borrowers for administrative fees	\$ 373	\$ 376
Payment to suppliers	(539)	(548)
Receipts from borrowers to the interest rate reserve fund	349	174
Payments to borrowers from the interest rate reserve fund	(50)	(257)
Net cash provided by (used in) operating activities	<u>133</u>	<u>(255)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from sale of bonds	83,239	12,600
Proceeds from sale of refunding bonds	-	139,009
Proceeds from sale of commercial paper	66,000	44,000
Bond issuance costs paid	(472)	(884)
Refunding bond proceeds placed in escrow	-	(137,705)
Principal paid - bonds and commercial paper	(33,397)	(24,483)
Interest paid - bonds and commercial paper	(25,005)	(25,620)
Subsidy to borrowers	(1,459)	(793)
Net cash provided by noncapital financing activities	<u>88,906</u>	<u>6,124</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(16,823)	(19,439)
Proceeds from sales and maturities of investments	18,980	23,006
Interest received on investments	1,372	924
Loans issued	(96,024)	(61,810)
Collection of loan escrow	1,048	-
Loan escrow paid	(44)	-
Collections of loan principal	33,433	22,898
Interest received on loans	24,514	25,552
Net cash used in investing activities	<u>(33,544)</u>	<u>(8,869)</u>
Net increase (decrease) in cash	55,495	(3,000)
Cash, July 1	<u>60,522</u>	<u>63,522</u>
Cash, June 30	<u>\$ 116,017</u>	<u>\$ 60,522</u>

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TENNESSEE STATE SCHOOL BOND AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

(Expressed in Thousands)

**Reconciliation of cash to the Statement of Net Assets:**

Cash	\$ 104,857	\$ 53,013
Restricted cash	<u>11,160</u>	<u>7,509</u>
Cash, June 30	<u>\$ 116,017</u>	<u>\$ 60,522</u>

**Reconciliation of operating income (loss) to net cash used in operating activities:**

Operating income (loss)	<u>\$ (203)</u>	<u>\$ 620</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Amortization of bond issuance costs	350	295
Investment earnings	(1,761)	(1,138)
Interest expense	26,476	25,855
Subsidy to borrowers	1,440	847
Interest income from loans	(26,455)	(26,653)
Changes in assets and liabilities:		
(Increase) decrease in receivables for administrative fees	(13)	2
Increase (decrease) in unearned revenue	<u>299</u>	<u>(83)</u>
Total adjustments	<u>336</u>	<u>(875)</u>
Net cash provided by (used in) operating activities	<u>\$ 133</u>	<u>\$ (255)</u>

**Noncash financing activities:**

Accretion of capital appreciation bonds	\$ 769	\$ 898
Bond issuance costs	<u>491</u>	<u>(7,059)</u>
Total noncash financing activities	<u>\$ 1,260</u>	<u>\$ (6,161)</u>

**Noncash investing activities:**

Net appreciation in value of investments reported at fair value	<u>\$ 75</u>	<u>\$ 40</u>
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The notes to the financial statements are an integral part of this statement.

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2006, and June 30, 2005**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Tennessee State School Bond Authority (the Authority) was created to provide a mechanism for financing capital projects for the state's higher education institutions. In addition, during 1999, the General Assembly empowered the Authority to issue Qualified Zone Academy Bonds (QZABs) for financing improvement projects to local education agencies pursuant to the federal program authorized in the Taxpayer Relief Act of 1997.

The Authority is a component unit of the State of Tennessee (the State) and a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 14, *The Financial Reporting Entity*, the Authority is discretely presented in the *Tennessee Comprehensive Annual Financial Report* because the Authority's board consists of state officials and, therefore, the state has the ability to affect the day-to-day operations of the Authority.

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority has the option of following subsequent private-sector guidance subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

**Measurement Focus and Basis of Accounting**

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

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

**Investments**

Investments are stated at fair value.

**Amortized Amounts**

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

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

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

- C. Accretion. The difference between the face amount of College Saver Bonds (capital appreciation bonds) and the public offering price is not treated as bond discount. Capital appreciation bonds are subject to redemption at prices which increase from the initial public offering price to the face amount. The carrying amount of these bonds is adjusted semi-annually and at June 30 to reflect the increased liability, with a corresponding charge to interest expense.
- D. Unearned Revenue. When the Authority issues bonds to finance capital projects, the par amount of the bonds is adjusted by certain amounts (such as bond discount/premium, underwriters' fees, and other costs of issuance) in order to arrive at the amount of bond proceeds available for capital expenditures. These amounts, discussed above, are capitalized and amortized pursuant to accounting principles generally accepted in the United States of America. A similar situation arises when accounting for the loans to the higher education institutions and local education agencies. Because of the adjustments mentioned above (discount, costs of issuance, etc.), the principal amount of the loan differs from the actual amount of funds available for capital expenditures. Because the higher education institutions and the local education agencies bear the cost of this difference, it is carried on the statement of net assets as unearned revenue and amortized on a straight-line basis over the life of the related bond.

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

## **NOTE 2. DEPOSITS AND INVESTMENTS**

The Authority implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, which established and modified the disclosure requirements for deposits and investments for the year ended June 30, 2005. The investments under the Higher Education First Program General Bond Resolution of the Tennessee State School Bond Authority can be invested in direct obligations of the United States, or obligations of which the principal and interest are guaranteed by the United States. Moneys pertaining to the Higher Education Second Program General Bond Resolution and the Qualified Zone Academy Bonds First Program Resolution of the Tennessee State School Bond Authority, pursuant to *Tennessee Code Annotated*, Section 49-3-1205, can be invested in obligations of the United States or its agencies under flexible repurchase agreements which are fully collateralized by obligations of the United States or obligations the timely payment of the principal of and interest on which are guaranteed by the United States, the State Pooled Investment Fund as provided in *Tennessee Code Annotated*, Section 9-4-603, and any other investment authorized by the state investment policy adopted by the State Funding Board pursuant to *Tennessee Code Annotated*, Section 9-4-602.

## Deposits

The Tennessee State School Bond Authority has cash on deposit in the Pooled Investment Fund administered by the State Treasurer. The fund's investment policy and required risk disclosures are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2006, and June 30, 2005. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eight Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

The Authority's deposits are held in a financial institution, which participates in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

## Investments

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

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

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

As of June 30, 2005, the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Treasury Bills	October 27, 2005	\$ 8,250,929
U.S. Treasury Securities: State and Local Government Series		<u>4,419,476</u>
Total Investments		<u>\$12,670,405</u>

During the fiscal year ended June 30, 2005, one QZAB borrower refunded its loan in the amount of \$4,419,476 outside of the Tennessee State School Bond Authority. A State and Local Government Series U.S. Treasury Security was placed with the Tennessee State School Bond Authority to cover the borrower's remaining loan balance.

## Interest Rate Risk

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

### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2006, and June 30, 2005, the Authority's investments were in U.S. Government obligations which are not considered to have credit risk.

### **Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. At June 30, 2006, and June 30, 2005, 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, 2006, and June 30, 2005, the Authority's investments were in U.S. Treasury securities.

### **Forward Delivery Agreements**

On November 24, 2004, the Authority entered into a Forward Delivery Agreement (the "Agreement") with Bank of America, N.A. The Agreement guarantees a fixed rate of interest of 3%. Cash from borrowers' loan repayments will be used to purchase securities in accordance with the Agreement. The accumulated funds will be used to redeem the \$12,600,000 series 2004 QZAB Bonds at maturity. As a result of the Agreement, borrowers will repay only \$9,984,800 of the \$12,600,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2006, there is \$631,587.60 invested through the Agreement. As of June 30, 2005, no funds were 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. The Agreement guarantees a fixed rate of interest of 3.64%. Cash from borrowers' loan repayments will be used to purchase securities in accordance with the Agreement. The accumulated funds will be used to redeem the \$17,545,000 series 2005 QZAB Bonds at maturity. As a result of the Agreement, borrowers will repay only \$13,438,510 of the \$17,545,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2006, there were no funds invested in the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also has the right to optionally terminate the Agreement at any time.

The total marked to market value of the State's Forward Delivery Agreements for fiscal year 2006 is \$(2,372,549), as reflected in the following table.

## Terms of Forward Agreement

	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 6/30/06	\$631,588	\$0
Amount Invested in Agreement at 6/30/05	\$0	\$0
Date of Deposits	Nov. 24, 2005 through 2020	Dec. 8, 2006 through 2020
Market Value at 6/30/06	(\$1,113,433)	(\$1,259,116)
Market Value at 6/30/05	(\$639,334)	\$0

## 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, or incorporated by reference in, this Agreement; any representation or warranty of the State contained in the Agreement proves to have been incorrect, false or misleading; insolvency of the State; or the principal amount under the Bonds becomes due and payable for any reason prior to the maturity date.

