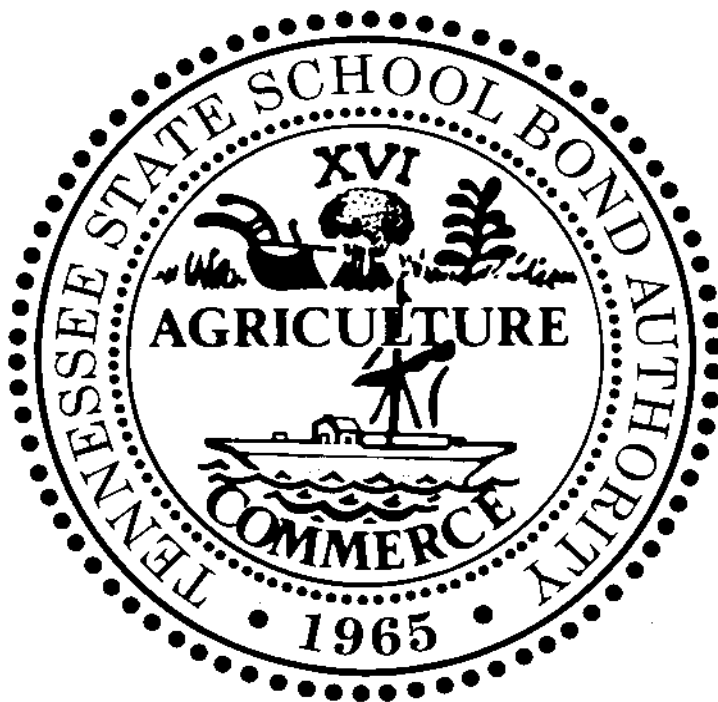


TENNESSEE STATE SCHOOL BOND AUTHORITY

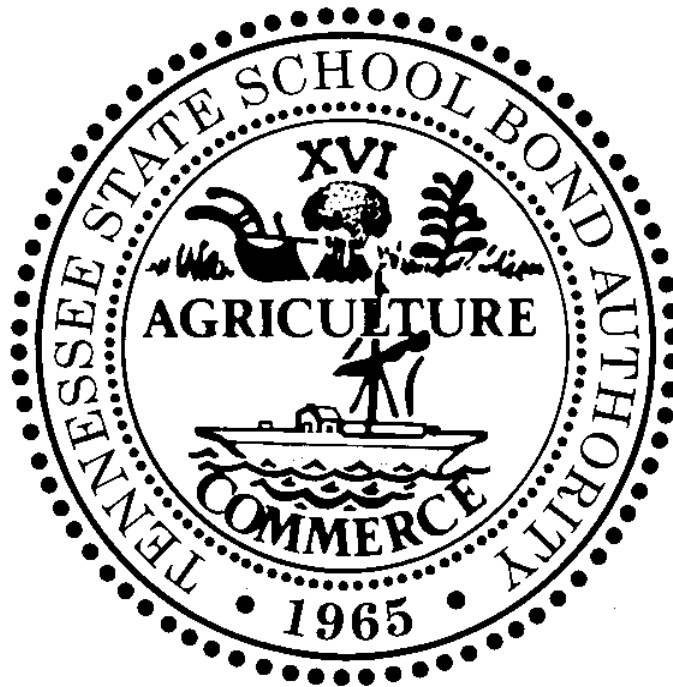
A Component Unit of the State of Tennessee



*Comprehensive Annual Financial Report
For the Year Ended June 30, 2002*

Tennessee State School Bond Authority Comprehensive Annual Financial Report For the Year Ended June 30, 2002

DON SUNDQUIST, 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, 2002**

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INTRODUCTORY SECTION



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 Don Sundquist, Chairman

John G. Morgan, Secretary

December 13, 2002

The Honorable Don Sundquist, 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, 2002. 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.

BUSINESS ENVIRONMENT

Legal Authority

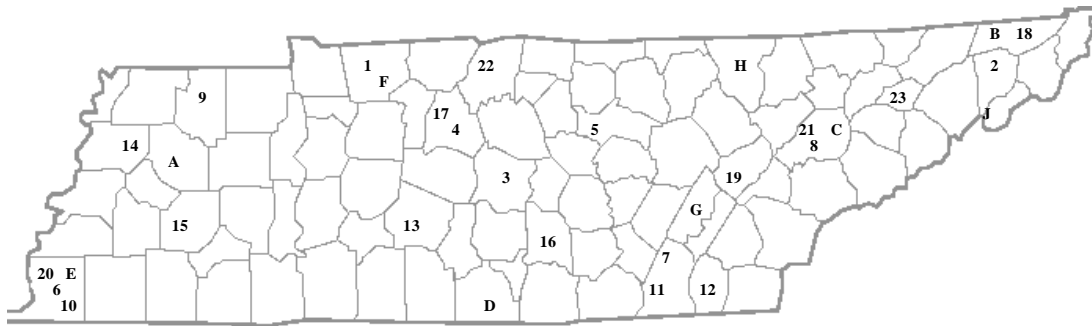
The Tennessee State School Bond Authority, created in 1965, is a corporate governmental agency and instrumentality of the state of Tennessee whose purpose is to finance capital projects for state institutions of higher education located in Tennessee and to finance projects approved pursuant to the Qualified 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, 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 with the same purpose. At that time, the 1967 Resolution was closed, and all bonds are now issued pursuant to the Second Program Resolution. Projects financed by the Authority must be revenue producing. The fee charged for use 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. 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 empowered 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 First Program or Second Program Higher Education Facilities Bond Resolutions. 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.

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 Humboldt City Schools | F Montgomery County Schools |
| B Kingsport City Schools | G Rhea County Schools |
| C Knox County Schools | H Scott County Schools |
| D Lincoln County Schools | J Unicoi County Schools |
| E Memphis 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 division, 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 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 public institutions of higher education has increased 7.9% over the past ten years. The number of graduates produced by public and private high schools in Tennessee is expected to remain fairly constant through 2006, but then is expected to grow over the next four years by about 4,000 graduates. Furthermore, the citizens of Tennessee, in the November 2002 General Election, approved an amendment to the state constitution that enabled the Legislature to enact legislation creating a lottery, the proceeds of which are to be used to fund higher education scholarships to worthy students. It is estimated that once the lottery is in place, another 4,000 Tennessee students will apply to attend public institutions of higher education in Tennessee. This growing demand guarantees that the system can 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 the demand for improvements to existing schools and for technology upgrades total over \$1.7 billion in the next five years. The State has been allocated in 2002 and 2003 a total of approximately \$18 million of QZABs to aid in funding of this demand. These bonds carry a general obligation pledge of the local community. 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, and 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 4 - 6 in the Management 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 Investment Pool. 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. Investments of moneys held in the debt service reserve fund are held by the trustee. Investments are classified by custodial risk 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.

