TENNESSEE STATE SCHOOL BOND AUTHORITY

AUDIT COMMITTEE MEETING AGENDA

June 15, 2022 – 10:50 AM

1. Call Meeting to Order
2. Approval of Minutes from June 15, 2021**
3. Review and Approval of Management's Risk Assessment as of 12/31/2021**
   - Thad DelConte – Internal Audit Director, Finance and Administration
4. Review of FY21 Audit Results
   - Michael Campbell – Audit Manager, Division of State Audit
5. Opportunity for Public Comment
6. Other Business
7. Adjourn

*** - Items marked with asterisks require action by the Committee*

TENNESSEE STATE SCHOOL BOND AUTHORITY
Audit Committee Meeting Minutes
June 15, 2021

The Tennessee State School Bond Authority (TSSBA) Audit Committee met at 2pm CDT Tuesday, June 15, 2021 in the Executive Conference Room at the State Capitol in Nashville, Tennessee.

The following members were physically present:

Commissioner Butch Eley, Chairman, Department of Finance & Administration
Dick Tracy, Designee for Dr. Flora Tydings, Chancellor, Tennessee Board of Regents
Chris Mustain, Designee for the Honorable Tre Hargett, Secretary of State
Mark Paganelli, Designee for Randy Boyd, President, University of Tennessee

Recognizing a quorum physically present, Chairman Eley called the meeting to order at 2:02pm.

Chairman Eley presented the minutes from the prior audit committee meeting conducted on June 25, 2020 for approval. A motion to approve was made by Dick Tracy and seconded by Mark Paganelli. No comments or corrections were raised. A voice vote was taken, and the motion passed unanimously.

Chairman Eley moved to the next agenda item, review and approval of management's risk assessment. Chairman Eley asked Thad DelConte, Director of Internal Audit, Finance and Administration and TSSBA Audit Committee Secretary, to present the assessment to the Committee. Mr. DelConte stated that the risk assessment appears thorough and complete and follows the approach and uses the format recommended in guidance developed by F&A's Division of Accounts and the Comptroller's Office. Control activities are properly documented and tested, and the results indicate that controls are operating effectively to reduce risk to an acceptable level. He went on to remind the Committee that the assessment is for the entire Office of State Government Finance, which includes the TSSBA. Mr. DelConte then offered to answer any questions the committee might have. Chairman Eley asked for a motion to approve, which was provided by Mr. Tracy, and a second, provided by Mr. Paganelli, and then opened the floor for questions. There being no questions or discussion, a voice vote was taken, and the motion passed unanimously.

Chairman Eley then asked Michael Campbell, Legislative Audit Manager, Comptroller of the Treasury, Division of State Audit to update the committee on recent audit results. Mr. Campbell informed the committee that Derek Martin, the audit manager assigned to the most recent audit of the TSSBA, had retired and that he would be assigned to the TSSBA audit going forward. He informed the Committee that the financial statement audit for the year ended 6/30/20 was successfully completed and an unmodified opinion was issued. He also informed the Committee that their consideration of internal control over financial reporting and tests of compliance resulted in no audit findings. Chairman Eley noted that no action was required for this agenda item but asked the Committee if there were any questions for Mr. Campbell. Hearing none he proceeded to congratulate and thank the Division of State Government Finance for their diligent work, as exemplified by their 18th consecutive finding free audit report.

Chairman Eley then asked Sandi Thompson, Director of the Division of State Government Finance, to update the Committee on Qualified Zone Academy Bonds. Ms. Thompson stated that two series of Qualified Zone Academy Bonds, a 2004 series and a 2005 series, matured in November and December 2020, respectively, were paid in full, and we no longer have any bonds outstanding in the QAZB program.

Chairman Eley then provided an opportunity for public comment, hearing none he asked if there was any other business to be brought before the committee. Hearing none, he requested a motion to adjourn, which was provided by Mr. Tracy and seconded by Mr. Paganelli. A voice vote was taken and the motion passed unanimously. Meeting adjourned at 2:11pm.

Approved on this _____ day of __________, 2022.

Respectfully submitted,

Thad DelConte
Secretary

Tennessee Comptroller of the Treasury

Financial and Compliance Audit Report

Tennessee State School Bond Authority

For the Year Ended June 30, 2021

Jason E. Mumpower
Comptroller of the Treasury

Division of State Audit

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Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

December 9, 2021

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State School Bond Authority for the year ended June 30, 2021. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

21/068

Cordell Hull Building | 425 Rep. John Lewis Way N. | Nashville, Tennessee 37243

Audit Report

Tennessee State School Bond Authority

For the Year Ended June 30, 2021

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For the Year Ended June 30, 2021

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of and for the years ended June 30, 2021, and June 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee State School Bond Authority. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Authority.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State School Bond Authority as of June 30, 2021, and June 30, 2020, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tennessee State School Bond Authority's basic financial statements. The accompanying financial information on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2021, on our consideration of the Tennessee State School Bond Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts (including the bond resolutions), and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee State School Bond Authority's internal control over financial reporting and compliance.

Katherine J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 3, 2021

Management's Discussion and Analysis

As management of the Tennessee State School Bond Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities as presented in the financial statements and notes to the financial statements of the Authority for the fiscal year ended June 30, 2021. These activities are compared to the results of the fiscal years ended June 30, 2020, and June 30, 2019. We encourage readers to consider the information presented here in conjunction with the Independent Auditor's Report, the audited financial statements, and accompanying notes of this report. The financial statements, notes, and this discussion are the responsibility of management.

Program Activity Highlights

The Authority's purpose is to provide loans to the state's higher education institutions by issuing bonds and notes of the Authority and to local governments on behalf of local education agencies (LEAs) through Qualified Zone Academy Bonds (QZABs) and Qualified School Construction Bonds (QSCBs). As of June 30, 2021, all the bonds for the QZAB program have fully matured and the program is no longer active. The tables below summarize this business activity.

	Higher Education Facilities Programs		
	2021	2020	2019
Number of higher education facilities with outstanding loans	17	19	19
Balance of outstanding loans	$ 1,849,746,998	$ 1,821,926,834	$ 1,830,846,666
Total number of projects with outstanding loans	195	211	229
Number of projects approved in fiscal year	3	4	4
Dollar amount of loans approved in fiscal year	$ 28,600,000	$ 24,610,000	$ 97,350,000
Dollar amount of loans approved in fiscal year - unspent	$ 14,450,000	$ 22,414,449	$ 93,315,933
Dollar amount of loans financed in fiscal year	$ 118,792,617	$ 75,865,359	$ 138,560,288
Balance of outstanding debt	$ 1,929,187,212	$ 1,943,336,361	$ 1,884,694,952
Bonds issued in fiscal year	$ 713,365,000	$ 207,170,000	$ -
Revolving credit facility loans issued in fiscal year	$ 45,000,000	$ 50,000,000	$ 90,000,000

	Qualified Zone Academy Bond Program		
	2021	2020	2019
Number of LEAs with outstanding loans	-	9	9
Total number of outstanding loans	-	11	11
Balance of outstanding loans	$ -	$ 636,924	$ 3,016,775
Balance held in Sinking Fund	$ -	$ 29,508,076	$ 27,128,225
Balance of outstanding debt	$ -	$ 30,145,000	$ 30,145,000

	Qualified School Construction Bond Program		
	2021	2020	2019
Number of LEAs with outstanding loans	23	23	23
Total number of outstanding loans	28	28	28
Balance of outstanding loans	$ 138,083,337	$ 162,399,687	$ 186,700,822
Balance held in Sinking Fund	$ 274,715,760	$ 260,168,122	$ 213,632,934
Balance of outstanding debt	$ 389,440,000	$ 389,440,000	$ 389,440,000

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 revenue bonds and notes to fund capital projects for the higher education institutions including both four-year institutions and two-year community colleges. Such loans are payable from fees and charges, or in the case of energy conservation projects, the cost savings generated from the projects. The statute was amended in 1999 to authorize the Authority to issue QZABs and in 2009 to authorize the Authority to issue QSCBs on behalf of LEAs throughout the state. For more specific financial information on long-term debt activity, see Note 5, Debt Payable, on pages 22 to 28 in the notes to the financial statements.