If the current market interest rate is higher than the fixed interest rate agreed to in the Forward Delivery Agreement, the Forward Delivery Agreement has a negative fair value. In the event of termination under this circumstance, the State owes a termination payment to the counterparty. If the fair value is positive, the State is due a termination payment from the counterparty. As of June 30, 2006 the fair value of the State's Forward Delivery Agreements have a total negative value of (\$2,372,549). As of June 30, 2005 the fair value of the State's Forward Delivery Agreement had a total negative value of (\$639,334). Therefore, if the Agreement was terminated, for any reason, the State would owe a termination payment of this amount.

## NOTE 3. LOANS RECEIVABLE

### Higher Education Facilities Programs

The Authority has entered into financing agreements with both the Board of Trustees of the University of Tennessee (the Board of Trustees) and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee (the Tennessee Board of Regents). The First Financing Agreement and the Second Financing Agreement (the "Agreements"), are dated May 1, 1967 and November 1, 1997, respectively, as amended. Under the Agreements, the Authority agrees to finance construction projects for the Board of Trustees or the Tennessee Board of Regents. Annual financing charges payable under the Agreements must be sufficient to pay the debt obligations of the Authority and the costs of administering the programs.

### Qualified Zone Academy Bonds Program

The Authority has entered into loan agreements with the local education agencies for the 1999 QZABs, dated November 30, 1999; the 2001 QZABs dated December 18, 2001; the 2003 QZABs dated December 23, 2003; the 2004 QZABs dated November 24, 2004; and the 2005 QZABs dated

December 28, 2005. Under the agreements, the Authority agrees to finance construction projects for the local education agencies. On the annual date of the agreements, the borrower makes an annual principal payment into a bond fund held by the State Treasurer that will pay the bonds at maturity.

#### **NOTE 4. RESTRICTED ASSETS**

##### **Cash and Investments**

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

The Higher Education Facilities Second Program General Bond Resolution, effective for all bonds issued in 1998 and thereafter, permits the Authority to satisfy the debt service reserve requirement by maintaining a Reserve Fund Credit Facility. The Authority obtained a surety bond, constituting a Reserve Fund Credit Facility under the Resolution, in lieu of maintaining a debt service reserve fund for the 1998 Series A, B, C, and D; 2000 Series A and B; 2002 Series A; 2004 Series A, B, and C; and 2005 Series A and B Bonds, and 2006 Series A and B Bonds.

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

#### **NOTE 5. DEBT PAYABLE**

##### **Higher Education Facilities Programs**

- A. Bonds. The bonds issued under the First and Second Program Higher Education Facilities Bond Resolutions constitute special obligations of the Authority. The First Program, which commenced in 1967, is no longer utilized, but any payments by the Boards thereunder will be superior to the Boards' payments under the Second Program Higher Education Facilities Bond Resolution. The principal, Sinking Fund Installments, if any, and Redemption Price of and interest on the bonds are payable solely from the Annual Financing Charges, Legislative Appropriations, and other moneys and securities held or set aside under the Resolutions.
- B. Commercial Paper. Commercial paper constitutes a special obligation of the Authority. Principal of and interest on the commercial paper is payable from the following sources: (i) as to principal only, the proceeds of the sale of commercial paper issued to pay the principal of other outstanding commercial paper, (ii) the proceeds of draws on the Liquidity Facility, (iii) available revenues, (iv) the moneys and securities (if any) on deposit in the Reimbursement Fund and in the Debt Service Fund, (v) the moneys and securities (if any) on deposit in the Project Construction Account for such projects, and (vi) the proceeds of bonds or notes issued to make such payments.

##### **Qualified Zone Academy Bonds Program**

On September 9, 1999, the Authority adopted a Qualified Zone Academy Bond Resolution authorizing the issuance of Qualified Zone Academy Bonds to local education agencies for the purpose of financing eligible costs of certain projects. The State Department of Education recommends the projects to the Authority that should be funded under the QZABs program. The Taxpayer Relief Act of 1997 provided this financial tool whereby interest on QZABs is paid by the federal government in the form of an annual tax credit to the financial institutions that hold the QZABs. The bonds are secured solely by the payments made by the borrowers under the Loan Agreements, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local education agencies and by certain funds held under the Qualified Zone Academy Bond Resolution. The

Authority has no taxing power. Furthermore, the State of Tennessee shall not be liable on the bonds and the bonds shall not be a debt of the State of Tennessee.

Changes in debt payable for the year ended June 30, 2006, and 2005 are as follows (expressed in thousands):

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

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
Commercial paper	\$ 32,156	\$ 44,000	\$ 1,914	\$ 74,242	\$ -
Bonds payable	\$ 531,212	\$ 144,998	\$ 149,524	\$ 526,686	\$ 22,050
Less: unamortized bond discount	(1,296)	(176)	(523)	(949)	-
Add: unamortized bond premium	6,847	7,810	1,014	13,643	-
Less: unamortized deferred amount on refundings	(9,378)	(10,632)	(717)	(19,293)	-
Total bonds payable	\$ 527,385	\$ 142,000	\$ 149,298	\$ 520,087	\$ 22,050

Additions to bonds payable include accretion of interest in the amount of \$769,346 in 2006 and \$897,897 in 2005.

Bonds and commercial paper payable at June 30, 2006, and June 30, 2005, are as follows (expressed in thousands):

	June 30, 2006	June 30, 2005
Bonds Payable:		
1976 Series B at an interest rate of 3.0% maturing to 2011 (original par - \$6,037)	\$ 861	\$ 1,117
1989 College Saver Bonds with yields of 6.85% to 6.9% maturing to 2010 (at accreted value); (original principal - \$21,935)	9,453	11,449

1996 Series A at an interest rate of 6.0% maturing to 2006 (original par - \$102,710)	-	2,815
1996 Refunding Series B at interest rates from 5.0% to 5.25% maturing to 2011 (original par - \$55,300)	6,140	7,280
1996 Refunding Series C at interest rates from 5.375% to 6.0% maturing to 2020 (original - par \$4,045)	4,045	4,045
1998 Series A at interest rates from 4.30% to 5.00% maturing to 2028 (original par - \$54,865); see additional disclosures regarding the 2005 advance refunding	23,280	24,825
1998 Series B (Taxable) at interest rates from 5.85% to 6.00% maturing to 2009 (original - par \$15,460); see additional disclosures regarding the 2005 advance refunding	1,095	1,420
1998 Refunding Series C at interest rates from 4.20% to 5.00% maturing to 2008 (original par - \$48,735); see additional disclosures regarding the 2005 advance refunding	2,850	4,170
1998 Refunding Series D at interest rates from 4.05% to 4.85% maturing to 2021 (original par - \$33,540)	20,350	21,395
2000 Series A at interest rates from 4.60% to 5.125% maturing to 2010 (original par - \$70,680); see additional disclosures regarding the 2005 advance refunding	8,395	10,250
2000 Series B at an interest rate at 7.15% maturing to 2010 (original par - \$33,730); see additional disclosures regarding the 2005 advance refunding	10,170	12,290
2002 Series A at interest rates from 4.50% to 5.25% maturing to 2032 (original par - \$119,135); see additional disclosures regarding the 2005 advance refunding	87,155	90,665
2004 Series A at interest rates from 2.25% to 4.50% maturing to 2026 (original par - \$67,965)	67,130	67,685
2004 Series B at interest rates from 2.25% to 4.50% maturing to 2034 (original par - \$60,575)	57,065	58,965
2004 Series C at interest rates from 2.00% to 5.50% maturing to 2034 (original par - \$37,230)	36,100	37,150
2005 Series A at interest rates from 3.25% to 5.00% maturing to 2030 (original par - \$100,540)	100,540	100,540
2005 Series B at interest rates from 4.15% to 4.88% maturing to 2028 (original par - \$30,960)	30,960	30,960
2006 Series A at interest rates from 4.00% to 4.60% maturing to 2036 (original par - \$53,820)	53,820	-
2006 Series B at interest rates at 4.00% maturing to 2011 (original par - \$12,485)	12,485	-