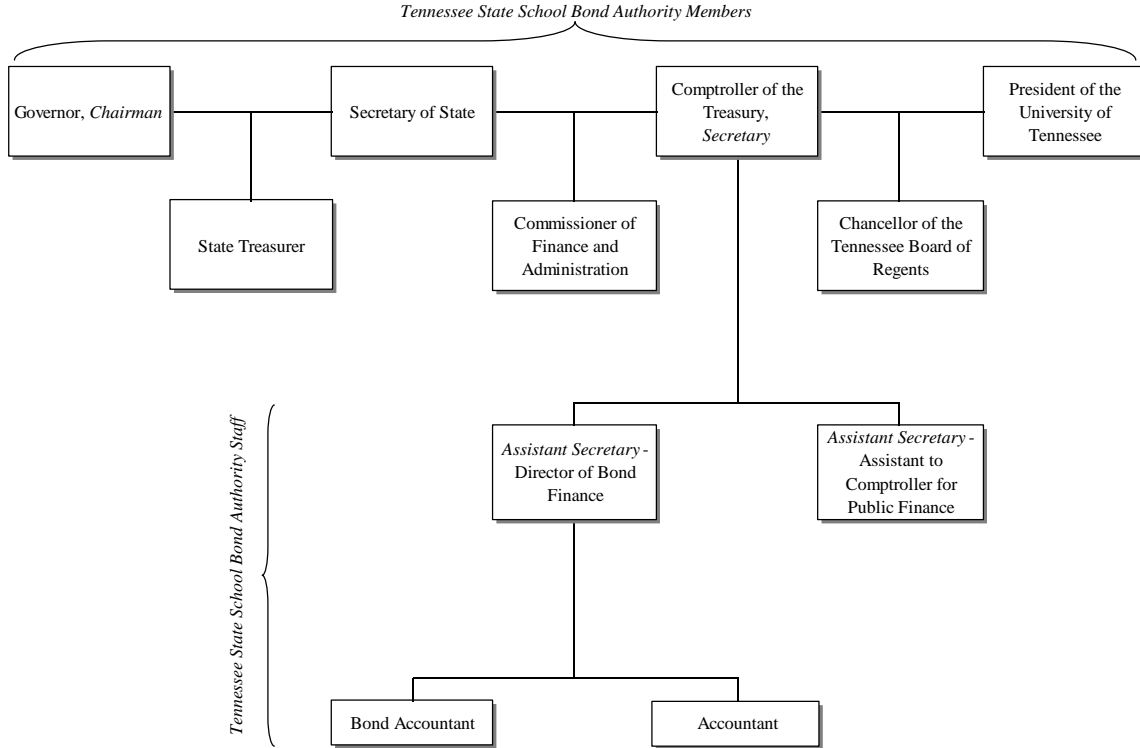
Independent Audit. T.C.A. § 4-3-304 requires that the department of audit performs currently a post-audit of all accounts and other financial records of the state government, and any department, institution, office or agency thereof in accordance with generally accepted auditing standards and in accordance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

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

Don Sundquist, Governor, *Chairman*

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

Riley C. Darnell, Secretary of State

Steve Adams, State Treasurer

C. Warren Neel, Commissioner of Finance and Administration

Dr. John Shumaker, 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*

FINANCIAL SECTION

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, 2002. These activities are compared to the results of the fiscal year ended June 30, 2001, in the financial statements. 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 - iv of this report.

Program Activity Highlights

The Authority’s purpose is to provide loans to the State’s higher education institutions and to local education agencies for the Qualified Zone Academy Bonds (“QZABs”). The table below summarizes this business activity.

	Higher Education Facilities Programs		Qualified Zone Academy Bond Program	
	2002	2001	2002	2001
Number of institutions with outstanding loans	12	11	9	7
Total number of outstanding loans	192	173	10	7
Total amount of outstanding loans	\$ 416,263,828	\$ 382,606,144	\$ 9,484,761	\$ 5,271,900
Number of loans approved in fiscal year	10	22	3	-
Amount of loans approved in fiscal year	\$ 56,815,000	\$ 53,065,000	\$ 11,330,000	\$ -
Amount of loans approved in fiscal year - unfunded	\$ 55,358,652	\$ 42,394,842	\$ 10,588,577	\$ -
Amount of loans paid in fiscal year	\$ 56,609,920	\$ 54,943,486	\$ 4,646,695	\$ 6,444,406
Amount of bonds issued in fiscal year	\$ 119,135,000	\$ 104,410,000	\$ 11,330,000	\$ -
Amount of commercial paper issued in fiscal year	\$ 33,100,000	\$ 45,050,000	\$ -	\$ -

The financial statements and the analysis provided in the remainder of this report reflect the financial results of this activity. For more specific financial information on long-term debt activity, see Note 5, Debt Payable on pages 18 - 25 of the Notes to the Financial Statements.

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.

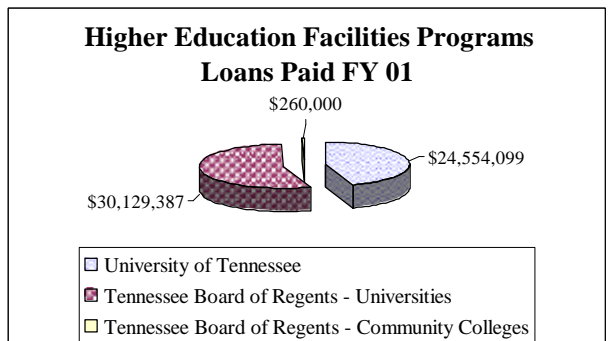
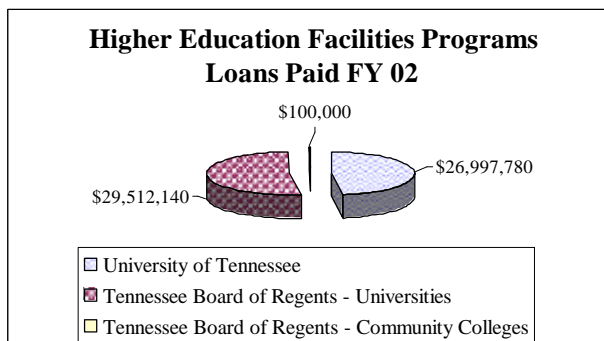
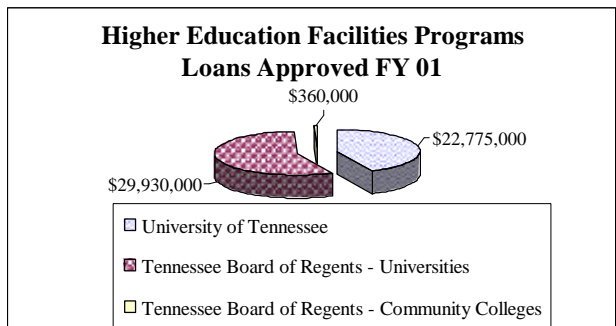
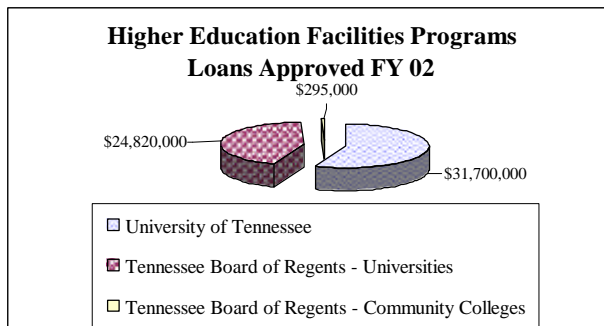
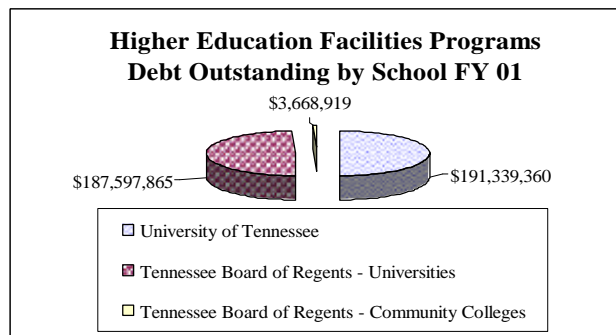
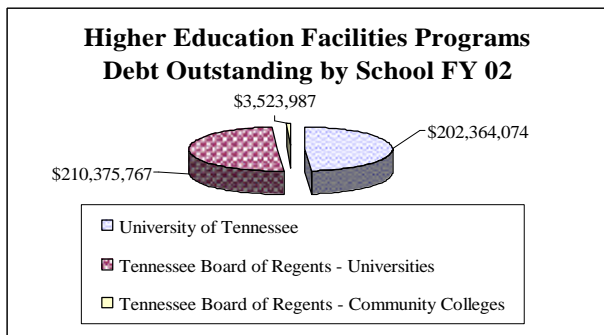
Higher Education Facilities Programs. A financial analysis of each loan is undertaken before it is approved by the Authority. Each higher education system must include in its annual budget sufficient funds to repay total debt service. This pledge is a gross revenue pledge of the institution and its system. 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.