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

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

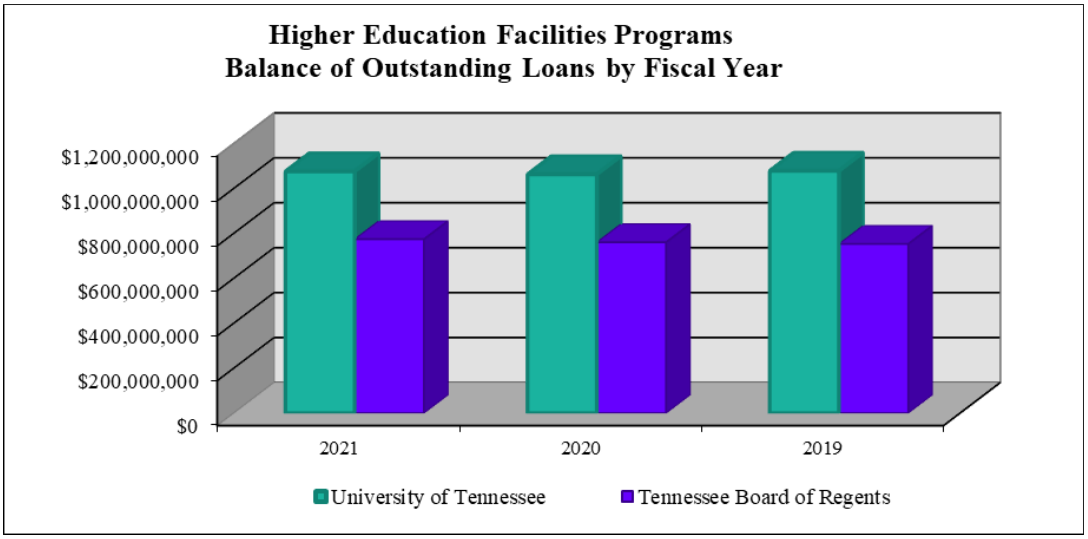
On June 2, 2021, the Authority entered into an Amended and Restated Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The original RCA dated March 20, 2014, as amended and extended, expired upon the issuance of the new RCA. Projects are funded through the RCA during the construction phase. For projects in the construction phase that are completed or near completion, the Authority may fix the interest rate for the term of the projects by issuing long-term debt. The range of RCA interest rates are shown below for the fiscal year ended June 30, 2021, as compared to fiscal years 2020 and 2019.

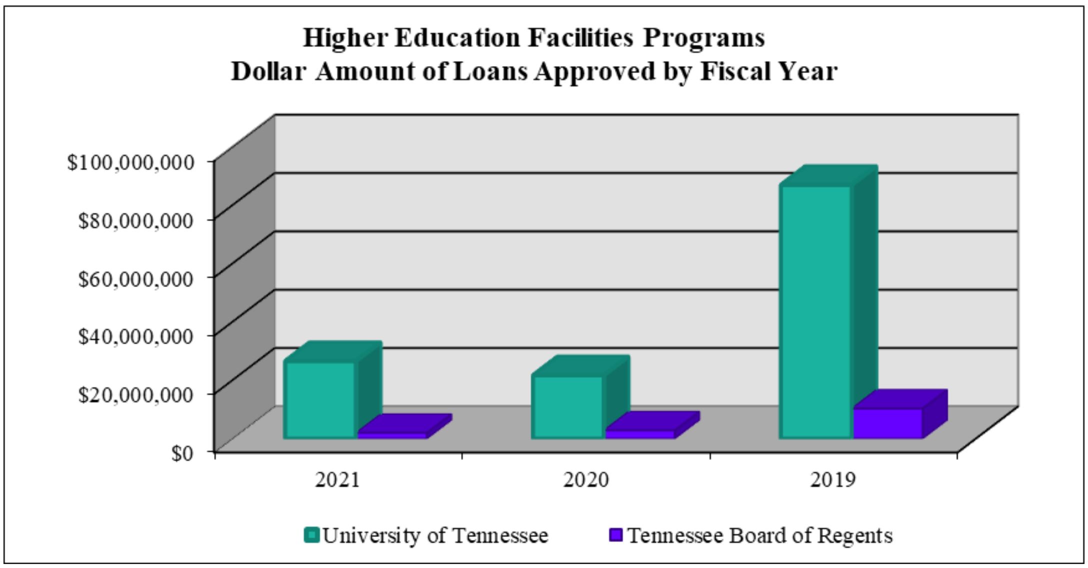
Higher Education Facilities Programs
Revolving Credit Facility Interest Rates Ranges

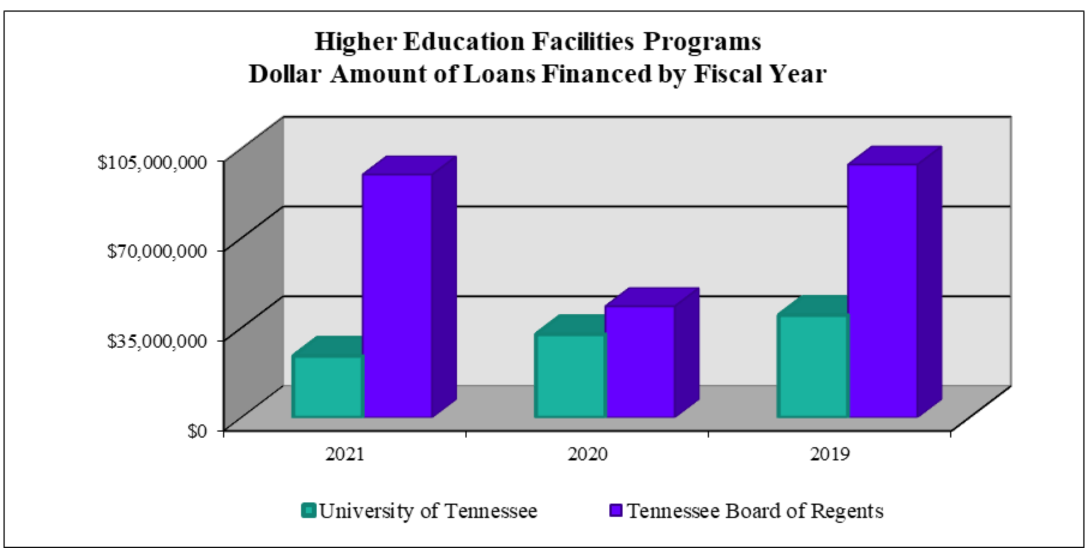
	Tax-Exempt		Federally Taxable	
Fiscal Year	**Low**	**High**	**Low**	**High**
2021	0.494%	0.557%	0.622%	0.701%
2020	0.558%	2.342%	0.703%	2.932%
2019	2.085%	2.436%	2.612%	3.050%

For the fiscal year ended June 30, 2021, interest rates on the higher education facilities' long-term, fixed-rate, tax-exempt bonds ranged from a low of 3.00% to a high of 5.00%, and the interest rates on the higher education facilities' long-term, fixed-rate, federally taxable bonds ranged from a low of 0.167% to a high of 4.207%. By pooling the financing of the capital needs for all public higher education facilities, management believes that economic efficiency is achieved through a single borrowing administered by one agency. The creditworthiness of the program is based on the strong debt service coverage from the gross revenue pledge of the Boards. In addition, should the Boards fail to pay their annual financing charges, the Authority is authorized to intercept the Boards' state appropriations. This financing mechanism provides for a lower cost of borrowing for the program and the borrowers.

Higher Education Facilities Programs' Debt Ratings. As of the fiscal year ended June 30, 2021, the Authority's higher education facilities' program is rated AA+ and AA+ by Fitch and S&P Global Ratings, respectively. Moody's Investors Service has assigned the Authority's bonds an Aa1 enhanced rating and an Aa1 programmatic rating.



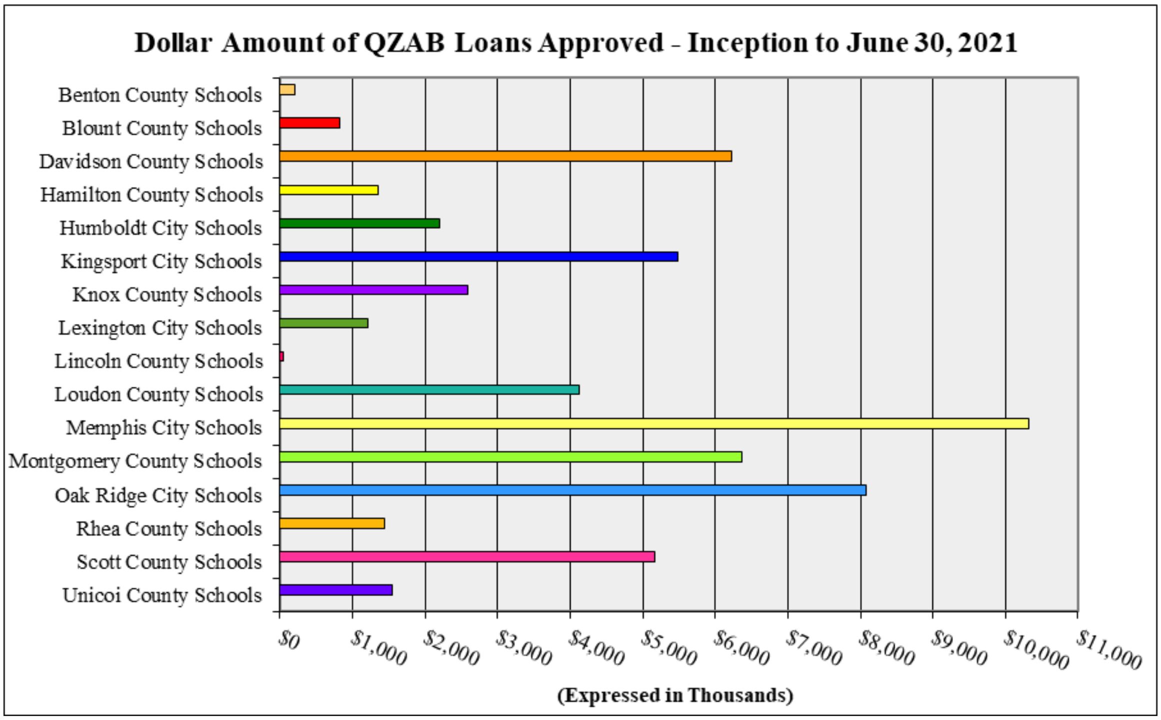




Qualified Zone Academy Bond Program. The QZAB program is a capital financing program authorized by the federal government under the Taxpayer Relief Act of 1997, Section 227(a). A QZAB was a taxable bond issued by the Authority, the proceeds of which were used to finance certain eligible public schools' renovation projects and equipment purchases. During the term that the bond was outstanding, an eligible holder of a QZAB was generally allowed annual federal income tax credits in lieu of receiving periodic interest payments from the issuer. These credits compensated the holder for lending money to the borrower and functioned as payments of interest on the bonds. The Tennessee Department of Education distributed the application for a QZAB allocation to all LEAs in the state. The Department of Education recommended those projects that best met the requirements of the program to the Authority for funding.