1999 Qualified Zone Academy Bonds non-interest bearing maturing in 2011 (original par - \$13,290)	13,290	13,290
2001 Qualified Zone Academy Bonds non-interest bearing maturing in 2015 (original par - \$11,330)	11,330	11,330
2003 Qualified Zone Academy Bonds non-interest bearing maturing in 2018 (original par - \$2,445)	2,445	2,445
2004 Qualified Zone Academy Bonds non-interest bearing maturing in 2020 (original par - \$12,600)	12,600	12,600
2005 Qualified Zone Academy Bonds non-interest bearing maturing in 2020 (original par - \$17,545)	17,545	-
Total Par Amount of Bonds Payable	589,104	526,686
Plus Unamortized Premium/Less Unamortized Discount	12,073	12,694
Bonds Payable Net of Unamortized Premium/ Discount	601,177	539,380
Less: Deferred Amount on Refundings	(18,362)	(19,293)
Net Bonds Payable	\$ 582,815	\$ 520,087
Commercial paper, at interest rates from 2.10% to 5.00%	\$ 129,046	\$ 74,242

Debt service requirements to maturity of the bonds payable at June 30, 2006, are as follows (expressed in thousands):

For the Year(s) <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 26,297	\$ 25,045	\$ 51,342
2008	26,825	24,327	51,152
2009	27,938	23,388	51,326
2010	29,048	22,348	51,396
2011	24,323	19,020	43,343
2012-2016	128,292	80,352	208,644
2017-2021	127,635	54,936	182,571
2022-2026	109,683	30,576	140,259
2027-2031	76,705	11,490	88,195
2032-2036	18,064	1,751	19,815
	<u>\$ 594,810</u>	<u>\$ 293,233</u>	<u>\$ 888,043</u>

The above principal for bonds is more than that presented on the accompanying financial statements by \$11.995 million. Of this amount, \$6.367 million represents accretion to date on the unmatured portion of the 1989 College Saver Bonds. This accretion has been reported as bond principal in the accompanying financial statements. In the debt service schedule above, however, it has been reported as interest in the years (2007-2011) in which the bonds mature. The \$11.995 million also includes \$18.362 million, representing the deferred amount on bond refundings. This amount is presented as a deduction from bonds payable in the accompanying financial statements but is not reflected in the debt service schedule above.

The Authority may issue taxable and/or tax-exempt bonds. Proceeds for the tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to

maintain the tax-exempt status of the bonds. Arbitrage liabilities, when applicable, are reported as a current accrued liability. At June 30, 2006, and 2005, the Authority did not have a liability for arbitrage.

On December 28, 2005, the Authority issued \$17,545,000 of Qualified Zone Academy Bonds (QZABs) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The QZABs are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each December 28, the 2005 QZAB borrowers make an annual principal payment into a bond fund held by the State Treasurer to pay the bonds at maturity on December 28, 2020.

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

#### **Prior-Year Defeasance of Debt**

In prior years, certain Authority bonds were defeased by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. On June 30, 2006, \$149,610,000 of bonds outstanding is considered defeased.

#### **Commercial Paper Program**

The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum principal to be issued by the Authority is \$150,000,000. Commercial paper may be issued as tax-exempt or as taxable. At the program's inception, commercial paper refinanced certain outstanding bond anticipation note indebtedness that the Authority had previously issued to finance capital projects. The commercial paper dealer is J.P. Morgan Chase. At June 30, 2006, \$121,726,000 of tax-exempt commercial paper and \$7,320,000 of taxable commercial paper was outstanding. At June 30, 2005, \$72,922,000 of tax-exempt commercial paper and \$1,320,000 of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. Interest rates on commercial paper ranged from 2.10% to 5.00% during the fiscal year. Interest is payable upon maturity.

The commercial paper liquidity provider, under an Advance Agreement, is WestLB, New York branch with a termination date of March 7, 2011, subject to extension and earlier termination. The total available commitment is \$152,250,000. The obligation of WestLB is to purchase unremarketed commercial paper. In the event the liquidity facility is called upon, the Authority has ninety days to repay the advance from the facility. Should the Authority fail to repay the loan within the ninety-day period, it converts to a term loan with four semi-annual payments. In accordance with Financial Accounting Standards Board Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced*, this agreement meets the criteria of a financing agreement, thus, the commercial paper payable is classified as a long-term liability.

**NOTE 6. UNEARNED REVENUE**

Changes in unearned revenue for the year ended June 30, 2006, and 2005, are as follows (expressed in thousands):

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

	Balance			Balance
	July 1, 2004	Additions	Deletions	June 30, 2005
Interest rate reserve fund	\$ 363	\$ 173	\$ 257	\$ 279
Other unearned revenue	10,002	4,649	1,989	12,662
Total unearned revenue	<u>\$ 10,365</u>	<u>\$ 4,822</u>	<u>\$ 2,246</u>	<u>\$ 12,941</u>

Unearned revenue at June 30, 2006, and June 30, 2005, is as follows (expressed in thousands):

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Interest Rate Reserve Fund	\$ 579	\$ 279
Difference in bond proceeds available for capital expenditure and the par value of bonds to be repaid-adjustments for discount/premium, underwriters' fees, and other costs of issuance:		
1996 Series B bonds; amortized through 2011	225	270
1996 Series C bonds, which was a cross-over refunding of the 1989 Current Interest Bonds; amortized through 2020	109	117
1998 Series A bonds; amortized through 2028	268	280
1998 Series B bonds; amortized through 2009	13	17
1998 Series C bonds; amortized through 2008	46	69
1998 Series D bonds, which was an advance refunding of the 1992 Series A bonds; amortized through 2021	2,078	2,218
1999 Qualified Zone Academy Bonds; amortized through 2012	211	250

2000 Series A bonds; amortized through 2010	100	125
2000 Series B bonds; amortized through 2010	65	82
2001 Qualified Zone Academy Bonds; amortized through 2016	199	220
2002 Series A bonds; amortized through 2032	683	709
2003 Qualified Zone Academy Bonds; amortized through 2019	101	109
2004 Series A bonds; amortized through 2026	4,362	4,583
2004 Series B bonds; amortized through 2034	(1,414)	(1,465)
2004 Series C bonds; amortized through 2034	449	465
2004 Qualified Zone Academy Bonds; amortized through 2020	78	84
2005 Series A bonds; amortized through 2030	86	90
2005 Series B bonds; amortized through 2028	4,245	4,439
2005 Qualified Zone Academy Bonds; amortized through 2021	533	-
2006 Series A bonds, amortized through 2021	726	-
2006 Series B bonds, amortized through 2011	51	-
Other unearned revenue	24	-
Total	<u>\$ 13,817</u>	<u>\$ 12,941</u>

**NOTE 7. SUBSEQUENT EVENTS**

On December 18, 2006, the Authority had outstanding \$116,272,000 in tax-exempt commercial paper and \$17,280,000 in taxable commercial paper. Between June 30, 2006, and December 18, 2006, the Authority has issued \$62,000,000 in commercial paper to pay construction expenditures.

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# SUPPLEMENTARY SCHEDULES

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TENNESSEE STATE SCHOOL BOND AUTHORITY  
 SUPPLEMENTARY SCHEDULES OF NET ASSETS - PROGRAM LEVEL  
 JUNE 30, 2006, AND JUNE 30, 2005

(Expressed in Thousands)

	June 30, 2006			June 30, 2005		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
<b>ASSETS</b>						
Current assets:						
Cash	\$ 83,986	\$ 20,871	\$ 104,857	\$ 40,314	\$ 12,699	\$ 53,013
Investments with fiscal agent	216	-	216	370	-	370
Loans receivable	27,249	2,654	29,903	22,050	2,319	24,369
Interest receivable	4,036	15	4,051	3,581	15	3,596
Receivables for administrative fees	372	10	382	361	8	369
Total current assets	115,859	23,550	139,409	66,676	15,041	81,717
Noncurrent assets:						
Restricted cash	2	11,158	11,160	-	7,509	7,509
Restricted investments	5,840	5,051	10,891	7,881	4,419	12,300
Loans receivable	551,444	19,748	571,192	498,083	13,432	511,515
Deferred charges	5,591	957	6,548	4,986	490	5,476
Total noncurrent assets	562,877	36,914	599,791	510,950	25,850	536,800
Total assets	678,736	60,464	739,200	577,626	40,891	618,517
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	171	-	171	31	-	31
Due to local education authorities	-	2,143	2,143	-	615	615
Accrued interest payable	4,611	-	4,611	3,801	-	3,801
Unearned revenue	1,321	92	1,413	963	72	1,035
Bonds payable	27,342	-	27,342	22,050	-	22,050
Total current liabilities	33,445	2,235	35,680	26,845	687	27,532
Noncurrent liabilities:						
Unearned revenue	11,373	1,031	12,404	11,315	591	11,906
Commercial paper payable	129,046	-	129,046	74,242	-	74,242
Bonds payable	498,343	57,130	555,473	458,465	39,572	498,037
Total noncurrent liabilities	638,762	58,161	696,923	544,022	40,163	584,185
Total liabilities	672,207	60,396	732,603	570,867	40,850	611,717
<b>NET ASSETS</b>						
Unrestricted	\$ 6,529	\$ 68	\$ 6,597	\$ 6,759	\$ 41	\$ 6,800