Under the financing program for higher education institutions, a project is generally funded through the Authority 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. During the fiscal year 2002, commercial paper interest rates ranged from 1.2% to 3.0%. These rates were a function of the term of the commercial paper and a volatile capital market.

Liquidity for the commercial paper program is provided by an Advance Agreement with Westdeutsche Landesbank. The commitment fee is .195% paid quarterly in arrears. The Agreement expires on March 7, 2005. 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.

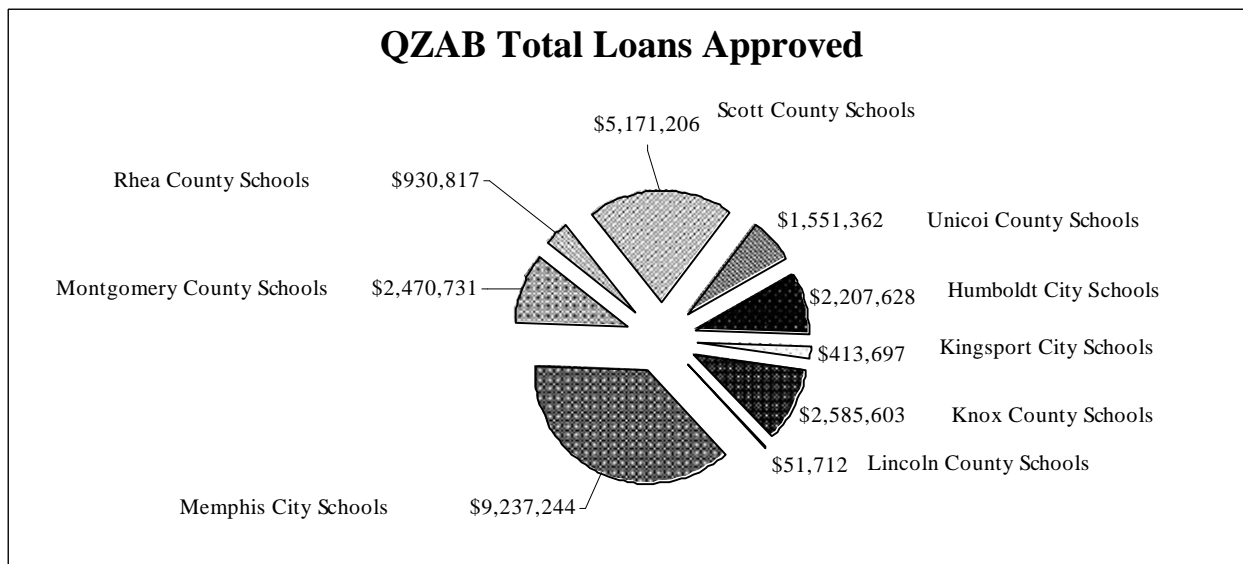
Interest rates on the higher educational facilities long-term fixed-rate bonds range from a low of 3.0% to a high of 7.75%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency were achieved. The creditworthiness 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 throughout the state. Additional benefits accrue to the higher education institutions and the two systems by having one point of debt issuance and administration for the entire state rather than multiple administrative offices.



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. Standard & Poor's also 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. Moody's downgraded the Authority during the fiscal year to reflect the revision of the State's Aa2 general obligation bond rating. Moody's commented that the downgrade is largely due to the weakening of the State's credit fundamentals, with state funding serving as a significant source of operating support to Tennessee's higher education institutions.

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 school's renovation and equipment purchases projects. 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 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. Under the economic resources measurement focus, a reader is presented information that allows him 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 comprise two components: 1) the basic financial statements and 2) notes to the financial statements. The basic financial statements are comprised of three separate and distinct statements.

The Statements of Net Assets found on page 9 depict the Authority's financial position at June 30, 2002, and June 30, 2001. The Statements of Revenues, Expenses and Changes in Net Assets found on page 10 show the results of operations and the change in net assets for the years presented. The Statements of Cash Flows found on pages 11 - 12 summarizes 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 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 at competitive sale, five syndicates placed bids. There were no incidents requiring the Authority to draw from the debt service reserve fund or refuse a loan from an applicant due the inability to obtain capital funding.

Statements of Net Assets Summary			
(in thousands)			
	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Current assets	\$ 83,019	\$ 51,296	61.84%
Noncurrent assets	<u>421,518</u>	<u>386,183</u>	9.15%
Total assets	<u>504,537</u>	<u>437,479</u>	15.33%
Current liabilities	27,032	23,823	13.47%
Noncurrent liabilities	<u>469,554</u>	<u>405,629</u>	15.76%
Total liabilities	<u>496,586</u>	<u>429,452</u>	15.63%
Net assets (unrestricted)	<u>\$ 7,951</u>	<u>\$ 8,027</u>	-0.95%
<i>Note: The Authority owns no capital assets.</i>			

Current assets include cash of approximately \$46,292,000 of unexpended bond proceeds and commercial paper at June 30, 2002 that will fund approved loans, as compared to approximately \$18,584,000 in the fiscal year 2001. During the year ended June 30, 2002, the Authority issued \$119,135,000 in Higher Education Facilities Second Program Bonds and \$11,300,000 in Qualified Zone Academy Bonds. Principal payments were made on the long-term bonds in the amount of \$20,218,000. The Authority also issued \$33,100,000 in new commercial paper and redeemed \$79,620,000 of commercial paper with the proceeds of the long-term debt and payments made by the higher education institutions.

The net assets are available to fund operations and other expenses necessary to meet the goals of the Authority. During the year ended June 30, 2002, the Authority elected to reduce net assets by absorbing certain administrative costs associated with bonded indebtedness of the higher education facilities program rather than passing those costs to the borrowers of the higher education facilities program.