The LEA and the city or county supporting the agency pledged its full faith and credit and unlimited taxing power to the Authority for the repayment of its loans. Had the LEA/local government failed to repay its loan timely, the Authority was authorized to intercept the local government's unobligated state-shared taxes.

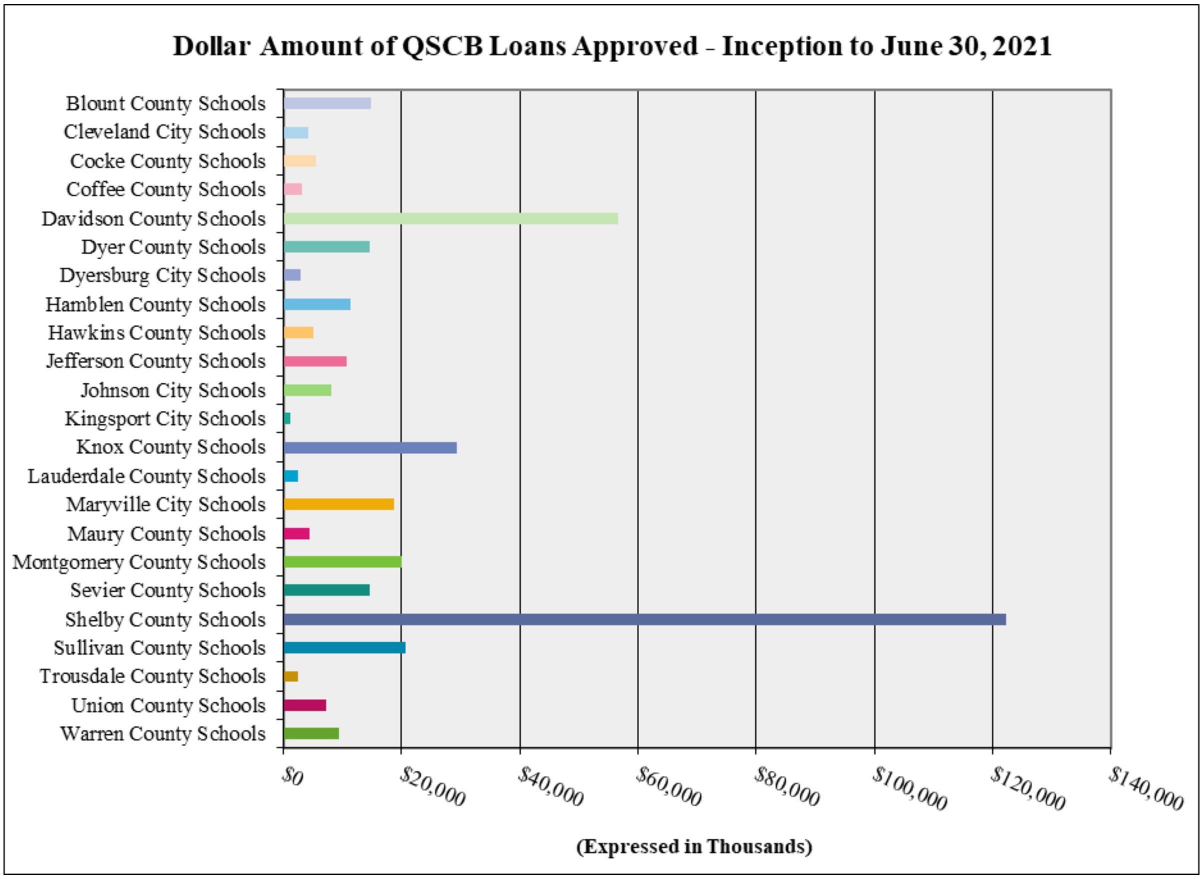
As of June 30, 2021, the QZAB program has no unused allocations, and the bonds have fully matured. While the program was active, the state had up to two years after the yearly allocations were made by the federal government to issue bonds or the allocations would be forfeited. The Authority last issued bonds for the QZAB program on December 28, 2005. The implementation of the 2017 Tax Cuts and Jobs Act on State and Local Bonds eliminated all tax credit bonds, including QZAB bonds.



Qualified Zone Academy Bond Program Debt Ratings. All the QZABs were placed with private investors. The QZABs were not rated.

Qualified School Construction Bond Program. The QSCB program is a capital financing program originally authorized by the federal government under the American Recovery and Reinvestment Act of 2009 and Section 49-3-12, *Tennessee Code Annotated*, as amended. The QSCBs are bonds issued by the Authority, the proceeds of which are used to finance certain eligible public schools' renovation and rehabilitation projects, equipment purchases, new building construction, and land acquisition. The Series 2009 QSCB is structured as a tax credit bond under which an eligible holder of a QSCB is generally allowed quarterly federal income tax credits in addition to quarterly supplemental interest payments from the issuer during the period the bond is outstanding. These credits compensate the bondholder for lending money to the Authority and function as partial payments of interest on the bonds. The Series 2010 QSCB is structured as a direct subsidy payment bond under which the holder of the bond is compensated with a semi-annual cash interest payment that is subsidized by the federal government. The Authority elects to receive the direct interest subsidy payments from the United States Treasury, and the loan agreements provide that the subsidy payments received by the Authority will then be transferred to the borrowers.

The local government supporting the LEA must pledge its full faith and credit and unlimited taxing power to the Authority for the repayment of its loans. Should the LEA/local government fail to repay its loan timely, the Authority is authorized to intercept the local government's unobligated state-shared taxes.



Qualified School Construction Bonds Program Debt Ratings. As of the fiscal year ended June 30, 2021, the Authority's Series 2009 QSCB were rated Aa2 and AA+ by Moody's Investors Service, Inc. and S&P Global Ratings, respectively; and the Series 2010 QSCB were rated Aa2, AA+, and AA, by Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Ratings, respectively.

Overview of the Financial Statements

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting and the flow of economic resources measurement focus. This basis recognizes revenues when earned and expenses at the time liabilities are incurred regardless of the timing of related cash flows. 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 are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) the financial statements and 2) the notes to the financial statements. The financial statements consist of the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows.

The statements of net position on page 13 present the Authority's financial position at June 30, 2021, and June 30, 2020. The statements of revenues, expenses, and changes in net position on page 14 set forth the results of operations and the change in net position for the years presented. The statements of cash flows on pages 15 to 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 goals of the Authority are to provide timely access to the capital markets for public higher educational institutions and local governments on behalf of LEAs at the lowest possible cost, to repay debt timely, and to achieve the highest possible rating for its debt. During the fiscal year ended June 30, 2021, the Authority issued one series of bonds. At no time did the Authority deny approval of a loan application due to its inability to access the capital market. For long-term debt, the Authority made all debt service payments timely without having to intercept the state appropriations for the higher education institutions. For short-term debt, No Event of Default, as defined in the RCA, had occurred. The Authority maintained its long-term credit ratings with all rating agencies.

Statements of Net Position Summary
(in thousands of dollars)

	2021	2020	2019
Current assets	$ 160,032	$ 255,723	$ 149,301
Noncurrent assets	2,158,758	2,139,121	2,159,175
Total assets	2,318,790	2,394,844	2,308,476
Deferred outflows of resources	38,486	31,794	34,570
Current liabilities	97,467	131,437	93,965
Noncurrent liabilities	2,230,789	2,254,722	2,230,300
Total liabilities	2,328,256	2,386,159	2,324,265
Deferred inflows of resources	1,313	1,187	1,327
Net position (unrestricted)	$ 27,707	$ 39,292	$ 17,454

Note: The Authority owns no capital assets.

As of June 30, 2021, current assets included $16,680,584 of unexpended proceeds from prior debt issued that will fund approved higher education loans as compared to $68,814,125 at June 30, 2020, and $6,258,758 at June 30, 2019. During the fiscal year ended June 30, 2021, the Authority issued $713,365,000 in Higher Education Facilities Second Program Bonds which were used to refund $605,615,000 of the Authority's outstanding long-term debt with the balance of the bond proceeds to be used to fund various project costs and costs of issuance. During the fiscal year ended June 30, 2020, the Authority issued $207,170,000 in Higher Educational Facilities Second Program Bonds which were used to redeem $146,318,221 of the Authority's revolving credit facility with the balance of the bond proceeds to be used to fund various project costs and costs of issuance. The Authority did not issue any bonds during the fiscal year ended June 30, 2019.