TENNESSEE STATE SCHOOL BOND AUTHORITY  
 SUPPLEMENTARY SCHEDULES OF REVENUES,  
 EXPENSES AND CHANGES IN NET ASSETS - PROGRAM LEVEL  
 FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

	(Expressed in Thousands)					
	Year ended June 30, 2006			Year ended June 30, 2005		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
<b>OPERATING REVENUES</b>						
Revenue from loans	\$ 26,734	\$ 107	\$ 26,841	\$ 26,945	\$ 82	\$ 27,027
Investment earnings	1,746	15	1,761	1,138	-	1,138
Total operating revenues	<u>28,480</u>	<u>122</u>	<u>28,602</u>	<u>28,083</u>	<u>82</u>	<u>28,165</u>
<b>OPERATING EXPENSES</b>						
Interest expense-commercial paper	3,482	-	3,482	939	-	939
Interest expense-bonds	22,981	13	22,994	24,903	13	24,916
Subsidy to borrowers	1,440	-	1,440	847	-	847
Administrative expense	528	11	539	548	-	548
Amortization of bond issuance costs	279	71	350	243	52	295
Total operating expenses	<u>28,710</u>	<u>95</u>	<u>28,805</u>	<u>27,480</u>	<u>65</u>	<u>27,545</u>
Operating income (loss) and change in net assets	(230)	27	(203)	603	17	620
Net assets, July 1	<u>6,759</u>	<u>41</u>	<u>6,800</u>	<u>6,156</u>	<u>24</u>	<u>6,180</u>
Net assets, June 30	<u>\$ 6,529</u>	<u>\$ 68</u>	<u>\$ 6,597</u>	<u>\$ 6,759</u>	<u>\$ 41</u>	<u>\$ 6,800</u>

TENNESSEE STATE SCHOOL BOND AUTHORITY  
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL  
FOR THE YEARS ENDED JUNE 30, 2006, AND JUNE 30, 2005

(Expressed in Thousands)

	Year ended June 30, 2006			Year ended June 30, 2005		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from borrowers for administrative fees	\$ 361	\$ 12	\$ 373	\$ 366	\$ 10	\$ 376
Payment to suppliers	(528)	(11)	(539)	(548)	-	(548)
Receipts from borrowers to the interest rate reserve fund	349	-	349	174	-	174
Payments to borrowers from the interest rate reserve fund	(50)	-	(50)	(257)	-	(257)
Net cash provided by (used in) operating activities	132	1	133	(265)	10	(255)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Proceeds from sale of bonds	66,133	17,106	83,239	-	12,600	12,600
Proceeds from sale of refunding bonds	-	-	-	139,009	-	139,009
Proceeds from sale of commercial paper	66,000	-	66,000	44,000	-	44,000
Bond issuance costs paid	(372)	(100)	(472)	(809)	(75)	(884)
Refunding bond proceeds placed in escrow	-	-	-	(137,705)	-	(137,705)
Principal paid - bonds and commercial paper	(33,397)	-	(33,397)	(24,483)	-	(24,483)
Interest paid - bonds and commercial paper	(25,005)	-	(25,005)	(25,620)	-	(25,620)
Subsidy to borrowers	(1,459)	-	(1,459)	(793)	-	(793)
Net cash provided by (used in) noncapital financing activities	71,900	17,006	88,906	(6,401)	12,525	6,124
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchases of investments	(16,192)	(631)	(16,823)	(19,439)	-	(19,439)
Proceeds from sales and maturities of investments	18,980	-	18,980	23,006	-	23,006
Interest received on investments	1,372	-	1,372	924	-	924
Loans issued	(87,820)	(8,204)	(96,024)	(57,553)	(4,257)	(61,810)
Collection of loan escrow	1,048	-	1,048	-	-	-
Loan escrow paid	(44)	-	(44)	-	-	-
Collections of loan principal	29,784	3,649	33,433	20,734	2,164	22,898
Interest received on loans	24,514	-	24,514	25,552	-	25,552
Net cash used in investing activities	(28,358)	(5,186)	(33,544)	(6,776)	(2,093)	(8,869)
Net increase (decrease) in cash	43,674	11,821	55,495	(13,442)	10,442	(3,000)
Cash, July 1	40,314	20,208	60,522	53,756	9,766	63,522
Cash, June 30	\$ 83,988	\$ 32,029	\$ 116,017	\$ 40,314	\$ 20,208	\$ 60,522
<b>Reconciliation of cash to the Statement of Net Assets:</b>						
Cash	\$ 83,987	\$ 20,870	\$ 104,857	\$ 40,314	\$ 12,699	\$ 53,013
Restricted cash	2	11,158	11,160	-	7,509	7,509
Cash, June 30	\$ 83,989	\$ 32,028	\$ 116,017	\$ 40,314	\$ 20,208	\$ 60,522
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>						
Operating income (loss)	\$ (230)	\$ 27	\$ (203)	\$ 603	\$ 17	\$ 620
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Amortization of bond issuance costs	279	71	350	243	52	295
Investment earnings	(1,746)	(15)	(1,761)	(1,138)	-	(1,138)
Interest expense	26,463	13	26,476	25,842	13	25,855
Subsidy to borrowers	1,440	-	1,440	847	-	847
Interest income from loans	(26,362)	(93)	(26,455)	(26,584)	(69)	(26,653)
Changes in assets and liabilities:						
(Increase) decrease in receivables for administrative fees	(11)	(2)	(13)	5	(3)	2
Increase (decrease) in unearned revenue	299	-	299	(83)	-	(83)
Total adjustments	362	(26)	336	(868)	(7)	(875)
Net cash provided by (used in) operating activities	\$ 132	\$ 1	\$ 133	\$ (265)	\$ 10	\$ (255)
<b>Noncash financing activities:</b>						
Accretion of capital appreciation bonds	\$ 769	\$ -	\$ 769	\$ 898	\$ -	\$ 898
Bond issuance costs	391	100	491	(7,134)	75	(7,059)
Total noncash financing activities	\$ 1,160	\$ 100	\$ 1,260	\$ (6,236)	\$ 75	\$ (6,161)
<b>Noncash investing activities:</b>						
Net appreciation in value of investments reported at fair value	\$ 75	\$ -	\$ 75	\$ 40	\$ -	\$ 40



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# STATISTICAL SECTION

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**TENNESSEE STATE SCHOOL BOND AUTHORITY  
SCHEDULES OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR FISCAL YEARS 2001 TO 2006**

(Expressed in Thousands)

	For the Year Ended					
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>OPERATING REVENUES</b>						
Revenue from loans	\$ 26,841	\$ 27,027	\$ 22,956	\$ 24,927	\$ 21,553	\$ 21,712
Investment earnings	1,761	1,138	423	781	1,056	2,624
Total operating revenues	<u>28,602</u>	<u>28,165</u>	<u>23,379</u>	<u>25,708</u>	<u>22,609</u>	<u>24,336</u>
<b>OPERATING EXPENSES</b>						
Interest expense-commercial paper	3,482	939	515	353	1,177	3,365
Interest expense-bonds	22,994	24,916	21,758	24,092	19,988	17,240
Subsidy to borrowers	1,440	847	340	2,382	811	1,655
Administrative expense	539	548	527	457	545	644
Amortization of bond issuance costs	350	295	229	205	164	135
Total operating expenses	<u>28,805</u>	<u>27,545</u>	<u>23,369</u>	<u>27,489</u>	<u>22,685</u>	<u>23,039</u>
Operating income (loss) and change in net assets	(203)	620	10	(1,781)	(76)	1,297
Net assets, July 1	<u>6,800</u>	<u>6,180</u>	<u>6,170</u>	<u>7,951</u>	<u>8,027</u>	<u>6,730</u>
Net assets, June 30	<u>\$ 6,597</u>	<u>\$ 6,800</u>	<u>\$ 6,180</u>	<u>\$ 6,170</u>	<u>\$ 7,951</u>	<u>\$ 8,027</u>

**Note:** Due to reporting format and definition changes prescribed by GASB Statement 34, only fiscal years 2001 - 2006 are available.