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

	<u>2002</u>	<u>2001</u>	<u>% Change</u>
Operating Revenues			
Revenue from loans	\$ 21,553	\$ 21,712	-0.73%
Investment earnings	<u>1,056</u>	<u>2,624</u>	-59.76%
Total operating revenue	<u>22,609</u>	<u>24,336</u>	-7.10%
Operating Expenses			
Interest expense	21,165	20,605	2.72%
Subsidy to borrowers	811	1,655	-51.00%
Other expenses	<u>709</u>	<u>779</u>	-8.99%
Total expenses	<u>22,685</u>	<u>23,039</u>	-1.54%
Operating income (loss) and change in net assets	<u>\$ (76)</u>	<u>\$ 1,297</u>	-105.86%
<i>Note: The Authority has no non-operating revenues or expenses.</i>			

The Authority's operating expenses are supported by revenue from loans in the form of administrative fees, interest on loans and investment income earned on cash and cash equivalents. Operating expenses include interest expense on outstanding bonds and commercial paper, administrative expenses, and the amortization of bond costs of issuance. The Authority returns 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, 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.

The decrease in the operating income and change in net assets was most affected by a decrease in investment earnings. The investment earnings are a function of prevailing market interest rates and the daily invested balance. During the year ended June 30, 2002, the capital markets were affected by a declining economy and the economic effect of the terrorist actions. As a result, the average interest rate on investments was significantly less in fiscal year 2002 than in fiscal year 2001.

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 or visit our website at www.comptroller.state.tn.us/cpdivbf.htm.

BASIC FINANCIAL STATEMENTS

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2002, AND JUNE 30, 2001

(Expressed in Thousands)

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
ASSETS		
Current assets:		
Cash (Note 2)	\$ 55,224	\$ 27,535
Cash with fiscal agent (Note 2)	37	21
Investments with fiscal agent (Note 2)	-	34
Loans receivable (Note 3)	23,693	20,513
Interest receivable (Note 3)	3,722	3,002
Receivables for administrative fees (Note 3)	343	191
Total current assets	83,019	51,296
Noncurrent assets:		
Restricted cash (Notes 2 and 4)	1,749	870
Restricted investments (Notes 2 and 4)	13,699	15,233
Loans receivable (Note 3)	402,056	367,365
Deferred charges	4,014	2,715
Total noncurrent assets	421,518	386,183
Total assets	504,537	437,479
LIABILITIES		
Current liabilities:		
Accrued liabilities	-	26
Accrued interest payable	3,866	3,136
Deferred revenue (Note 6)	794	591
Bonds payable (Note 5)	22,372	20,070
Total current liabilities	27,032	23,823
Noncurrent liabilities:		
Net deferred revenue (Note 6)	7,033	6,197
Commercial paper payable (Note 5)	13,757	60,277
Net bonds payable (Note 5)	448,764	339,155
Total noncurrent liabilities	469,554	405,629
Total liabilities	496,586	429,452
NET ASSETS		
Unrestricted	\$ 7,951	\$ 8,027

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, 2002, AND JUNE 30, 2001**

(Expressed in Thousands)

	<u>Year Ended June 30, 2002</u>	<u>Year Ended June 30, 2001</u>
OPERATING REVENUES		
Revenue from loans	\$ 21,553	\$ 21,712
Investment earnings	<u>1,056</u>	<u>2,624</u>
Total operating revenues	<u>22,609</u>	<u>24,336</u>
OPERATING EXPENSES		
Interest expense-commercial paper	1,177	3,365
Interest expense-bonds	19,988	17,240
Subsidy to borrowers	811	1,655
Administrative expense	545	644
Amortization of bond issuance costs	<u>164</u>	<u>135</u>
Total operating expenses	<u>22,685</u>	<u>23,039</u>
Operating income and change in net assets	(76)	1,297
Net assets, July 1	<u>8,027</u>	<u>6,730</u>
Net assets, June 30	<u><u>\$ 7,951</u></u>	<u><u>\$ 8,027</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, 2002, AND JUNE 30, 2001

(Expressed in Thousands)

	<u>Year Ended</u> <u>June 30, 2002</u>	<u>Year Ended</u> <u>June 30, 2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from borrowers for administrative fees	\$ 193	\$ 328
Payment to suppliers	(572)	(618)
Receipts from borrowers to the interest rate reserve fund	176	255
Payments to borrowers from the interest rate reserve fund	<u>(29)</u>	<u>(451)</u>
Net cash used in operating activities	<u>(232)</u>	<u>(486)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from sale of bonds	129,672	104,118
Proceeds from sale of commercial paper	33,100	45,050
Bond issuance costs paid	(324)	(316)
Principal paid - bonds and commercial paper	(99,838)	(105,534)
Interest paid - bonds and commercial paper	(19,117)	(19,201)
Subsidy to borrowers	<u>(953)</u>	<u>(1,690)</u>
Net cash provided by noncapital financing activities	<u>42,540</u>	<u>22,427</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(30,921)	(68,692)
Proceeds from sales and maturities of investments	32,915	69,195
Interest received on investments	621	1,597
Loans issued	(61,257)	(61,388)
Collections of loan principal	25,881	19,606
Interest received on loans	<u>19,037</u>	<u>19,442</u>
Net cash used in investing activities	<u>(13,724)</u>	<u>(20,240)</u>
Net increase in cash	28,584	1,701
Cash, July 1	<u>28,426</u>	<u>26,725</u>
Cash, June 30	\$ <u><u>57,010</u></u>	\$ <u><u>28,426</u></u>
Reconciliation of cash to the balance sheet:		
Cash	\$ 55,224	\$ 27,535
Cash with fiscal agent	37	21
Cash - restricted	<u>1,749</u>	<u>870</u>
Cash, June 30	\$ <u><u>57,010</u></u>	\$ <u><u>28,426</u></u>

(Continued on next page)

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TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2002, AND JUNE 30, 2001

(Expressed in Thousands)

	Year Ended June 30, 2002	Year Ended June 30, 2001
Reconciliation of operating income (loss) to net cash used in operating activities:		
Operating income	\$ (76)	\$ 1,297
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Amortization of bond issuance costs	164	135
Investment income	(1,056)	(2,624)
Interest expense	21,165	20,605
Subsidy to borrowers	811	1,655
Interest income from loans	(21,221)	(21,466)
Changes in assets and liabilities:		
(Increase) decrease in receivable from borrowers	(152)	82
Increase (decrease) in accounts payable	(26)	26
Increase (decrease) in deferred revenue	159	(196)
Total adjustments	(156)	(1,783)
Net cash used in operating activities	\$ (232)	\$ (486)
Noncash financing activities:		
Accretion of capital appreciation bonds	\$ 1,233	\$ 1,329
Bond issuance costs	792	776
Total noncash financing activities	\$ 2,025	\$ 2,105
Noncash Investing activities:		
Net appreciation in value of investments reported at fair value	\$ 53	\$ 95

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, 2002, and June 30, 2001

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 Tax Payer 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. The Tennessee State School Bond Authority follows all applicable GASB pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989.

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 through the issuance of revenue bonds or notes. 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.

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

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. **Deferred Revenue.** When the Authority issues bonds to finance capital projects, the par amount of the bonds is adjusted by certain amounts (such as bond discount/premium, underwriters' fees, and other costs of issuance) in order to arrive at the amount of bond proceeds available for capital expenditures. These amounts, discussed above, are capitalized and amortized pursuant to 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 balance sheet as deferred revenue and amortized on a straight-line basis over the life of the related bond.

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

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 balance sheet as deferred revenue and is not amortized.