Principal was repaid on the higher education outstanding long-term bonds in the amounts of $78,055,000 in 2021; $73,980,000 in 2020; and $70,635,000 in 2019. Deposits to the Sinking Fund for the QZABs were made in the amounts of $2,379,852 in 2020 and $2,334,946 in 2019. No deposits were made to the Sinking Fund in the fiscal year ended June 30, 2021. QZAB Series 2004 Bonds and Series 2005 Bonds in the amount of $30,145,000 were retired during the fiscal year ended June 30, 2021. QZAB Series 2003 Bonds in the amount of $2,445,000 were retired during the fiscal year ended June 30, 2019. No QZAB Bonds were retired in fiscal year 2020. Deposits to the Sinking Fund for the QSCBs were made in the amounts of $24,316,090 in fiscal year 2021; $24,304,421 in fiscal year 2020; and $22,312,915 in fiscal year 2019. No QSCB bonds were retired during the fiscal years 2021, 2020, or 2019.

Net position is available to fund ongoing operations and other expenses necessary to meet the goals of the Authority. Assets and liabilities increase and decrease together in correlation to the issuance and repayment of debt and the resulting loans. The change in net position from fiscal year ended June 30, 2020, to fiscal year ended June 30, 2021, was due primarily to the loss on the QSCB investments. The change in net position from fiscal year ended June 30, 2019, to fiscal year ended June 30, 2020, was due primarily to the unrealized gain on the QSCB investments.

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

	2021	2020	2019
Operating Revenues			
Revenue from loans	$ 62,959	$ 82,284	$ 79,961
Investment earnings (loss)	(7,043)	27,723	20,068
Total operating revenues	55,916	110,007	100,029
Operating Expenses			
Interest expense	61,861	81,142	80,162
Subsidy to borrowers	13,131	14,489	16,404
Other expenses	2,217	2,223	884
Total operating expenses	77,209	97,854	97,450
Operating gain (loss)	(21,293)	12,153	2,579
Nonoperating Revenues			
Federal subsidy on bonds	9,708	9,685	9,652
Total nonoperating revenues	9,708	9,685	9,652
Increase (decrease) in net position	(11,585)	21,838	12,231
Net Position			
Net position, July 1	39,292	17,454	5,223
Net position, June 30	$ 27,707	$ 39,292	$ 17,454

The Authority's operating revenues include revenue from loans in the form of administrative fees, interest on loans, and income earned on investments. Operating expenses include interest expense on outstanding short-term and long-term debt and administrative expenses. The change in operating revenues and expenses for fiscal years ended June 30, 2021, can primarily be attributed to the QSCB program. The QSCB had a loss on investments which resulted in a significant decrease in unrealized investment earnings and decrease in net position. In addition, due to the bond refunding and lower interest rates in the Higher Educational Program, revenue from loans and interest expenses for fiscal year ended June 30, 2021, had decreased.

The change in operating revenues and expenses for fiscal years ended June 30, 2020, and June 30, 2019, can primarily be attributed to the QSCB program. The QSCB had an increase in value in the Sinking Fund which resulted in a significant increase in unrealized investment earnings and increase in net position. In addition, other expenses for fiscal years ended June 30, 2020, and June 30, 2019, were higher due to bond issuance costs paid.

Pursuant to the supplemental bond resolutions for the 2004 and 2005 Series QZABs, Sinking Fund payments were invested in Forward Delivery Agreements which guaranteed a fixed rate of interest of 3.00% and 3.64%, respectively, on investments. The investments were held by the State Treasurer in the Authority's name. Investment earnings related to the QZAB program were held by the Authority for the benefit of the LEAs participating in the program and were applied as a subsidy toward each LEA's individual debt service Sinking Fund payment on an annual basis.

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

<u>**Future Financing Activities**</u>

Higher Education Facilities Programs. As Tennessee continues into an economic era that emphasizes the human capital potential of its citizens rather than physical capital and natural resources, the higher education system must be positioned to serve the broader-based need for access to postsecondary education and to produce degree and certificate holding work-ready citizens. A host of policy and environmental factors influence the demands for access and completion, and the means through which this demand will be met. Tennessee has implemented two programs to increase the number of Tennesseans with a postsecondary credential—Tennessee Promise and Tennessee Reconnect. With these programs, Tennessee is the first state to offer all high school graduates and adults two years of community or technical college free of tuition and mandatory fees. First-time freshmen enrollment has increased approximately 30% at community colleges and 32% at technical colleges since the implementation of Tennessee Promise. As the state continues to promote educational attainment to its citizens, we anticipate an increased need for funding of various facilities through the Authority.

Qualified Zone Academy Bonds and Qualified School Construction Bonds Programs. The issuance of bonds within the QZAB and QSCB programs were limited to the amounts allocated by the federal government. As of December 31, 2017, the Tax Cuts and Jobs Act eliminated the ability to issue QZABs. The QSCB program only received allocations for 2009 and 2010.

COVID-19

COVID-19 is not expected to have a significant impact on the Authority's loan collections. Higher education borrowers have included their debt service in their budgets and have made sure funds will be available for payment. Loans are secured by a pledge of revenues and are further secured by unrestricted state appropriations. QSCB loans are secured solely by the payments made by the borrowers, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local governments, the full faith and credit and unlimited taxing power of the local government, and by certain funds held under the Qualified School Construction Bond Resolution. Therefore, sufficient funds are available to meet debt service requirements on the bonds in the event of a loan default. Moreover, the Comptroller of the Treasury's Office has taken safety measures to control the spread of the virus among staff including teleworking opportunities, enhanced cleaning and disinfecting of office spaces, electronic meetings, and social distancing.

Contacting the Authority's Management Team

This discussion and analysis is designed to provide our citizens, education agencies, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of the Division of State Government Finance, State of Tennessee, Cordell Hull Building, 425 Rep. John Lewis Way N., Nashville, Tennessee 37243-3400; visit our website at https://www.comptroller.tn.gov/boards/tennessee-state-school-bond-authority; or call (615) 747-5369.

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2021, AND JUNE 30, 2020

(Expressed in Thousands)

	June 30, 2021	June 30, 2020
ASSETS		
Current assets:		
Cash (Note 2)	$ 36,752	$ 97,690
Cash with fiscal agent (Note 2)	26	23
Restricted cash (Notes 2 and 4)	-	1,393
Restricted investments (Notes 2 and 4)	-	28,570
Fair value of derivatives (Notes 1 and 2)	-	29
Loans receivable (Note 3)	109,144	111,282
Interest receivable (Note 3)	11,100	13,757
Federal subsidy receivable	2,833	2,827
Receivables for administrative fees (Note 3)	177	152
Total current assets	160,032	255,723
Noncurrent assets:		
Restricted cash (Notes 2 and 4)	6,665	6,637
Restricted investments (Notes 2 and 4)	273,406	258,803
Loans receivable (Note 3)	1,878,687	1,873,681
Total noncurrent assets	2,158,758	2,139,121
Total assets	2,318,790	2,394,844
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - Deferred amount on refunding	38,486	31,794
Total deferred outflows of resources	38,486	31,794
LIABILITIES		
Current liabilities:		
Accounts payable	162	2,670
Accrued liabilities	2,979	2,830
Accrued interest payable	13,148	15,579
Due to local education authorities	45	-
Unearned revenue (Note 6)	2,173	2,158
Bonds payable (Note 5)	78,960	108,200
Total current liabilities	97,467	131,437
Noncurrent liabilities:		
Revolving credit facility (Note 5)	115,521	74,481
Bonds payable (Note 5)	2,115,268	2,180,241
Total noncurrent liabilities	2,230,789	2,254,722
Total liabilities	2,328,256	2,386,159
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow - derivatives (Notes 1 and 2)	-	29
Deferred inflow - Deferred amount on refunding	1,313	1,158
Total deferred inflows of resources	1,313	1,187
NET POSITION		
Unrestricted	$ 27,707	$ 39,292

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

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2021, AND JUNE 30, 2020

(Expressed in Thousands)

	Year Ended June 30, 2021	Year Ended June 30, 2020
OPERATING REVENUES		
Revenue from loans	$ 62,959	$ 82,284
Investment earnings (loss)	(7,043)	27,723
Total operating revenues	55,916	110,007
OPERATING EXPENSES		
Interest expense-revolving credit facility	581	1,574
Interest expense-bonds	61,280	79,568
Subsidy to borrowers	13,131	14,489
Administrative expense	2,217	2,223
Total operating expenses	77,209	97,854
Operating income (loss)	(21,293)	12,153
NONOPERATING REVENUES		
Federal subsidy on bonds	9,708	9,685
Total nonoperating revenues	9,708	9,685
Increase (decrease) in net position	(11,585)	21,838
NET POSITION		
Net position, July 1	39,292	17,454
Net position, June 30	$ 27,707	$ 39,292

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, 2021, AND JUNE 30, 2020

(Expressed in Thousands)