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
OUTSTANDING LOANS FROM BORROWERS  
FOR THE LAST TEN YEARS**

(Expressed in Thousands)

Fiscal Year	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
2006	\$ 578,694	\$ 22,401	\$ 601,095
2005	520,133	15,751	535,884
2004	477,867	17,375	495,242
2003	454,173	13,556	467,729
2002	416,264	9,485	425,749
2001	382,606	5,272	387,878
2000	343,643	-	343,643
1999	457,342	-	457,342
1998	361,249	-	361,249
1997	327,907	-	327,907

Note: The first QZAB loan was made in fiscal year 2000.

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
OUTSTANDING DEBT PAYABLE  
FOR THE LAST TEN YEARS**

(Expressed in Thousands)

Fiscal Year	Higher Education Facilities Programs			Qualified Zone Academy Bonds Program		Total
	Bonds	Commercial Paper	Bond Anticipation Notes	QZAB Bonds		
2006	\$ 525,685	\$ 129,046	\$ -	\$ 57,130	\$ 711,861	
2005	480,515	74,242	-	39,572	594,329	
2004	500,426	32,156	-	26,959	559,541	
2003	425,282	46,747	-	24,527	496,556	
2002	446,620	13,757	-	24,516	484,893	
2001	346,050	60,277	-	13,175	419,502	
2000	258,651	102,700	-	13,163	374,514	
1999	329,562	162,050	-	-	491,612	
1998	318,696	91,750	-	-	410,446	
1997	337,233	-	42,095	-	379,328	

Note:

QZAB bonds were obtained in fiscal year 2000.

Commercial paper was first obtained in fiscal year 1998 and replaced the bond anticipation notes.

**STATE OF TENNESSEE**  
**SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE**  
**COMPONENT UNITS**  
**COLLEGE AND UNIVERSITY FUNDS**  
**FOR THE LAST TEN YEARS**

(Expressed in Thousands)

**UNIVERSITY OF TENNESSEE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements (Authority Bonds)
2006	\$ 484,786	\$ 440,014	\$ 56	\$ 23,896
2005	448,955	430,412	66	25,317
2004	417,191	406,033	75	24,508
2003	413,632	409,612	-	24,804
2002	438,956	406,146	21	18,628
2001	401,918	408,671	21	16,872
2000	410,086	375,872	21	24,431
1999	622,109	373,207	21	28,657
1998	559,661	367,938	21	26,891
1997	587,138	374,249	21	

**AUSTIN PEAY STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements (Authority Bonds)
2006	\$ 39,907	\$ 32,684	\$ -	\$ 2,104
2005	34,012	32,216	-	2,242
2004	33,058	30,712	48	1,515
2003	36,201	31,100	48	1,516
2002	33,157	30,484	48	649
2001	26,555	28,051	48	649
2000	24,288	28,001	48	651
1999	23,188	27,444	48	672
1998	20,420	25,559	48	641
1997	19,178	25,733	48	

**EAST TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Prior and Subordinate Debt Service Requirements (Non Authority)	Debt Service Requirements (Authority Bonds)
2006	\$ 79,200	\$ 86,173	\$ 2,242	\$ 2,221
2005	77,284	83,221	312	2,824
2004	77,570	79,247	315	2,609
2003	68,805	79,735	319	2,608
2002	65,342	77,965	261	1,916
2001	59,516	75,937	261	1,954
2000	64,386	72,837	258	1,743
1999	64,652	70,814	-	1,588
1998	57,826	67,202	-	1,597
1997	53,232	68,469	-	

**MIDDLE TENNESSEE STATE UNIVERSITY**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 96,307	\$ 86,971	\$ -	\$ 6,455
2005	86,644	85,305	-	6,937
2004	84,404	81,057	-	6,540
2003	71,185	82,144	-	6,537
2002	62,437	77,990	-	5,472
2001	86,328	76,159	-	4,886
2000	78,317	73,273	-	3,357
1999	70,530	70,576	-	1,872
1998	62,814	64,469	-	1,668
1997	57,341	63,529	-	

**TENNESSEE STATE UNIVERSITY**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 45,616	\$ 44,939	\$ -	\$ 2,893
2005	44,167	42,305	-	3,001
2004	53,840	40,621	-	3,136
2003	57,939	39,040	-	3,137
2002	45,119	35,067	-	2,193
2001	54,979	34,843	66	2,056
2000	52,156	36,337	66	1,470
1999	46,423	35,597	66	1,257
1998	39,141	32,052	135	1,157
1997	34,352	32,227	135	

**TENNESSEE TECHNOLOGICAL UNIVERISTY**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 48,903	\$ 48,503	\$ -	\$ 1,042
2005	44,801	47,869	-	1,168
2004	47,194	40,165	-	897
2003	53,518	45,813	-	415
2002	41,311	40,392	-	639
2001	37,065	43,568	-	844
2000	33,791	38,938	-	1,075
1999	31,616	39,259	-	1,145
1998	28,831	37,699	-	1,150
1997	27,208	38,164	-	

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**STATE OF TENNESSEE**  
**SCHEDULE OF FEES/CHARGES, LEGISLATIVE APPROPRIATIONS AND DEBT SERVICE**  
**COMPONENT UNITS**  
**COLLEGE AND UNIVERSITY FUNDS**  
**FOR THE LAST TEN YEARS**

(Expressed in Thousands)

**UNIVERSITY OF MEMPHIS**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 148,290	\$ 108,395	\$ -	\$ 4,993
2005	134,065	106,393	-	5,609
2004	128,880	100,602	-	6,291
2003	127,638	102,139	-	6,334
2002	120,196	99,786	-	3,777
2001	114,031	97,499	-	2,353
2000	102,186	94,289	-	3,054
1999	93,593	93,576	-	2,991
1998	80,625	89,924	-	2,889
1997	75,167	91,212	-	-

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 19,084	\$ 22,336	\$ -	\$ 69
2005	12,306	21,977	-	73
2004	11,937	20,979	65	73
2003	13,428	21,108	60	73
2002	12,380	21,233	70	34
2001	11,650	20,684	69	-
2000	11,074	20,234	72	-
1999	10,453	19,602	69	-
1998	9,818	18,589	68	-
1997	9,032	18,514	71	-

**COLUMBIA STATE COMMUNITY COLLEGE**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 13,027	\$ 12,731	\$ -	\$ 17
2005	12,133	12,839	-	-
2004	10,799	11,344	-	-
2003	14,921	11,540	-	-
2002	13,136	11,437	-	-
2001	7,294	11,016	-	-
2000	6,836	10,675	-	-
1999	6,615	10,143	-	-
1998	5,753	9,069	-	-
1997	4,966	8,670	-	-

**NASHVILLE STATE COMMUNITY COLLEGE**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 15,615	\$ 14,045	\$ -	\$ 13
2005	13,955	13,449	-	13
2004	12,202	12,730	-	13
2003	13,519	13,099	-	-
2002	8,254	12,525	-	-
2001	8,322	12,168	-	-
2000	7,474	11,655	-	-
1999	6,816	11,092	-	-
1998	6,260	9,864	-	-
1997	4,777	9,677	-	-

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE\***

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 18,166	\$ 36,905		\$ 169
2005	16,749	36,210	-	179
2004	16,472	34,191	-	179
2003	21,839	34,827	-	179
2002	19,022	35,175	-	146
2001	18,325	34,451	-	146
2000	10,838	18,464	-	56
1999	9,991	18,527	-	-
1998	9,837	17,898	-	-
1997	9,712	18,174	-	-

**VOLUNTEER STATE COMMUNITY COLLEGE**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Prior and Subordinate Debt Service Requirements (Non Authority)</u>	<u>Debt Service Requirements (Authority Bonds)</u>
2006	\$ 19,245	\$ 17,479		\$ 17
2005	19,115	18,049	-	-
2004	9,395	15,417	-	-
2003	12,941	15,813	-	-
2002	15,060	15,862	-	-
2001	15,567	15,394	-	-
2000	17,843	14,947	-	-
1999	15,088	14,323	-	-
1998	13,046	13,232	-	-
1997	12,855	12,029	-	-

\* As of July 1, 2000, State Technical Institute at Memphis and Shelby State Community College merged to form Southwest Tennessee Community College.