New accounting pronouncement

Effective July 1, 2001, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. To conform to the requirements of GASB 34, the following changes have been made to the Authority’s financial statements:

- A. Retained Earnings have been reclassified into the following categories of Net Assets - invested in capital assets, net of related debt; restricted; and unrestricted. (The Authority has no net assets invested in capital assets or restricted net assets.)
- B. The statement of financial position is now presented in a statement of net assets format rather than a balance sheet format.
- C. Management’s Discussion and Analysis has been added as required supplementary information.

Reclassification

Commercial paper payable and deferred revenue are deemed to be noncurrent and are reported as a noncurrent liability. The prior year amounts, exclusive of the current portion, have been reclassified to a noncurrent liability.

NOTE 2. DEPOSITS AND INVESTMENTS

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

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

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 custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2002, and June 30, 2001.

The Tennessee State School Bond Authority also has cash on deposit with the fiscal agent. Until December 10, 2000, these deposits were held in a financial institution which participated in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts were pledged in the aggregate rather than against each individual account. The members of the pool could be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment, public fund accounts covered by the pool were considered to be insured for purposes of credit risk disclosure. After December 10, 2000, these deposits were in financial institutions that do not participate in the bank collateral pool. All bank balances were Federal Deposit Insurance Corporation ("FDIC") insured, except during the week of April 25, through April 30, 2002, of which certain funds held by the bond trustee were not insured or collateralized. The amounts not collateralized ranged from \$1,975,734 to \$17,573,978 during this period.

Investments

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

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

Authority investments at June 30, 2002, are categorized below (expressed in thousands):

	Category		
	1	2	3
Federal Home Loan Bank Notes	\$ 711	\$ -	\$ -
Federal Home Loan Bank Discount Notes	<u>12,988</u>	-	-
Total investments	<u>\$ 13,699</u>	<u>\$ -</u>	<u>\$ -</u>

Authority investments at June 30, 2001, are categorized below (expressed in thousands):

	Category		
	1	2	3
Federal Home Loan Bank Notes	\$ 719	\$ -	\$ -
Federal Home Loan Bank Discount Notes	<u>14,548</u>	-	-
Total investments	<u>\$ 15,267</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3. LOANS RECEIVABLE

Higher Education Facilities Programs

The Authority has entered into a financing agreement 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). Each agreement is dated November 1, 1997, as amended. 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 service of the bonds of the Authority and the costs of administering the programs.

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

Qualified Zone Academy Bonds Program

The Authority has entered into a financing agreement with the local education agencies. The agreements for the 1999 QZAB's are dated November 30, 1999 and December 18, 2001 for the 2001 QZAB's. Under the agreement, the Authority agrees to finance construction projects for the local education agencies. On the annual date of the agreement, the borrower makes a 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 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.

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, D, 2000 Series A and B, and 2002 Series A Bonds.

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

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

Appropriations, and other moneys and securities held or set aside under the Resolutions.

- B. Commercial Paper. The 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 not general obligations of the State of Tennessee and are secured by the general obligation pledge of the local jurisdiction and the state-shared taxes of the local jurisdiction.

Changes in debt payable for the year ended June 30, 2002 and 2001 are as follows (expressed in thousands):

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Commercial paper	\$60,277	\$33,100	\$79,620	\$13,757
Bonds payable	\$362,217	\$131,697	\$20,218	\$473,696
Less: unamortized bond discount/premium	(403)	347	68	(124)
Less: unamortized deferred amount on refundings	(2,589)	-	(153)	(2,436)
Total bonds payable	\$359,225	\$132,044	\$20,133	\$471,136

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Commercial paper	\$102,700	\$45,050	\$87,473	\$60,277
Bonds payable	\$274,539	\$105,739	\$18,061	\$362,217
Less: unamortized bond discount/premium	17	(352)	68	(403)
Less: unamortized deferred amount on refundings	(2,742)	-	(153)	(2,589)
Total bonds payable	\$271,814	\$105,387	\$17,976	\$359,225

Additions to bonds payable includes accretion of interest in the amount of \$1,232 in 2002 and \$1,329 in 2001.

Bonds and commercial paper payable at June 30, 2002, and June 30, 2001, are as follows (expressed in thousands):

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Bonds Payable:		
1967 Series A at an interest rate of 4.10% maturing to 2007 (original par - \$43,800)	\$ 4,230	\$ 6,030
1976 Series B at an interest rate of 3.0% maturing to 2011 (original par - \$6,037)	1,842	2,070
1987 Refunding Series A at an interest rate of 4% maturing in 2012 (original par - \$70,686)	1,170	1,170
1989 Current Interest Bonds at an interest rate of 7% maturing in 2020 (original par - \$15,630) and 1989 College Saver Bonds with yields of 6.75% to 6.9% maturing to 2010 (at accreted value); (original principal - \$21,935)	16,684	18,212

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
1996 Series A at interest rates from 5.0% to 6.0% maturing to 2026 (original par - \$102,710)	73,855	76,415
1996 Refunding Series B at interest rates from 5.0% to 6.0% maturing to 2011 (original par - \$55,300)	10,330	11,610
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)	51,140	52,435
1998 Series B (Taxable) at interest rates from 5.80% to 6.70% maturing to 2028 (original par - \$15,460)	14,825	15,080
1998 Refunding Series C at interest rates from 4.20% to 5.00% maturing to 2014 (original par - \$48,735)	25,800	31,120
1998 Refunding Series D at interest rates from 3.90% to 4.85% maturing to 2021 (original par - \$33,540)	25,765	27,350
2000 Series A at interest rates from 4.60% to 5.625% maturing to 2030 (original par - \$70,680)	68,420	69,930
2000 Series B at interest rates from 6.50% to 7.75% maturing to 2020 (original par - \$33,730)	31,835	33,460
2002 Series A at interest rates from 4.00% to 5.25% maturing to 2032 (original par - \$119,135)	119,135	-

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Qualified Zone Academy Bonds non-interest bearing maturing in 2011 (original par - \$13,290)	13,290	13,290
Qualified Zone Academy Bonds non-interest bearing maturing in 2015 (original par - \$11,330)	11,330	-
	<hr/>	<hr/>
Total Par Amount of Bonds Payable	473,696	362,217
Plus Unamortized Premium/Less Unamortized Discount	<u>(124)</u>	<u>(403)</u>
Bonds Payable Net of Unamortized Premium/Discount	473,572	361,814
Less: Deferred Amount on Refundings	<u>(2,436)</u>	<u>(2,589)</u>
Net Bonds Payable	<u>\$ 471,136</u>	<u>\$ 359,225</u>
Commercial paper, at varied interest rates from 1.45 % to 1.50 %	<u>\$ 13,757</u>	<u>\$ 60,277</u>

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

Debt service requirements to maturity of the bonds payable at June 30, 2002, are as follows:

For the Year(s) <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 20,985	\$ 24,631	\$ 45,616
2004	22,105	23,529	45,634
2005	19,760	22,545	42,305
2006	17,811	21,668	39,479
2007	18,048	20,905	38,953
2008-2012	103,765	87,663	191,428
2013-2017	89,228	59,521	148,749
2018-2022	71,964	38,841	110,805
2023-2027	62,135	20,557	82,692
2028-2032	<u>38,271</u>	<u>5,474</u>	<u>43,745</u>
Total	<u>\$ 464,072</u>	<u>\$ 325,334</u>	<u>\$ 789,406</u>

The above principal for bonds is less than that presented on the accompanying financial statements by \$7.064 million. Of this amount, \$9.500 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 (2003-2010) in which the bonds mature. The \$7.064 million also includes \$2.436 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, 2002, the Authority did not have a liability for arbitrage. At June 30, 2001, the Authority had an accrued liability for arbitrage in the amount of \$25,775.