	Year Ended June 30, 2021	Year Ended June 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from borrowers for administrative fees	$ 916	$ 855
Payment to suppliers	(1,064)	(910)
Net cash used for operating activities	(148)	(55)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from sale of bonds	14,450	247,113
Proceeds from sale of refunding bonds	698,915	-
Proceeds from the sale of revolving credit facility	45,000	50,000
Bond interest subsidy from federal government	9,702	9,676
Bond issuance costs paid	(1,040)	(1,180)
Refunding bond proceeds placed in escrow	(697,860)	-
Principal paid - bonds and revolving credit facility	(112,160)	(228,238)
Interest paid - bonds and revolving credit facility	(72,333)	(87,829)
Subsidy to borrowers	(9,702)	(9,676)
Net cash used for noncapital financing activities	(125,028)	(20,134)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(58,326)	(80,030)
Proceeds from sales and maturities of investments	61,856	53,346
Interest received on investments	4,201	6,085
Loans issued	(118,793)	(75,865)
Collections of loan principal	104,084	103,978
Refund to borrower	(955)	-
Interest received on loans	70,809	84,989
Net cash provided by investing activities	62,876	92,503
Net increase (decrease) in cash	(62,300)	72,314
Cash, July 1	105,743	33,429
Cash, June 30	$ 43,443	$ 105,743

TENNESSEE STATE SCHOOL BOND AUTHORITY

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2021, AND JUNE 30, 2020

(Expressed in Thousands)

	Year Ended June 30, 2021	Year Ended June 30, 2020
Reconciliation of cash to the Statement of Net Position:		
Cash	$ 36,752	$ 97,690
Cash with fiscal agent	26	23
Restricted cash	6,665	8,030
Cash, June 30	$ 43,443	$ 105,743
Reconciliation of operating income (loss) to net cash used for operating activities:		
Operating income (loss)	$ (21,293)	$ 12,153
Adjustments to reconcile operating income (loss) to net cash used for operating activities:		
Investment earnings (loss)	7,043	(27,723)
Recognition of administrative earnings through refund reduction	(2)	-
Accrual for administrative earnings in prior year	5	-
Interest expense	61,861	81,141
Subsidy to borrowers	13,086	14,489
Bond issuance costs	1,040	1,180
Interest income from loans	(62,015)	(81,367)
Changes in assets and liabilities:		
Increase in receivables for administrative fees	(30)	(61)
Increase in payables for administrative fees	112	133
Increase in due to local education authorities	45	-
Total adjustments	21,145	(12,208)
Net cash used for operating activities	$ (148)	$ (55)
Noncash investing activities:		
Increase in fair value of investments	$ 15,456	$ 25,504

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

Tennessee State School Bond Authority
Notes to the Financial Statements
June 30, 2021, and June 30, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Authority is a component unit of the State of Tennessee and a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 14 (as amended), *The Financial Reporting Entity*, the Authority is discretely presented in Tennessee's *Annual Comprehensive Financial Report* because a majority of the Authority's board consists of state officials which include the Governor, the State Treasurer, the Secretary of State, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Chancellor of the Tennessee Board of Regents, and the President of the University of Tennessee. That report is posted on the state's website at https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html. The Governor serves as chairman, and the Comptroller of the Treasury serves as secretary. The Director of the Division of State Government Finance serves as the assistant secretary; the finance staff within the Division of State Government Finance provide administrative and financial services to the Authority. Therefore, the state has the ability to affect the day-to-day operations of the Authority.

The Authority does not have any employees. The members serve without salary but are entitled to reimbursement for their actual and necessary expenses incurred in the performance of their official duty.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

Measurement Focus and Basis of Accounting

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

The 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 ongoing operation is to provide loans for constructing capital projects, renovating and rehabilitating facilities, and acquiring land and equipment to higher educational facilities and to local government units pursuant to the criteria set by the federal government for the QZAB and QSCB programs. Therefore, the Authority also recognizes income on investments as operating revenue. The Authority's operating expenses include interest paid on borrowings, subsidies to borrowers, bond issuance costs, arbitrage, and administrative expenses. Any revenues and expenses not meeting this definition would be reported as nonoperating revenues and expenses.

Investments

Investments for the Higher Education, QZAB, and QSCB Programs are stated at fair value.

Amortized Amounts

A. *Bond Discounts, Premiums, and Deferred Amount on Refundings*. The Authority amortizes bond discounts and premiums using the straight-line method over the life of the bonds. The deferred amount on refundings is amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

Moneys pertaining to the Higher Education Second Program General Bond Resolution, the Qualified Zone Academy Bonds First Program Resolution, and the Qualified School Construction Bonds General Bond Resolution of the Tennessee State School Bond Authority, pursuant to Section 49-3-1205, *Tennessee Code Annotated*, may be invested, pursuant to each respective Bond Resolution listed above, in obligations of the United States or its agencies under flexible repurchase agreements which are fully collateralized by obligations of the United States or obligations, the timely payment of the principal of and interest on which are guaranteed by the United States, the state's pooled investment fund as provided in Section 9-4-603, *Tennessee Code Annotated,* and any other investment authorized by the State Investment Policy adopted by the State Funding Board pursuant to Section 9-4-602, *Tennessee Code Annotated*.

Deposits

The Authority has cash on deposit in the State Pooled Investment Fund administered by the State Treasurer. The funds are very liquid; there are no minimum amounts or lengths of time for investment. The fund's investment policy and required risk disclosures are presented in the *State of Tennessee's Treasurer's Report.* That report is available on the state's website at https://treasury.tn.gov/.

The Authority has deposits held in a financial institution that 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.

Tennessee State School Bond Authority
Notes to the Financial Statements (cont.)
June 30, 2021, and June 30, 2020

Investments

As of June 30, 2021, the Authority has the following investments:

Investment	Maturity		Fair Value (Level 1)
U.S. Treasury Notes	August 15, 2026	$	52,339,570
	August 15, 2027		78,941,200
U.S. Treasury Securities:			
Agency Zeroes & Strips	August 15, 2026		49,643,944
	August 15, 2027		92,481,252
Total Level 1 Investments		$	273,405,966

As of June 30, 2020, the Authority had the following investments:

Investment	Maturity		Fair Value (Level 1)
U.S. Treasury Notes	August 15, 2026	$	62,329,927
	August 15, 2027		61,642,393
U.S. Treasury Securities:			
Agency Zeroes & Strips	August 15, 2026		61,877,297
	August 15, 2027		72,953,631
Total Level 1 Investments		$	258,803,248

Investment	Maturity		Fair Value (Level 2)
U.S. Treasury Bills	November 19, 2020	$	11,968,335
	December 3, 2020		16,601,869
Total Level 2 Investments		$	28,570,204
Total Investments		$	287,373,452

Debt and equity securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The State's Investment Policy does not formally address interest rate risk. As a matter of practice, higher education investments are invested no longer than five years to reduce the interest rate risk. QZAB investments followed the guidelines in the Forward Delivery Agreements, which were limited to six-month maturities so that interest rate risk was limited. QSCB investments are intended to be held to maturity at which time par value will be received, which significantly alleviates the concerns related to interest rate risk. The Authority's investments are specifically identified above.

Forward Delivery Agreements

On November 24, 2004, the Authority entered into a Forward Delivery Agreement (the Agreement) with Bank of America, N.A. related to the Series 2004 QZABs. The Agreement guaranteed to the Authority a fixed rate of interest of 3%. Cash from borrowers' loan repayments were used to purchase securities from Bank of America, N.A. in accordance with the Agreement. The accumulated funds were used to redeem the $12,600,000 Series 2004 QZABs at maturity. As a result of the Agreement, borrowers repaid only $9,984,800 of the $12,600,000 principal. The investments were held by the State Treasurer in the Authority's name. As of June 30, 2021, the contractual obligations of the agreement were fulfilled, and no money was invested through the Agreement. As of June 30, 2020, $11,968,335 was invested through the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also had the right to optionally terminate the Agreement at any time.

On December 28, 2005, the Authority entered into a Forward Delivery Agreement (the Agreement) with J.P. Morgan Chase Bank, N.A. related to the Series 2005 QZABs. The Agreement guaranteed to the Authority a fixed rate of interest of 3.64%. Cash from borrowers' loan repayments were used to purchase securities from J.P. Morgan Chase Bank, N.A. in accordance with the Agreement. The accumulated funds were used to redeem the $17,545,000 Series 2005 QZABs at maturity. As a result of the Agreement, borrowers repaid only $13,438,510 of the $17,545,000 principal. The investments were held by the State Treasurer in the Authority's name. As of June 30, 2021, the contractual obligations of the agreement were fulfilled, and no money was invested through the Agreement. As of June 30, 2020, $16,601,869 was invested through the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also had the right to optionally terminate the Agreement at any time.

Terms of the Forward Delivery Agreements

	QZAB Series 2004	QZAB Series 2005
Trade Date	11/24/2004	12/28/2005
Provider	Bank of America, N.A.	J.P Morgan Chase Bank, N.A.
Notional Amount	$12,600,000	$17,545,000
Guaranteed Interest Rate	3.00%	3.64%
Amount Invested in Agreement at 6/30/2021 at fair value[1]	$0	$0
Amount Invested in Agreement at 6/30/2020 at fair value[1]	$11,968,335	$16,601,869
Date of Deposits	11/24/2005 through 2020	12/8/2006 through 2020

[1] There are no investments under the forward delivery agreement as all contractual obligations have been fulfilled. The forward delivery agreements are classified as Level 2 of the fair value hierarchy. Debt securities classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

For the fiscal year ended June 30, 2021, the Agreements for the 2004 QZABs and the 2005 QZABs had matured and the contractual obligations were fulfilled. For the fiscal year ended June 30, 2020, the Agreement for the 2004 QZABs had a fair value of $0 since the contractual obligations had been fulfilled, and the Agreement for the 2005 QZABs had a positive fair value of $28,649. The positive fair value was reported as a deferred inflow of resources on the statement of net position. The Agreements were valued by an independent investment advisor using the parameters contained in the Agreements and prevailing market conditions and benchmark yields on June 30, 2020, upon which the fair values depended. Borrowers paid no interest on these bonds. The interest rate credit was established by the federal government. The Agreements were agreed to as one of the terms of purchase to induce the investor to purchase the bond. The Authority had a scheduled amount of qualified securities required to be on deposit on specified delivery dates. These Agreements were forward contracts or commitments to deliver the same qualified securities on the scheduled dates at a pre-determined rate; therefore, these were hedging derivative instruments employed as a fair value hedge of the qualified securities for the required deposits. These forward contracts met all criteria under GASBS 53, Paragraph 39, which addressed the consistent critical terms method for forward contracts. All terms of the required deposits and the Agreements were consistent; therefore, hedge accounting was applied.