**STATE OF TENNESSEE  
 COVERAGE OF ANNUAL FINANCING CHARGES  
 LONG-TERM DEBT SECURED BY FINANCING AGREEMENTS<sup>1</sup>  
 COLLEGE AND UNIVERSITY FUNDS  
 FOR THE LAST TEN YEARS**

(Expressed in Thousands)

**UNIVERSITY OF TENNESSEE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 484,786	\$ 440,014	\$ 24,425	19.85 X	37.86 X
2005	448,955	430,412	25,854	17.37 X	34.01 X
2004	417,191	406,033	24,822	16.81 X	33.17 X
2003	413,632	409,612	25,138	16.45 X	32.75 X
2002	438,956	406,146	20,703	21.20 X	40.82 X
2001	401,918	408,671	18,814	21.36 X	43.08 X
2000	410,086	375,872	16,876	24.30 X	46.57 X
1999	622,109	373,207	24,589	25.30 X	40.48 X
1998	559,661	367,938	28,793	19.44 X	32.22 X
1997	587,138	374,249	27,029	21.72 X	35.57 X

**AUSTIN PEAY STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 39,907	\$ 32,684	\$ 2,162	18.46 X	33.58 X
2005	34,012	32,216	2,304	14.76 X	28.74 X
2004	33,058	30,712	1,546	21.38 X	41.25 X
2003	36,201	31,100	1,548	23.39 X	43.48 X
2002	33,157	30,484	621	53.39 X	102.48 X
2001	26,555	28,051	623	42.62 X	87.65 X
2000	24,288	28,001	623	38.99 X	83.93 X
1999	23,188	27,444	655	35.40 X	77.30 X
1998	20,420	25,559	675	30.25 X	68.12 X
1997	19,178	25,733	645	29.73 X	69.63 X

**EAST TENNESSEE STATE UNIVERSITY**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 79,200	\$ 86,173	\$ 2,261	35.03 X	73.14 X
2005	77,284	83,221	2,881	26.83 X	55.71 X
2004	77,570	79,247	2,660	29.16 X	58.95 X
2003	68,805	79,735	2,661	25.86 X	55.82 X
2002	65,342	77,965	2,117	30.87 X	67.69 X
2001	59,516	75,937	1,946	30.58 X	69.61 X
2000	64,386	72,837	1,984	32.45 X	69.16 X
1999	64,652	70,814	1,765	36.63 X	76.75 X
1998	57,826	67,202	1,600	36.14 X	78.14 X
1997	53,232	68,469	1,607	33.13 X	75.73 X

**MIDDLE TENNESSEE STATE UNIVERSITY**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Annual Financing Charges<sup>2,3,4</sup></u>	<u>Coverage By:</u>	
				<u>Fees &amp; Charges</u>	<u>Fees, Charges, &amp; Appropriations</u>
2006	\$ 96,307	\$ 86,971	\$ 6,626	14.53 X	27.66 X
2005	86,644	85,305	7,103	12.20 X	24.21 X
2004	84,404	81,057	6,673	12.65 X	24.80 X
2003	71,185	82,144	6,675	10.66 X	22.97 X
2002	62,437	77,990	5,978	10.44 X	23.49 X
2001	86,328	76,159	5,571	15.50 X	29.17 X
2000	78,317	73,273	4,987	15.70 X	30.40 X
1999	70,530	70,576	3,427	20.58 X	41.17 X
1998	62,814	64,469	1,883	33.36 X	67.60 X
1997	57,341	63,529	1,678	34.17 X	72.03 X

**TENNESSEE STATE UNIVERSITY**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Annual Financing Charges<sup>2,3,4</sup></u>	<u>Coverage By:</u>	
				<u>Fees &amp; Charges</u>	<u>Fees, Charges, &amp; Appropriations</u>
2006	\$ 45,616	\$ 44,939	\$ 2,958	15.42 X	30.61 X
2005	44,167	42,305	3,054	14.46 X	28.31 X
2004	53,840	40,621	3,070	17.54 X	30.77 X
2003	57,939	39,040	3,198	18.12 X	30.32 X
2002	45,119	35,067	2,272	19.86 X	35.29 X
2001	54,979	34,843	2,224	24.72 X	40.39 X
2000	52,156	36,337	2,087	24.99 X	42.40 X
1999	46,423	35,597	1,493	31.09 X	54.94 X
1998	39,141	32,052	1,268	30.87 X	56.15 X
1997	34,352	32,227	1,168	29.41 X	57.00 X

**TENNESSEE TECHNOLOGICAL UNIVERISTY**

<u>Fiscal Year</u>	<u>Total Fees and Charges</u>	<u>Legislative Appropriations</u>	<u>Annual Financing Charges<sup>2,3,4</sup></u>	<u>Coverage By:</u>	
				<u>Fees &amp; Charges</u>	<u>Fees, Charges, &amp; Appropriations</u>
2006	\$ 48,903	\$ 48,503	\$ 1,066	45.88 X	91.38 X
2005	44,801	47,869	1,190	37.65 X	77.87 X
2004	47,194	40,165	912	51.75 X	95.79 X
2003	53,518	45,813	420	127.42 X	236.50 X
2002	41,311	40,392	756	54.64 X	108.07 X
2001	37,065	43,568	748	49.55 X	107.80 X
2000	33,791	38,938	950	35.57 X	76.56 X
1999	31,616	39,259	1,082	29.22 X	65.50 X
1998	28,831	37,699	1,151	25.05 X	57.80 X
1997	27,208	38,164	1,156	23.54 X	56.55 X

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**STATE OF TENNESSEE  
COVERAGE OF ANNUAL FINANCING CHARGES  
LONG-TERM DEBT SECURED BY FINANCING AGREEMENTS<sup>1</sup>  
COLLEGE AND UNIVERSITY FUNDS  
FOR THE LAST TEN YEARS**

(Expressed in Thousands)

**UNIVERSITY OF MEMPHIS**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 148,290	\$ 108,395	\$ 5,197	28.53 X	49.39 X
2005	134,065	106,393	5,792	23.15 X	41.52 X
2004	128,880	100,602	6,378	20.21 X	35.98 X
2003	127,638	102,139	6,432	19.84 X	35.72 X
2002	120,196	99,786	5,884	20.43 X	37.39 X
2001	114,031	97,499	3,846	29.65 X	55.00 X
2000	102,186	94,289	2,387	42.81 X	82.31 X
1999	93,593	93,576	3,078	30.41 X	60.81 X
1998	80,625	89,924	3,004	26.84 X	56.77 X
1997	75,167	91,212	2,902	25.90 X	57.33 X

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 19,084	\$ 22,336	\$ 71	268.79 X	583.38 X
2005	12,306	21,977	74	166.30 X	463.28 X
2004	11,937	20,979	74	161.31 X	444.81 X
2003	13,428	21,108	74	181.46 X	466.70 X
2002	12,380	21,233	34	364.12 X	988.62 X
2001	11,650	20,684	-	0.00 X	0.00 X
2000	11,074	20,234	-	0.00 X	0.00 X
1999	10,453	19,602	-	0.00 X	0.00 X
1998	9,818	18,589	-	0.00 X	0.00 X
1997	9,032	18,514	-	0.00 X	0.00 X

**COLUMBIA STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 13,027	\$ 12,731	\$ 18	723.72 X	1431.00 X
2005	12,133	12,839	18	674.06 X	1387.33 X
2004	10,799	11,344	-	0.00 X	0.00 X
2003	14,921	11,540	-	0.00 X	0.00 X
2002	13,136	11,437	-	0.00 X	0.00 X
2001	7,294	11,016	-	0.00 X	0.00 X
2000	6,836	10,675	-	0.00 X	0.00 X
1999	6,615	10,143	-	0.00 X	0.00 X
1998	5,753	9,069	-	0.00 X	0.00 X
1997	4,966	8,670	-	0.00 X	0.00 X

**NASHVILLE STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 15,615	\$ 14,045	\$ 13	1201.15 X	2281.54 X
2005	13,955	13,449	13	1073.46 X	2108.00 X
2004	12,202	12,730	13	938.62 X	1917.85 X
2003	13,519	13,099	13	1039.92 X	2047.54 X
2002	8,254	12,525	-	0.00 X	0.00 X
2001	8,322	12,168	-	0.00 X	0.00 X
2000	7,474	11,655	-	0.00 X	0.00 X
1999	6,816	11,092	-	0.00 X	0.00 X
1998	6,260	9,864	-	0.00 X	0.00 X
1997	4,777	9,677	-	0.00 X	0.00 X

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE\***

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 18,166	\$ 36,905	\$ 175	103.81 X	314.69 X
2005	16,749	36,210	183	91.52 X	289.39 X
2004	16,472	34,191	183	90.01 X	276.85 X
2003	21,839	34,827	149	146.57 X	380.31 X
2002	19,022	35,175	149	127.66 X	363.74 X
2001	18,325	34,451	150	122.17 X	351.84 X
2000	10,838	18,464	58	186.86 X	505.21 X
1999	9,991	18,527	-	0.00 X	0.00 X
1998	9,837	17,898	-	0.00 X	0.00 X
1997	9,712	18,174	-	0.00 X	0.00 X

**VOLUNTEER STATE COMMUNITY COLLEGE**

Fiscal Year	Total Fees and Charges	Legislative Appropriations	Annual Financing Charges <sup>2,3,4</sup>	Coverage By:	
				Fees & Charges	Fees, Charges, & Appropriations
2006	\$ 19,245	\$ 17,479	\$ 17	1132.06 X	2160.24 X
2005	19,115	18,049	17	1124.41 X	2186.12 X
2004	9,395	15,417	-	0.00 X	0.00 X
2003	12,941	15,813	-	0.00 X	0.00 X
2002	15,060	15,862	-	0.00 X	0.00 X
2001	15,567	15,394	-	0.00 X	0.00 X
2000	17,843	14,947	-	0.00 X	0.00 X
1999	15,088	14,323	-	0.00 X	0.00 X
1998	13,046	13,232	-	0.00 X	0.00 X
1997	12,855	12,029	-	0.00 X	0.00 X

\* As of July 1, 2000, State Technical Institute at Memphis and Shelby State Community College merged to form Southwest Tennessee Community College.