On December 18, 2001, the Authority issued \$11,330,000 of Qualified Zone Academy Bonds (QZABs) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The bonds are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

is given to investors in lieu of interest on the bonds. On each December 18, the 2001 QZAB borrowers make annual principal payment into a bond fund held by the State Treasurer to pay the bonds at maturity on December 18, 2015.

On November 1, 2000, the Authority issued two series of bonds. The 2000 Series A tax-exempt bonds in the amount of \$70,680,000 were issued to redeem \$67,500,000 of the Authority's tax-exempt commercial paper, and the 2000 Series B taxable bonds in the amount of \$33,730,000 were issued to redeem \$19,400,000 of the Authority's taxable commercial paper. The balance of the proceeds was used to pay for new construction projects and various costs of issuance.

On April 18, 2002, the Authority issued a new series of bonds. The 2002 Series A tax-exempt bonds in the amount of \$119,135,000 were issued to redeem \$73,420,000 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, 2002, \$77,615,000 of bonds outstanding are considered defeased.

Commercial Paper Program

The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The 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 & Co. At June 30, 2002, \$13,757,000 of tax-exempt commercial paper was outstanding. At June 30, 2001, \$60,277,000 of tax-exempt 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 on commercial paper is at varied rates, ranging from 1.2% to 3.0% during the fiscal year. Interest is payable upon maturity.

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

The commercial paper liquidity provider, under an Advance Agreement, is Westdeutsche Landesbank Girozentrale, New York branch and expires March 7, 2005. The total available commitment is \$152,250,000. The obligation of Westdeutsche Landesbank Girozentrale 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. DEFERRED REVENUE

Deferred revenue at June 30, 2002, and June 30, 2001, is as follows (expressed in thousands):

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Interest Rate Reserve Fund (see Note 7)	\$ 393	\$ 244
Difference in bond proceeds available for capital expenditure and the par value of bonds to be repaid-adjustments for discount/premium, underwriters' fees, and other costs of issuance:		
1996 Series A bonds; amortized through 2026	563	587
1996 Series B bonds; amortized through 2011	405	450
1996 Series C bonds, which was a cross-over refunding of the 1989 Current Interest Bonds; amortized through 2020	140	148
1998 Series A bonds; amortized through 2028	598	621
1998 Series B bonds; amortized through 2028	194	202
1998 Series C bonds; amortized through 2014	231	251
1998 Series D bonds, which was an advance		

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2002, and June 30, 2001

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
refunding of the 1992 Series A bonds; amortized through 2021	2,638	2,778
1999 Qualified Zone Academy Bonds; amortized through 2012	345	382
2000 Series A bonds; amortized through 2030	871	902
2000 Series B bonds; amortized through 2020	211	223
2002 Qualified Zone Academy Bonds; amortized through 2015	284	0
2002 Series A bonds; amortized through 2032	954	0
Total	\$ 7,827	\$ 6,788

NOTE 7. SUBSEQUENT EVENTS

As a result of the issuance of the 2002 series A bonds, and the refunding of the commercial paper principal from the issuance, the Authority refunded back to the higher education institutions \$336,519 from the interest rate reserve fund on the November semiannual billing.

On December 13, 2002, the Authority had outstanding \$24,807,000 in tax-exempt commercial paper and \$2,300,000 in taxable commercial paper. Between June 30, 2002, and December 13, 2002, the Authority has issued \$15,300,000 in commercial paper to pay construction expenditures.

SUPPLEMENTARY SCHEDULES

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF NET ASSETS - PROGRAM LEVEL
JUNE 30, 2002, AND JUNE 30, 2001

(Expressed in Thousands)

	June 30, 2002			June 30, 2001		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
ASSETS						
Current assets:						
Cash	\$ 42,522	\$ 12,702	\$ 55,224	\$ 21,095	\$ 6,440	\$ 27,535
Cash with fiscal agent	37	-	37	21	-	21
Investments with fiscal agent	-	-	-	34	-	34
Loans receivable	22,372	1,321	23,693	20,069	444	20,513
Interest receivable	3,716	6	3,722	2,996	6	3,002
Receivables for administrative fees	341	2	343	188	3	191
Total current assets	<u>68,988</u>	<u>14,031</u>	<u>83,019</u>	<u>44,403</u>	<u>6,893</u>	<u>51,296</u>
Noncurrent assets:						
Restricted cash	-	1,749	1,749	-	870	870
Restricted investments	12,987	712	13,699	14,514	719	15,233
Loans receivable	393,892	8,164	402,056	362,537	4,828	367,365
Deferred charges	3,531	483	4,014	2,460	255	2,715
Total noncurrent assets	<u>410,410</u>	<u>11,108</u>	<u>421,518</u>	<u>379,511</u>	<u>6,672</u>	<u>386,183</u>
Total assets	<u>479,398</u>	<u>25,139</u>	<u>504,537</u>	<u>423,914</u>	<u>13,565</u>	<u>437,479</u>
LIABILITIES						
Current liabilities:						
Accrued liabilities	-	-	-	26	-	26
Accrued interest payable	3,866	-	3,866	3,136	-	3,136
Deferred revenue	736	58	794	554	37	591
Bonds payable	22,372	-	22,372	20,070	-	20,070
Total current liabilities	<u>26,974</u>	<u>58</u>	<u>27,032</u>	<u>23,786</u>	<u>37</u>	<u>23,823</u>
Noncurrent liabilities:						
Net deferred revenue	6,462	571	7,033	5,852	345	6,197
Commercial paper payable	13,757	-	13,757	60,277	-	60,277
Net bonds payable	424,248	24,516	448,764	325,980	13,175	339,155
Total noncurrent liabilities	<u>444,467</u>	<u>25,087</u>	<u>469,554</u>	<u>392,109</u>	<u>13,520</u>	<u>405,629</u>
Total liabilities	<u>471,441</u>	<u>25,145</u>	<u>496,586</u>	<u>415,895</u>	<u>13,557</u>	<u>429,452</u>
NET ASSETS						
Unrestricted	<u>\$ 7,957</u>	<u>\$ (6)</u>	<u>\$ 7,951</u>	<u>\$ 8,019</u>	<u>\$ 8</u>	<u>\$ 8,027</u>

**TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2002, AND JUNE 30, 2001**

(Expressed in Thousands)

	Year ended June 30, 2002			Year ended June 30, 2001		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
OPERATING REVENUES						
Revenue from loans	\$ 21,500	\$ 53	\$ 21,553	\$ 21,673	\$ 39	\$ 21,712
Investment earnings	1,054	2	1,056	2,623	1	2,624
Total operating revenues	<u>22,554</u>	<u>55</u>	<u>22,609</u>	<u>24,296</u>	<u>40</u>	<u>24,336</u>
OPERATING EXPENSES						
Interest expense-commercial paper	1,177	-	1,177	3,365	-	3,365
Interest expense-bonds	19,977	11	19,988	17,229	11	17,240
Subsidy to borrowers	809	2	811	1,654	1	1,655
Administrative expense	524	21	545	644	-	644
Amortization of bond issuance costs	129	35	164	110	25	135
Total operating expenses	<u>22,616</u>	<u>69</u>	<u>22,685</u>	<u>23,002</u>	<u>37</u>	<u>23,039</u>
Operating income (loss) and change in net assets	(62)	(14)	(76)	1,294	3	1,297
Net assets, July 1	<u>8,019</u>	<u>8</u>	<u>8,027</u>	<u>6,725</u>	<u>5</u>	<u>6,730</u>
Net assets, June 30	<u>\$ 7,957</u>	<u>\$ (6)</u>	<u>\$ 7,951</u>	<u>\$ 8,019</u>	<u>\$ 8</u>	<u>\$ 8,027</u>

**TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2002, AND JUNE 30, 2001**

(Expressed in Thousands)

	Year ended June 30, 2002			Year ended June 30, 2001		
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from borrowers for administrative fees	\$ 188	\$ 5	\$ 193	\$ 328	\$ -	\$ 328
Payment to service providers	(550)	(22)	(572)	(617)	(1)	(618)
Receipts from borrowers to the interest rate reserve fund	176	-	176	255	-	255
Payments to borrowers from interest rate reserve fund	(29)	-	(29)	(451)	-	(451)
Net cash used in operating activities	(215)	(17)	(232)	(485)	(1)	(486)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from sale of bonds	118,540	11,132	129,672	104,118	-	104,118
Proceeds from sale of commercial paper	33,100	-	33,100	45,050	-	45,050
Bond issuance costs paid	(260)	(64)	(324)	(316)	-	(316)
Principal payments - bonds and commercial paper	(99,838)	-	(99,838)	(105,534)	-	(105,534)
Interest paid - bonds and commercial paper	(19,117)	-	(19,117)	(19,201)	-	(19,201)
Subsidy to borrowers	(951)	(2)	(953)	(1,689)	(1)	(1,690)
Net cash provided by (used in) noncapital financing activities	31,474	11,066	42,540	22,428	(1)	22,427
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of investments	(30,921)	-	(30,921)	(67,989)	(703)	(68,692)
Proceeds from sales and maturities of investments	32,915	-	32,915	69,195	-	69,195
Interest received on investments	619	2	621	1,596	1	1,597
Loans issued	(56,610)	(4,647)	(61,257)	(54,944)	(6,444)	(61,388)
Collections of loan principal	25,144	737	25,881	18,461	1,145	19,606
Interest received on loans	19,037	-	19,037	19,442	-	19,442
Net cash used in investing activities	(9,816)	(3,908)	(13,724)	(14,239)	(6,001)	(20,240)
Net increase (decrease) in cash	21,443	7,141	28,584	7,704	(6,003)	1,701
Cash, July 1	21,117	7,309	28,426	13,413	13,312	26,725
Cash, June 30	\$ 42,560	\$ 14,450	\$ 57,010	\$ 21,117	\$ 7,309	\$ 28,426
Reconciliation of cash to the balance sheet:						
Cash	\$ 42,522	\$ 12,702	\$ 55,224	\$ 21,095	\$ 6,440	\$ 27,535
Cash with fiscal agent	37	-	37	21	-	21
Restricted cash	-	1,749	1,749	-	870	870
Cash, June 30	\$ 42,559	\$ 14,451	\$ 57,010	\$ 21,116	\$ 7,310	\$ 28,426
Reconciliation of operating income (loss) to net cash used in operating activities:						
Operating income (loss)	\$ (62)	\$ (14)	\$ (76)	\$ 1,294	\$ 3	\$ 1,297
Adjustments to reconcile operating income (loss) to net cash used in operating activities:						
Amortization of bond issuance costs	129	35	164	110	25	135
Investment earnings	(1,054)	(2)	(1,056)	(2,623)	(1)	(2,624)
Interest expense	21,154	11	21,165	20,594	11	20,605
Subsidy to borrowers	809	2	811	1,654	1	1,655
Revenues from loans	(21,171)	(50)	(21,221)	(21,429)	(37)	(21,466)
Changes in assets and liabilities:						
(Increase) decrease in receivables for administrative fees	(153)	1	(152)	85	(3)	82
Increase (decrease) in accrued liabilities	(26)	-	(26)	26	-	26
Increase (decrease) in deferred revenue	159	-	159	(196)	-	(196)
Total adjustments	(153)	(3)	(156)	(1,779)	(4)	(1,783)
Net cash used in operating activities	\$ (215)	\$ (17)	\$ (232)	\$ (485)	\$ (1)	\$ (486)
Noncash financing activities:						
Accretion of capital appreciation bonds	\$ 1,233	\$ -	\$ 1,233	\$ 1,329	\$ -	\$ 1,329
Bond issuance costs	594	198	792	776	-	776
Total noncash financing activities	\$ 1,827	\$ 198	\$ 2,025	\$ 2,105	\$ -	\$ 2,105
Noncash investing activities:						
Net appreciation in value of investments reported at fair value	\$ 53	\$ -	\$ 53	\$ 95	\$ -	\$ 95

STATISTICAL SECTION

**TENNESSEE STATE SCHOOL BOND AUTHORITY
OPERATING REVENUES BY SOURCE
FOR THE LAST TEN YEARS**

(Expressed in Thousands)

Fiscal Year	Revenues from loans	Investment Earnings	Total
2002	\$ 21,553	\$ 1,056	\$ 22,609
2001	21,712	2,624	24,336
2000	18,565	2,111	20,676
1999	21,345	2,888	24,233
1998	18,120	4,150	22,270
1997	18,574	3,464	22,038
1996	15,455	2,751	18,206
1995	14,167	3,489	17,656
1994	13,638	2,894	16,532
1993	11,967	3,747	15,714

**TENNESSEE STATE SCHOOL BOND AUTHORITY
OPERATING EXPENSES BY SOURCE
FOR THE LAST TEN YEARS**

(Expressed in Thousands)

Fiscal Year	Interest Expense	Subsidy to borrowers	Administrative expenses	Amortization of Bond Issue Costs	Total
2002	\$ 21,165	\$ 811	\$ 545	\$ 164	\$ 22,685
2001	20,605	1,655	644	135	23,039
2000 (1)	17,625	1,372	448	94	19,539
1999	22,675	-	353	103	23,131
1998	21,089	-	466	68	21,623
1997	20,844	-	319	179	21,342
1996	18,149	-	412	65	18,626
1995	16,837	-	329	203	17,369
1994	15,861	-	445	197	16,503
1993	16,044	-	434	219	16,697

- (1) In accordance with GASB 33, subsidy to borrowers is reported as an expense. Prior to implementing GASB 33, this amount was recorded as a reduction of revenue from loans.