Termination Risk

Termination risk is the risk that a counterparty will terminate a forward delivery agreement at a time when the state owes it a termination payment. The state had mitigated this risk by specifying that the counterparty had the right to terminate only as a result of the following events: the failure by the state, for any reason, to purchase qualified securities in accordance with the Agreement; the amount to purchase qualified securities on the delivery date is less than the scheduled fund amount; the state is not in compliance with any covenant or obligation, incorporated by reference in this Agreement; any representation or warranty of the state contained in the Agreement proves to have been incorrect, false, or misleading; insolvency of the state; or the principal amount under the Bonds becomes due and payable for any reason prior to the maturity date.

If the current market interest rate was higher than the fixed interest rate agreed to in the Agreement, the Agreement had a negative fair value. In the event of termination under this circumstance, the state owed a termination payment to the counterparty. If the fair value was positive, the state was due a termination payment from the counterparty. As of June 30, 2021, the Agreements had matured and were no longer outstanding. As of June 30, 2020, the fair value of the Agreements was a total positive value of $28,649.

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 agreement with the Tennessee Board of Regents covers all entities included in the State University and Community College System. The Second Financing Agreement (the Agreement) is dated November 1, 1997, and was amended and restated on May 9, 2013. Under the Agreement, the Authority agrees to finance construction projects for the Board of Trustees or the Tennessee Board of Regents. Annual financing charges payable under the Agreement must be sufficient to pay the debt obligations of the Authority and the costs of administering the program.

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

Qualified Zone Academy Bonds Program

The Authority entered into loan agreements with the local governments on behalf of local education agencies for the 2004 QZABs, dated November 24, 2004; and the 2005 QZABs, dated December 28,

2005. Under the agreements, the Authority agreed to finance renovation projects and equipment for the local education agencies. On the date designated in the agreements, annual financing charges must be paid by the borrower that were sufficient to pay the annual principal payment, which were deposited into a bond sinking fund held by the State Treasurer to pay the bonds at maturity, and the costs of administering the program. The 2004 and 2005 QZAB loans were paid in full during fiscal year 2021; therefore, there are not loans receivable for the Qualified Zone Academy Bonds Program at June 30, 2021.

Qualified School Construction Bonds Program

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

NOTE 4. RESTRICTED ASSETS

Cash and Investments

The Higher Education Facilities Second Program General Bond Resolution, effective for all bonds issued in 1998 and thereafter, permits the Authority to satisfy the debt service reserve requirement by either placing an amount equal to the maximum semiannual debt service requirement in a debt service reserve account or by maintaining a Reserve Fund Credit Facility. The Authority elected to establish a separate debt service reserve fund solely for the 2012 Series A, B, and C; 2013 Series A; 2014 Series A and B; 2015 Series A and B; 2017 Series A, B, and C; 2019 Series A and B; and 2021 Series A bonds with no current funding requirement.

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

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

NOTE 5. DEBT PAYABLE

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

Higher Education Facilities Programs

A. *Bonds*. The principal; Sinking Fund installments, if any; and redemption price of and interest on the bonds are payable solely from the annual financing charges, legislative appropriations, and other moneys and securities held or set aside under the resolutions.

B. *Revolving Credit Facility*. Revolving credit facility constitutes a special obligation of the Authority. Principal and interest on the revolving credit facility is payable from the following sources: (i) as to principal only, the proceeds of the draw on the revolving credit facility to pay the principal of other outstanding revolving credit facility; (ii) available revenues; (iii) the money and securities (if any) on deposit in the Reimbursement Fund and in the Debt Service Fund; (iv) the moneys and securities (if any) on deposit in the Project Construction Account for such projects; and (v) the proceeds of bonds or notes issued to make such payments.

Qualified Zone Academy Bonds Program

On September 9, 1999, the Authority adopted a Qualified Zone Academy Bond Resolution authorizing the issuance of QZABs to make loans to local governments on behalf of local education agencies for the purpose of financing eligible costs of certain projects. The state Department of Education recommended the projects to the Authority that should be funded under the QZAB program. The Taxpayer Relief Act of 1997 provided this financial tool whereby interest on QZABs was paid by the federal government in the form of an annual tax credit to the financial institutions that held the QZABs. The bonds were secured solely by the payments made by the borrowers under the loan agreements, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local governments and by certain funds held under the Qualified Zone Academy Bond Resolution. The 2004 and 2005 QZAB bonds matured during fiscal year 2021; therefore, there were no outstanding bonds for the Qualified Zone Academy Bonds Program at June 30, 2021.

Qualified School Construction Bonds Program

On November 5, 2009, the Authority adopted a Qualified School Construction Bond Resolution authorizing the issuance of QSCBs to make loans to local governments on behalf of local education agencies for the purpose of financing eligible costs of certain projects. The Tennessee Advisory Commission on Intergovernmental Relations recommended the projects to be funded by the Authority under the QSCB program. The American Recovery and Reinvestment Act of 2009 provided this financial tool whereby interest on QSCBs, Series 2009, is paid by the federal government in the form of a quarterly tax credit to the financial institutions that hold the QSCBs. Market conditions at the time of issuance demanded the borrowers pay an additional quarterly interest payment to supplement the tax credit to the investors. The 2010 QSCBs were issued as direct subsidy payment bonds, a financial tool whereby the interest on the QSCBs is intended to be fully subsidized by the federal government. The bonds are secured solely by the payments made by the borrowers under the Loan Agreements, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local governments and by certain funds held under the Qualified School Construction Bond Resolution. The March 15, 2021, federal interest subsidy payment for the 2010 QSCBs was reduced by 5.7%, or $293,524, as a part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year, September 30, 2021. On September 24, 2020, the Internal Revenue Service announced that federal subsidy payments will be cut by 5.7% during the 2021–2030 federal fiscal years.

Changes in debt payable for the years ended June 30, 2021, and June 30, 2020, are as follows (expressed in thousands):

Tennessee State School Bond Authority
Notes to the Financial Statements (cont.)
June 30, 2021, and June 30, 2020

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Amounts Due Within One Year
Revolving Credit Facility Loans	$ 74,481	$ 45,000	$ 3,960	$ 115,521	$ -
Bonds payable	$ 2,020,875	$ 713,365	$ 683,670	$ 2,050,570	$ 78,960
Bonds from direct placement	30,145	-	30,145	-	-
Less: unamortized bond discount	(41)	-	(23)	(18)	-
Add: unamortized bond premium	237,462	-	93,786	143,676	-
Total bonds payable	$ 2,288,441	$ 713,365	$ 807,578	$ 2,194,228	$ 78,960

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Revolving Credit Facility Loans	$ 178,739	$ 173,359	$ 277,617	$ 74,481	$ -
Bonds payable	$ 1,887,685	$ 207,170	$ 73,980	$ 2,020,875	$ 78,055
Bonds from direct placement	30,145	-	-	30,145	30,145
Less: unamortized bond discount	(43)	-	(2)	(41)	-
Add: unamortized bond premium	207,754	39,943	10,235	237,462	-
Total bonds payable	$ 2,125,541	$ 247,113	$ 84,213	$ 2,288,441	$ 108,200

Bonds and revolving credit facility loans at June 30, 2021, and June 30, 2020, are as follows (expressed in thousands):

	June 30, 2021	June 30, 2020
Bonds Payable:		
2012 Series A at interest rates from 2.50% to 5.00% maturing to 2042 (original par - $208,295)	$5,775	$126,505
2012 Series B (Federally Taxable) at interest rates from 2.379% to 3.845% maturing to 2042 (original par - $103,790)	65,055	69,130
2012 Refunding Series C at interest rates from 3.00% to 5.00% maturing to 2034 (original par - $125,635)	7,715	59,670
2013 Series A at interest rates of 5.00% maturing to 2044 (original par - $149,130)	7,210	109,080