<sup>1</sup> Includes both the First Program and Second Program Bonds. Excludes Commercial Paper.

<sup>2</sup> Does not include coverage for debt outstanding as Commercial Paper.

<sup>3</sup> Includes the maturity value only, and includes full accretion of College Savings Bonds and certain bonds secured by refunding trusts.

<sup>4</sup> Annual Financing Charges consist of principal, interest and administrative fee.

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
FALL TERM FULL-TIME EQUIVALENT ENROLLMENT  
HIGHER EDUCATION FACILITIES INSTITUTIONS  
FOR THE LAST TEN YEARS**

Institution <sup>1</sup>	Four Year Institutions										% Change		
	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	2004-05	2000-05	1996-05
APSU	7,336	6,939	6,278	6,079	5,769	5,671	5,721	5,816	5,968	6,072	5.7%	29.4%	20.8%
ETSU**	10,185	10,070	9,936	9,664	9,507	9,364	9,638	9,792	9,549	9,450	1.1%	8.8%	7.8%
MTSU	19,139	19,037	18,735	18,151	17,125	16,339	16,173	15,655	15,455	14,916	0.5%	17.1%	28.3%
TSU	7,462	7,662	7,716	7,703	7,425	7,431	7,629	7,383	7,168	7,007	-2.6%	0.4%	6.5%
TTU	7,562	7,559	7,509	7,554	7,327	7,212	7,227	7,112	7,287	7,230	0.0%	4.9%	4.6%
UOM	15,910	16,128	15,720	15,696	15,890	15,613	15,909	15,771	15,452	15,001	-1.4%	1.9%	6.1%
TBR Total	67,593	67,394	65,894	64,846	63,043	61,629	62,298	61,529	60,879	59,676	0.3%	9.7%	13.3%
UTC	7,317	7,326	7,138	7,050	6,955	6,832	7,019	7,040	6,816	6,608	-0.1%	7.1%	10.7%
UTK *	23,642	23,141	22,730	23,221	23,183	22,960	23,277	22,476	21,819	21,528	2.2%	3.0%	9.8%
UTM	5,833	5,570	5,265	5,311	5,379	5,324	5,278	5,480	5,607	5,376	4.7%	9.6%	8.5%
UTMem	3,412	2,062	2,008	1,977	1,949	1,999	2,023	2,024	1,949	1,962	65.4%	70.7%	73.9%
UT Total	40,205	38,099	37,141	37,559	37,466	37,115	37,597	37,020	36,191	35,475	5.5%	8.3%	13.3%
Total 4 Yr	107,797	105,494	103,035	102,404	100,509	98,744	99,895	98,549	97,070	95,151	2.2%	9.2%	13.3%
<b>Two-Year Institutions</b>													
CSTCC	4,890	5,124	5,186	5,264	5,269	4,832	5,038	5,140	5,227	5,427	-4.6%	1.2%	-9.9%
CLSCC	2,103	2,088	2,224	2,200	2,318	2,083	2,158	2,176	2,376	2,111	0.7%	0.9%	-0.4%
COSCC	3,120	3,145	3,082	3,108	2,984	2,788	2,906	2,947	2,820	2,639	-0.8%	11.9%	18.2%
DSCC	1,744	1,770	1,819	1,657	1,577	1,563	1,435	1,522	1,533	1,531	-1.4%	11.6%	13.9%
JSCC	2,573	2,702	2,743	2,713	2,658	2,514	2,548	2,416	2,328	2,223	-4.8%	2.3%	15.7%
MSCC	2,392	2,465	2,436	2,556	2,441	2,199	2,221	2,273	2,287	2,116	-3.0%	8.8%	13.0%
NSSTCC	3,142	3,334	3,112	2,968	2,879	2,607	2,601	2,513	2,422	2,459	-5.8%	20.5%	27.8%
NSCC	4,074	3,889	3,769	3,757	3,631	3,548	3,527	3,492	3,357	3,112	4.8%	14.8%	30.9%
PSTCC	4,963	4,963	5,013	5,208	5,151	5,079	5,080	5,258	5,217	5,003	0.0%	-2.3%	-0.8%
RSCC	3,603	3,850	3,775	3,767	3,647	3,474	3,797	3,675	3,720	3,688	-6.4%	3.7%	-2.3%
SSCC	n/a	n/a	n/a	n/a	n/a	n/a	2,805	2,887	3,193	3,740	n/a	n/a	n/a
STIM	n/a	n/a	n/a	n/a	n/a	n/a	4,532	4,472	4,660	4,900	n/a	n/a	n/a
STCC***	7,332	7,561	7,361	7,141	7,743	7,059	7,338	7,359	7,852	8,640	-3.0%	3.9%	-15.1%
VSOC	4,553	4,483	4,426	4,525	4,295	4,138	4,107	4,198	4,236	4,129	1.6%	10.0%	10.3%
WSOC	3,826	3,864	4,067	3,867	3,909	3,665	3,594	3,666	3,807	3,731	-1.0%	4.4%	2.5%
Total 2 Yr	48,315	49,238	49,013	48,729	48,502	45,550	46,349	46,635	47,181	46,809	-1.9%	6.1%	3.2%
<b>Grand Total</b>	<b>156,112</b>	<b>154,732</b>	<b>152,048</b>	<b>151,133</b>	<b>149,011</b>	<b>144,294</b>	<b>146,244</b>	<b>145,184</b>	<b>144,251</b>	<b>141,960</b>	<b>0.9%</b>	<b>8.2%</b>	<b>10.0%</b>

Source - The Tennessee Higher Education Commission

\*Includes UT Space Institute and UT Veterinary College

\*\*Includes ETSU Medical School

\*\*\*Contains combined totals for STIM and SSCC from 1996-99

<sup>1</sup> APSU = Austin Peay State University, ETSU = East Tennessee State University, MTSU = Middle Tennessee State University, TSU = Tennessee State University, TTU = Tennessee Technological University, UOM = University of Memphis, UTC = University of Tennessee at Chattanooga, UTK = University of Tennessee at Knoxville, UTM = University of Tennessee at Martin, UTMem = University of Tennessee at Memphis, CSTCC = Chattanooga State Technical Community College, CLSCC = Cleveland State Community College, COSCC = Columbia State Community College, DSOC = Dyersburg State Community College, JSCC = Jackson State Community College, MSCC = Motlow State Community College, NSTCC = Northeast State Technical Community College, NSCC = Nashville State Community College, PSTCC = Pellissippi State Technical Community College, RSCC = Roane State Community College, SSCC = Shelby State Community College, STIM = State Tennessee Institute in Memphis, STCC = Southwest Tennessee Community College, VSCC = Volunteer State Community College, WSOC = Walters State Community College

**DEBT SERVICE COVERAGE  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
QUALIFIED ZONE ACADEMY BOND PROGRAM  
FOR THE LAST SEVEN YEARS**

(Expressed in Thousands)

**BENTON COUNTY SCHOOLS<sup>1</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ -	\$ 34,644	\$ 34,644	\$ 2,659,577	76.77 x
2005	-	-	-	2,601,421	0.00 x
2004	-	-	-	-	0.00 x
2003	-	-	-	-	0.00 x
2002	-	-	-	-	0.00 x
2001	-	-	-	-	0.00 x
2000	-	-	-	-	0.00 x