2014 Series A (Federally Taxable) at interest rates from 1.861% to 4.207% maturing to 2045 (original par - $132,450)	42,315	94,395
2014 Refunding Series B at interest rates of 5.000% maturing to 2038 (original par - $212,200)	82,190	175,600
2015 Series A (Federally Taxable) at interest rates from 1.599% to 3.950% maturing to 2046 (original par - $75,550)	48,270	55,775
2015 Series B at interest rates of 5.00% maturing to 2046 (original par - $388,615)	120,460	359,430
2017 Series A at interest rates of 5.00% maturing to 2047 (original par - $247,570)	231,850	237,355
2017 Series B at interest rates of 5.00% maturing to 2039 (original par - $139,740)	124,225	124,225
2017 Series C (Federally Taxable) at interest rates from 1.593% to 3.424% maturing to 2039 (original par - $15,150)	12,450	13,100
2019 Series A at interest rates of 5.00% maturing to 2049 (original par - $146,915)	142,275	146,915
2019 Series B (Federally Taxable) at interest rates from 2.00% to 3.000% maturing to 2044 (original par - $60,255)	57,975	60,255
2021 Series A (Federally Taxable) at interest rates from 0.167% to 2.661% maturing to 2045 (original par - $713,365)	713,365	-
2004 Qualified Zone Academy Bonds non-interest-bearing maturing in 2021 (original par - $12,600)	-	12,600
2005 Qualified Zone Academy Bonds non-interest-bearing maturing in 2021 (original par - $17,545)	-	17,545
2009 Qualified School Construction Bonds at an interest rate of 1.515% and a federal tax credit rate of 5.86% maturing in 2026 (original par - $177,000)	177,000	177,000
2010 Qualified School Construction Bonds at an interest rate of 4.848% maturing in 2027 (original par - $212,440)	212,440	212,440
Total Par Amount of Bonds Payable	2,050,570	2,051,020
Plus: Unamortized Premium/Less Unamortized Discount	143,658	237,421
Net Bonds Payable	$ 2,194,228	$ 2,288,441
Revolving Credit Facility Loans, at interest rates from 0.49370% to 0.70100%	$ 115,521	$ 74,481

Debt service requirements to maturity of the bonds payable at June 30, 2021, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Bonds Principal	Bonds Interest	Total
2022	$ 78,960	$ 55,829	$ 134,789
2023	92,000	50,133	142,133
2024	88,755	47,098	135,853
2025	90,020	44,113	134,133
2026	268,270	40,897	309,167
2027-2031	615,080	160,198	775,278
2032-2036	323,170	109,864	433,034
2037-2041	277,660	64,445	342,105
2042-2046	180,840	23,401	204,241
2047-2050	35,815	2,746	38,561
	$ 2,050,570	$ 598,724	$ 2,649,294

The Authority may issue taxable and/or tax-exempt bonds. Proceeds for the tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. Arbitrage liabilities, when applicable, are reported as a current accrued liability. For the year ended June 30, 2021, and June 30, 2020, the Authority did not have a liability for arbitrage.

On February 24, 2021, the Authority issued the 2021 Series A Bonds (Federally Taxable) (2021A). The 2021A taxable bond proceeds in the amount of $713,365,000 were issued to advance refund $115,125,000 of the 2012 Series A bonds; $42,245,000 of the 2012 Series C bonds; $98,525,000 of the 2013 Series A Bonds; $47,245,000 of the 2014 Series A bonds; $76,325,000 of the 2014 Series B bonds; and $226,150,000 of the 2015 Series B bonds. The balance of the proceeds of the 2021A bonds will be used to pay for construction costs of a certain project and various costs of issuance. The 2021 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $24,188,644. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2046 using the straight-line method. The 2021 Series A refunding resulted in a reduction of total debt service payments of $134,393,335 over the next 26 years and an economic gain (difference between the present values of the old and new debt service payments) of $112,382,633.33. The funds provided for the advance refundings were placed in an irrevocable refunding trust fund to pay the principal and interest on the refunded bonds on each principal and interest payment date to and including the respective redemption date for the respective redemption price then due on the refunded bonds.

Revolving Credit Facility

The Authority issues short-term debt to finance certain capital projects for the state's higher education institutions. On June 2, 2021, the Authority entered into an Amended and Restated Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The original RCA dated March 20, 2014, as amended and extended, expired upon the issuance of the new RCA. The RCA permits loans (the Revolving Credit Facility or RCF) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed $300,000,000. As of June 30, 2021, the unused portion of the RCF was $184,479,310. As of June 30, 2020, the unused portion of the RCF was $225,519,310. The RCF may be issued as tax-exempt or as taxable loans. As of June 30, 2021, $82,607,265 of tax-exempt RCF loans and $32,913,425 of taxable RCF loans were outstanding. As of June 30, 2020, $51,367,265 of tax-exempt RCF loans and $23,113,425 of taxable RCF loans were outstanding.

Events of Default

Debt under the Higher Education Facilities Programs is secured by a payment from the annual financing charges by the Tennessee Board of Regents and the Board of Trustees of the University of Tennessee (the Boards). In the event the Authority has been notified that one of the Boards has insufficient funds to make a full payment, the Assistant Secretary to the Authority will notify the Commissioner of Finance and Administration that the Board has failed to pay and request the Commissioner to intercept sufficient available appropriations. The Commissioner will, within one business day, notify his accounting staff to withhold the legislative appropriations as may be required to make the Board whole with respect to the unpaid annual financing charges.

Debt under the Qualified Zone Academy Bond Program was secured by an annual payment by each borrower. A borrower is a local government unit. In the event a borrower failed to make a loan repayment in full, the Assistant Secretary to the Authority was required to notify the Commissioner of Finance and Administration that the borrower had failed to pay and request the Commissioner to intercept sufficient available state-shared taxes to the borrower. The Commissioner was required to, within three business days, notify the borrower of the failure to pay. If the borrower failed to remit the full amount within 10 days of the notice, the Commissioner was required to notify his accounting staff to withhold the state-shared taxes as may be required to make the Board whole with respect to the unpaid annual financing charges.

Debt under the Qualified School Construction Bond Program is secured by a monthly payment from each borrower. A borrower is a local government unit. In the event a borrower has failed to make a loan repayment in full, the Assistant Secretary to the Authority will notify the Commissioner of Finance and Administration that the borrower has failed to pay and request the Commissioner to intercept sufficient available state-shared taxes to the borrower. The Commissioner will notify the Division of Accounts to withhold the state-shared taxes due and payable to the local government unit starting with the payment due to the local government unit on the 20th day of the current month in the amount of the unpaid loan payment to the Authority. The Division of Accounts will deposit such available state-shared tax, as soon as available, with the representatives of the TSSBA and prior to releasing any remaining funds to the local government unit. The Division of Accounts will continue such monthly deposits to the Authority's account until notified by the Commissioner of Finance and Administration that the local government unit is current on all of its obligations to the TSSBA. The TSSBA will use the proceeds of the state-shared tax intercept to timely fund debt service and sinking fund payments due on the Bond Debt Service Payment Dates and to fully fund the local government unit's portion of the Sinking Fund.

If the Authority should default in the payment of the principal, sinking fund installments, or interest, the bond resolutions contain a provision that the Trustee may proceed (1) by suit, action, or proceeding at law or in equity in any court of competent jurisdiction, enforce all rights of the Bondowners, including the right to require the Authority to enforce the Agreements and collect the Annual Financing Charges and Legislative Appropriations payable thereunder, or to carry out any other covenant or agreement with Bondowners under the Resolution and to perform its duties under the Act, the Agreements, and the Resolution; (2) bring suit upon the Bonds; (3) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the Bonds; (4) by action or suit, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds; or (5) in accordance with the provisions of the Act, declare all Bonds due and payable, and if all defaults shall be made good, then, with the written consent of the Owners of not less than twenty-five per centum (25%) in principal amount of the Outstanding Bonds, to annul such declaration and consequences, but no such annulment shall extend to or effect any subsequent default or impair or exhaust any right or power consequent thereon.

NOTE 6. UNEARNED REVENUE

Changes in unearned revenue for the years ended June 30, 2021, and June 30, 2020, are as follows (expressed in thousands):

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021
Prepaid Interest	$ 2,158	$ 2,173	$ 2,158	$ 2,173
Total unearned revenue	$ 2,158	$ 2,173	$ 2,158	$ 2,173

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020
Prepaid Interest	$ 2,154	$ 2,158	$ 2,154	$ 2,158
Total unearned revenue	$ 2,154	$ 2,158	$ 2,154	$ 2,158

NOTE 7. SUBSEQUENT EVENTS

The September 15, 2021, federal interest subsidy payment for the 2010 QSCBs was reduced by 5.7%, or $293,524, as a part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year, September 30, 2021. On September 24, 2020, the Internal Revenue Service announced that federal subsidy payments will be cut by 5.7% during the 2021–2030 federal fiscal years.

As of December 3, 2021, the Authority has $102,107,265 outstanding in tax-exempt RCF loans and $32,913,425 in taxable RCF loans. Between June 30, 2021, and December 3, 2021, the Authority has drawn $20,000,000 in RCF loans to pay construction expenditures.