**BLOUNT COUNTY SCHOOLS<sup>1</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ 51,094	\$ -	\$ 51,094	\$ 3,694,465	72.31 x
2005	-	-	-	3,536,465	0.00 x
2004	-	-	-	-	0.00 x
2003	-	-	-	-	0.00 x
2002	-	-	-	-	0.00 x
2001	-	-	-	-	0.00 x
2000	-	-	-	-	0.00 x

**DAVIDSON COUNTY SCHOOLS<sup>1</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ -	\$ 36,019,281	\$ 36,019,281	\$ 49,999,490	1.39 x
2005	-	32,491,787	32,491,787	57,318,885	1.76 x
2004	-	-	-	-	0.00 x
2003	-	-	-	-	0.00 x
2002	-	-	-	-	0.00 x
2001	-	-	-	-	0.00 x
2000	-	-	-	-	0.00 x

**HAMILTON COUNTY SCHOOLS <sup>1</sup>****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 90,733	\$ 595,721	\$ 686,454	\$ 6,863,643	10.00 x
2005	90,733	-	90,733	6,928,633	76.36 x
2004	-	-	-	-	0.00 x
2003	-	-	-	-	0.00 x
2002	-	-	-	-	0.00 x
2001	-	-	-	-	0.00 x
2000	-	-	-	-	0.00 x

**HUMBOLDT CITY SCHOOLS****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 157,688	\$ 203,028	\$ 360,716	\$ 998,548	2.77 x
2005	157,688	203,028	360,716	936,615	2.60 x
2004	157,688	203,028	360,716	936,242	2.60 x
2003	157,688	203,028	360,716	974,979	2.70 x
2002	-	203,028	203,028	1,150,732	5.67 x
2001	-	203,028	203,028	1,022,550	5.04 x
2000	-	203,028	203,028	987,351	4.86 x

**KINGSPORT CITY SCHOOLS****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 254,767	\$ 609,276	\$ 864,043	\$ 5,276,914	6.11 x
2005	34,474	960,828	995,302	4,906,463	4.93 x
2004	34,474	960,828	995,302	5,117,928	5.14 x
2003	34,474	516,318	550,792	5,064,956	9.20 x
2002	34,474	516,318	550,792	5,231,800	9.50 x
2001	34,474	-	34,474	4,960,186	143.88 x
2000	-	-	-	4,936,183	0.00 x

**KNOX COUNTY SCHOOLS****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 215,467	\$ -	\$ 215,467	\$ 8,499,120	39.45 x
2005	215,467	-	215,467	7,680,837	35.65 x
2004	215,467	-	215,467	8,234,588	38.22 x
2003	215,467	-	215,467	8,561,204	39.73 x
2002	215,467	-	215,467	7,393,451	34.31 x
2001	215,467	5,293	220,760	9,620,232	43.58 x
2000	-	5,154	5,154	7,669,885	1488.04 x

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**DEBT SERVICE COVERAGE  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
QUALIFIED ZONE ACADEMY BOND PROGRAM  
FOR THE LAST SEVEN YEARS**

(Expressed in Thousands)

**LEXINGTON CITY SCHOOLS <sup>1</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ 75,529	\$ -	\$ 75,529	\$ 719,822	9.53 x
2005	-	-	-	731,862	0.00 x
2004	-	-	-	-	0.00 x
2003	-	-	-	-	0.00 x
2002	-	-	-	-	0.00 x
2001	-	-	-	-	0.00 x
2000	-	-	-	-	0.00 x

**LINCOLN COUNTY SCHOOLS <sup>2</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ -	\$ -	\$ -	\$ 2,457,894	0.00 x
2005	10,344	-	10,344	2,387,784	230.84 x
2004	10,342	-	10,342	2,366,314	228.81 x
2003	10,342	-	10,342	2,317,281	224.07 x
2002	10,342	-	10,342	2,344,500	226.70 x
2001	10,342	-	10,342	2,292,559	221.67 x
2000	-	-	-	2,214,402	0.00 x

**LOUDON COUNTY SCHOOLS <sup>1</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ -	\$ -	\$ -	\$ 2,869,279	0.00 x
2005	-	-	-	2,520,086	0.00 x
2004	-	-	-	2,398,489	0.00 x
2003	-	-	-	-	0.00 x
2002	-	-	-	-	0.00 x
2001	-	-	-	-	0.00 x
2000	-	-	-	-	0.00 x

**MEMPHIS CITY SCHOOLS****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 916,756	\$ -	\$ 916,756	\$ 85,380,480	93.13 x
2005	916,756	-	916,756	78,499,249	85.63 x
2004	844,489	677,652	1,522,141	76,656,061	50.36 x
2003	844,489	1,434,165	2,278,654	76,878,569	33.74 x
2002	369,372	1,434,165	1,803,537	78,916,828	43.76 x
2001	369,372	1,425,894	1,795,266	75,711,759	42.17 x
2000	-	1,418,240	1,418,240	71,766,738	50.60 x

**MONTGOMERY COUNTY SCHOOLS<sup>1</sup>****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 176,481	\$ -	\$ 176,481	\$ 3,771,758	21.37 x
2005	176,481	-	176,481	3,688,366	20.90 x
2004	176,481	-	176,481	3,624,016	20.53 x
2003	176,481	-	176,481	3,556,199	20.15 x
2002	-	-	-	3,575,661	0.00 x
2001	-	-	-	3,503,975	0.00 x
2000	-	-	-	3,280,145	0.00 x

**OAK RIDGE CITY SCHOOLS<sup>1</sup>****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	440,585	1,720,776	2,161,361	3,160,774	1.46 x
2005	-	1,759,628	1,759,628	2,921,589	1.66 x
2004	-	1,759,628	1,759,628	2,974,953	1.69 x
2003	-	1,258,098	1,258,098	-	0.00 x
2002	-	1,258,098	1,258,098	-	0.00 x
2001	-	1,258,098	1,258,098	-	0.00 x
2000	-	1,258,098	1,258,098	-	0.00 x

**RHEA COUNTY SCHOOLS****STATE SHARED TAX OBLIGATIONS**

Fiscal Year	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations	Prior Year State Shared Taxes	Coverage
2006	\$ 77,568	\$ -	\$ 77,568	\$ 2,345,414	30.24 x
2005	77,568	-	77,568	2,300,870	29.66 x
2004	77,568	-	77,568	2,249,062	28.99 x
2003	77,568	-	77,568	2,208,385	28.47 x
2002	77,568	-	77,568	2,219,179	28.61 x
2001	77,568	-	77,568	2,160,862	27.86 x
2000	-	-	-	2,145,497	0.00 x

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**DEBT SERVICE COVERAGE  
TENNESSEE STATE SCHOOL BOND AUTHORITY  
QUALIFIED ZONE ACADEMY BOND PROGRAM  
FOR THE LAST SEVEN YEARS**

(Expressed in Thousands)

**SCOTT COUNTY SCHOOLS<sup>2</sup>**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ -	\$ -	\$ -	\$ 2,199,621	0.00 x
2005	440,000	-	440,000	2,164,159	4.92 x
2004	140,000	-	140,000	2,131,461	15.22 x
2003	115,000	-	115,000	2,089,600	18.17 x
2002	71,206	-	71,206	2,104,216	29.55 x
2001	-	-	-	2,036,463	0.00 x
2000	-	-	-	1,963,312	0.00 x

**UNICOI COUNTY SCHOOLS**

Fiscal Year	STATE SHARED TAX OBLIGATIONS			Prior Year State Shared Taxes	Coverage
	QZAB Obligations	Other Pledged Obligations (Non-Authority)	Total Obligations		
2006	\$ 196,506	\$ -	\$ 196,506	\$ 1,541,094	7.84 x
2005	73,689	-	73,689	1,480,173	20.09 x
2004	73,689	-	73,689	1,514,309	20.55 x
2003	-	-	-	1,489,426	0.00 x
2002	-	15,235	15,235	1,472,841	96.67 x
2001	-	3,597	3,597	1,449,412	402.95 x
2000	-	-	-	1,434,645	0.00 x

**Note:** The first QZAB bond was issued on November 30, 1999.

**Source:** Data on State-Shared Taxes is provided by Tennessee Department of Revenue.

<sup>1</sup> Coverage for current and/or prior years is zero due to no QZAB loans or other obligations.

<sup>2</sup> Borrower has paid-off QZAB loan.

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# ACKNOWLEDGMENTS

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DIVISION OF BOND FINANCE

MARY-MARGARET COLLIER\*

JACQUELINE FELLAND\*

JOSEPH WILLIAMS\*

PAT HAAS

DONNA KAUKAS

ELIZABETH BIRCHETT

\*PREPARER OF COMPREHENSIVE ANNUAL FINANCIAL REPORT