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF NET POSITION - PROGRAM LEVEL
JUNE 30, 2021, AND JUNE 30, 2020
(Expressed in Thousands)

	June 30, 2021				June 30, 2020			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
ASSETS								
Current assets:								
Cash	$ 33,582	$ 45	$ 3,125	$ 36,752	$ 94,679	$ 109	$ 2,902	$ 97,690
Cash with fiscal agent	-	-	26	26	-	-	23	23
Restricted cash	-	-	-	-	-	1,393	-	1,393
Restricted investments	-	-	-	-	-	28,570	-	28,570
Fair value of derivatives	-	-	-	-	-	29	-	29
Loans receivable	84,843	-	24,301	109,144	86,345	637	24,300	111,282
Interest receivable	9,996	-	1,104	11,100	12,357	-	1,400	13,757
Federal subsidy receivable	-	-	2,833	2,833	-	-	2,827	2,827
Receivables for administrative fees	177	-	-	177	147	5	-	152
Total current assets	128,598	45	31,389	160,032	193,528	30,743	31,452	255,723
Noncurrent assets:								
Restricted cash	-	-	6,665	6,665	-	-	6,637	6,637
Restricted investments	-	-	273,406	273,406	-	-	258,803	258,803
Loans receivable	1,764,904	-	113,783	1,878,687	1,735,582	-	138,099	1,873,681
Total noncurrent assets	1,764,904	-	393,854	2,158,758	1,735,582	-	403,539	2,139,121
Total assets	1,893,502	45	425,243	2,318,790	1,929,110	30,743	434,991	2,394,844
DEFERRED OUTFLOWS OF RESOURCES								
Deferred outflow - deferred amount on refunding	38,486	-	-	38,486	31,794	-	-	31,794
Total deferred outflows of resources	38,486	-	-	38,486	31,794	-	-	31,794
LIABILITIES								
Current liabilities:								
Accounts payable	162	-	-	162	2,670	-	-	2,670
Accrued liabilities	146	-	2,833	2,979	4	-	2,826	2,830
Accrued interest payable	9,996	-	3,152	13,148	12,427	-	3,152	15,579
Due to local education authorities	-	45	-	45	-	-	-	-
Unearned revenue	-	-	2,173	2,173	-	-	2,158	2,158
Bonds payable	78,960	-	-	78,960	78,055	30,145	-	108,200
Total current liabilities	89,264	45	8,158	97,467	93,156	30,145	8,136	131,437
Noncurrent liabilities:								
Revolving credit facility	115,521	-	-	115,521	74,481	-	-	74,481
Bonds payable	1,725,828	-	389,440	2,115,268	1,790,801	-	389,440	2,180,241
Total noncurrent liabilities	1,841,349	-	389,440	2,230,789	1,865,282	-	389,440	2,254,722
Total liabilities	1,930,613	45	397,598	2,328,256	1,958,438	30,145	397,576	2,386,159
DEFERRED INFLOWS OF RESOURCES								
Deferred inflow - derivatives	-	-	-	-	-	29	-	29
Deferred inflow - deferred amount on refunding	1,313	-	-	1,313	1,158	-	-	1,158
Total deferred inflows of resources	1,313	-	-	1,313	1,158	29	-	1,187
NET POSITION								
Unrestricted	$ 62	$ -	$ 27,645	$ 27,707	$ 1,308	$ 569	$ 37,415	$ 39,292

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF REVENUES,
EXPENSES, AND CHANGES IN NET POSITION - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2021, AND JUNE 30, 2020
(Expressed in Thousands)

	Year ended June 30, 2021				Year ended June 30, 2020			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
OPERATING REVENUES								
Revenue from loans	$ 49,627	$ 4	$ 13,328	$ 62,959	$ 68,946	$ 10	$ 13,328	$ 82,284
Investment earnings (loss)	60	(455)	(6,648)	(7,043)	1,357	245	26,121	27,723
Total operating revenues	49,687	(451)	6,680	55,916	70,303	255	39,449	110,007
OPERATING EXPENSES								
Interest expense-revolving credit facility	581	-	-	581	1,574	-	-	1,574
Interest expense-bonds	48,299	-	12,981	61,280	66,588	-	12,980	79,568
Subsidy to borrowers	37	45	13,049	13,131	1,022	-	13,467	14,489
Administrative expense	2,016	73	128	2,217	2,112	15	96	2,223
Total operating expenses	50,933	118	26,158	77,209	71,296	15	26,543	97,854
Operating income (loss)	(1,246)	(569)	(19,478)	(21,293)	(993)	240	12,906	12,153
NONOPERATING REVENUES								
Federal subsidy on bonds	-	-	9,708	9,708	-	-	9,685	9,685
Total nonoperating revenues	-	-	9,708	9,708	-	-	9,685	9,685
Increase (decrease) in net position	(1,246)	(569)	(9,770)	(11,585)	(993)	240	22,591	21,838
NET POSITION								
Net position, July 1	1,308	569	37,415	39,292	2,301	329	14,824	17,454
Net position, June 30	$ 62	$ -	$ 27,645	$ 27,707	$ 1,308	$ 569	$ 37,415	$ 39,292

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2021, AND JUNE 30, 2020
(Expressed in Thousands)

	Year ended June 30, 2021				Year ended June 30, 2020			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from borrowers for administrative fees	$ 562	$ 7	$ 347	$ 916	$ 498	$ 9	$ 348	$ 855
Payment to suppliers	(863)	(73)	(128)	(1,064)	(796)	(18)	(96)	(910)
Net cash provided by (used for) operating activities	(301)	(66)	219	(148)	(298)	(9)	252	(55)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Proceeds from sale of bonds	14,450	-	-	14,450	247,113	-	-	247,113
Proceeds from the sale of refunding bonds	698,915	-	-	698,915	-	-	-	-
Proceeds from sale of revolving credit facility	45,000	-	-	45,000	50,000	-	-	50,000
Bond interest subsidy from federal government	-	-	9,702	9,702	-	-	9,676	9,676
Bond issuance costs paid	(1,040)	-	-	(1,040)	(1,180)	-	-	(1,180)
Refunding bond proceeds placed in escrow	(697,860)	-	-	(697,860)	-	-	-	-
Principal paid - bonds and revolving credit facility	(82,015)	(30,145)	-	(112,160)	(228,238)	-	-	(228,238)
Interest paid - bonds and revolving credit facility	(59,352)	-	(12,981)	(72,333)	(74,848)	-	(12,981)	(87,829)
Subsidy to borrowers	-	-	(9,702)	(9,702)	-	-	(9,676)	(9,676)
Net cash used for noncapital financing activities	(81,902)	(30,145)	(12,981)	(125,028)	(7,153)	-	(12,981)	(20,134)
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchases of investments	-	(17,510)	(40,816)	(58,326)	-	(55,764)	(24,266)	(80,030)
Proceeds from sales and maturities of investments	-	45,625	16,231	61,856	-	53,346	-	53,346
Interest received on investments	60	511	3,630	4,201	1,357	934	3,794	6,085
Loans issued	(118,793)	-	-	(118,793)	(75,865)	-	-	(75,865)
Collections of loan principal	82,015	1,083	20,986	104,084	81,920	1,447	20,611	103,978
Refund to borrower	-	(955)	-	(955)	-	-	-	-
Interest received on loans	57,824	-	12,985	70,809	72,096	-	12,893	84,989
Net cash provided by (used for) investing activities	21,106	28,754	13,016	62,876	79,508	(37)	13,032	92,503
Net increase (decrease) in cash	(61,097)	(1,457)	254	(62,300)	72,057	(46)	303	72,314
Cash, July 1	94,679	1,502	9,562	105,743	22,622	1,548	9,259	33,429
Cash, June 30	$ 33,582	$ 45	$ 9,816	$ 43,443	$ 94,679	$ 1,502	$ 9,562	$ 105,743
Reconciliation of cash to the Statement of Net Position:								
Cash	$ 33,582	$ 45	$ 3,125	$ 36,752	$ 94,679	$ 109	$ 2,902	$ 97,690
Cash with fiscal agent	-	-	26	26	-	-	23	23
Restricted cash	-	-	6,665	6,665	-	1,393	6,637	8,030
Cash, June 30	$ 33,582	$ 45	$ 9,816	$ 43,443	$ 94,679	$ 1,502	$ 9,562	$ 105,743
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:								
Operating income (loss)	$ (1,246) #	$ (569)	$ (19,478)	$ (21,293)	$ (993) #	$ 240	$ 12,906	$ 12,153
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:								
Investment earnings (loss)	(60)	455	6,648	7,043	(1,357)	(245)	(26,121)	(27,723)
Recognition of administrative earnings through refund reductio	-	(2)	-	(2)	-	-	-	-
Accrual for administrative earnings in prior yea	-	5	-	5	-	-	-	-
Interest expense	48,880	-	12,981	61,861	68,161	-	12,980	81,141
Subsidy to borrowers	38	-	13,048	13,086	1,022	-	13,467	14,489
Bond issuance costs	1,040	-	-	1,040	1,180	-	-	1,180
Interest income from loans	(49,035)	-	(12,980)	(62,015)	(68,387)	-	(12,980)	(81,367)
Changes in assets and liabilities:								
(Increase) decrease in receivables for administrative fees	(30)	-	-	(30)	(61)	-	-	(61)
Increase (decrease) in payables for administrative fees	112	-	-	112	137	(4)	-	133
Increase (decrease) in due to local education authoritie	-	45	-	45	-	-	-	-
Total adjustments	945	503	19,697	21,145	695	(249)	(12,654)	(12,208)
Net cash provided by (used for) operating activities	$ (301)	$ (66)	$ 219	$ (148)	$ (298)	$ (9)	$ 252	$ (55)
Noncash investing activities:								
Increase in fair value of investments	$ -	$ -	$ 15,456	$ 15,456	$ -	$ -	$ 25,504	$ 25,504

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

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

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

We have audited the financial statements of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 3, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

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material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tennessee State School Bond Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Katha J. Stickel

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 3, 2021