**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
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
1996	312,071	-	312,071
1995	272,934	-	272,934
1994	264,043	-	264,043
1993	266,915	-	266,915

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 Payable	Commercial Paper	Bond Anticipation Notes	QZAB Bonds	
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
1996	246,641	-	104,585	-	351,226
1995	252,046	-	53,050	-	305,096
1994	266,278	-	36,825	-	303,103
1993	280,173	-	23,470	-	303,643

Note:

QZAB bonds payable 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
TENNESSEE STATE SCHOOL BOND AUTHORITY
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)
1993	\$ 469,932	\$ 304,279	\$ 58	\$ 24,560
1994	497,370	322,443	21	21,245
1995	555,363	359,941	21	21,692
1996	563,302	369,853	21	21,749
1997	587,138	374,249	21	26,891
1998	559,661	367,938	21	28,657
1999	622,109	373,207	21	24,431
2000	410,086	375,872	21	16,872
2001	401,918	408,671	21	18,628
2002	438,956	406,146	21	24,804

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)
1993	\$ 16,776	\$ 19,791	\$ 27	\$ 540
1994	17,785	22,064	41	540
1995	17,722	24,610	48	535
1996	18,235	25,209	48	535
1997	19,178	25,733	48	641
1998	20,420	25,559	48	672
1999	23,188	27,444	48	651
2000	24,288	28,001	48	649
2001	26,555	28,051	48	649
2002	22,130	29,602	48	1,516

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)
1993	\$ 29,830	\$ 55,568	\$ -	\$ 1,659
1994	30,825	59,911	-	1,661
1995	46,563	65,530	-	1,636
1996	49,502	67,549	-	1,636
1997	53,232	68,469	-	1,597
1998	57,826	67,202	-	1,588
1999	64,652	70,814	-	1,743
2000	64,386	72,837	258	1,954
2001	59,516	75,937	261	1,916
2002	42,701	79,011	261	2,608

UNIVERSITY OF MEMPHIS

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 60,375	\$ 77,614	\$ -	\$ 2,369
1994	60,537	82,765	-	2,450
1995	67,576	88,120	-	2,444
1996	72,587	90,400	-	2,451
1997	75,167	91,212	-	2,889
1998	80,625	89,924	-	2,991
1999	93,593	93,576	-	3,054
2000	102,186	94,289	-	2,353
2001	114,031	97,499	-	3,777
2002	120,196	99,786	-	6,334

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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)

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>
1993	\$ 38,140	\$ 48,948	\$ -	\$ 1,177
1994	41,194	54,830	-	1,177
1995	49,083	60,371	-	1,164
1996	54,128	61,920	-	1,166
1997	57,341	63,529	-	1,668
1998	62,814	64,469	-	1,872
1999	70,530	70,576	-	3,357
2000	78,317	73,273	-	4,886
2001	86,328	76,159	-	5,472
2002	98,031	77,990	-	6,537

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>
1993	\$ 19,973	\$ 26,280	\$ 137	\$ 1,111
1994	21,084	28,067	135	1,111
1995	26,481	30,567	135	1,015
1996	31,231	31,477	135	1,100
1997	34,352	32,227	135	1,157
1998	39,141	32,052	135	1,257
1999	46,423	35,597	66	1,470
2000	52,156	36,337	66	2,056
2001	54,979	34,843	66	2,193
2002	45,119	35,067	-	3,137

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>
1993	\$ 23,747	\$ 33,142	\$ -	\$ 1,162
1994	24,288	35,358	-	1,181
1995	26,204	37,473	-	1,178
1996	26,110	38,452	-	1,173
1997	27,208	38,164	-	1,150
1998	28,831	37,699	-	1,145
1999	31,616	39,259	-	1,075
2000	33,791	38,938	-	844
2001	37,065	43,568	-	639
2002	41,311	40,392	-	415

ROAN 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>
1993	\$ 4,423	\$ 10,956	\$ -	\$ -
1994	4,744	12,076	-	-
1995	5,418	13,177	-	-
1996	5,349	13,509	-	-
1997	5,878	13,649	-	-
1998	6,268	13,441	-	-
1999	6,940	14,254	-	-
2000	7,565	14,879	33	-
2001	7,697	15,524	33	-
2002	8,589	15,771	-	-

WALTER STATE COMMUNITY COLLEGE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 3,955	\$ 9,841	\$ -	\$ -
1994	4,091	10,921	-	-
1995	6,420	12,018	-	-
1996	6,595	12,308	-	-
1997	7,236	12,658	-	-
1998	8,073	13,132	-	-
1999	8,408	14,265	-	-
2000	8,983	14,767	286	-
2001	10,170	15,173	-	-
2002	7,474	15,595	88	-

CHATTANOOGA STATE COMMUNITY COLLEGE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 7,186	\$ 14,961	\$ 37	\$ -
1994	7,222	16,435	74	-
1995	7,961	17,822	71	-
1996	8,701	18,284	74	-
1997	9,032	18,514	71	-
1998	9,818	18,589	68	-
1999	10,453	19,602	69	-
2000	11,074	20,234	72	-
2001	11,650	20,684	69	34
2002	12,380	21,233	70	73

STATE TECHNICAL INSTITUTE IN MEMPHIS*

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 7,186	\$ 14,961	\$ 37	\$ -
1994	7,222	16,435	74	-
1995	7,961	17,822	71	-
1996	8,701	18,284	74	-
1997	8,876	18,174	-	-
1998	9,368	17,898	-	-
1999	9,991	18,527	-	56
2000	10,838	18,464	-	146

SOUTHWEST TECHNICAL COMMUNITY COLLEGE*

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ -	\$ -	\$ -	\$ -
1994	-	-	-	-
1995	-	-	-	-
1996	-	-	-	-
1997	-	-	-	-
1998	-	-	-	-
1999	-	-	-	-
2000	-	-	-	-
2001	17,777	34,451	-	146
2002	19,022	35,175	-	179

NASHVILLE STATE COMMUNITY COLLEGE

FISCAL YEAR	TOTAL FEES AND CHARGES	LEGISLATIVE APPROPRIATIONS	PRIOR AND SUBORDINATE DEBT SERVICE REQUIREMENTS (NON AUTHORITY)	DEBT SERVICE REQUIREMENTS (AUTHORITY BONDS)
1993	\$ 3,350	\$ 8,602	\$ -	\$ -
1994	3,456	9,010	-	-
1995	4,019	9,585	-	-
1996	4,300	9,716	-	-
1997	4,777	9,677	-	-
1998	5,455	9,864	-	-
1999	6,040	11,092	-	-
2000	6,609	11,749	-	-
2001	7,135	12,168	-	-
2002	8,254	12,525	-	13

* As of July 1, 2000, STIM and Shelby State Community College merged to form Southwest Tennessee Community College.

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

HUMBOLDT COUNTY SCHOOLS

FISCAL YEAR	STATE SHARED TAX OBLIGATIONS			TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
	QZAB	OTHER PLEDGED	OBLIGATIONS			
	OBLIGATIONS	(Non-Authority)	OBLIGATIONS			
2000	\$ -	\$ 203,028	\$ 203,028	\$ 987,351	4.86 x	
2001	\$ -	\$ 203,028	\$ 203,028	\$ 1,022,550	5.04 x	
2002	\$ -	\$ 203,028	\$ 203,028	\$ 1,150,732	5.67 x	

KINGSPORT CITY SCHOOLS

FISCAL YEAR	STATE SHARED TAX OBLIGATIONS			TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
	QZAB	OTHER PLEDGED	OBLIGATIONS			
	OBLIGATIONS	(Non-Authority)	OBLIGATIONS			
2000	\$ -	\$ -	\$ -	\$ 4,936,183	0.00 x	
2001	\$ 34,474	\$ -	\$ 34,474	\$ 4,960,186	143.88 x	
2002	\$ 34,474	\$ 516,318	\$ 550,792	\$ 5,231,800	9.50 x	

KNOX COUNTY SCHOOLS

FISCAL YEAR	STATE SHARED TAX OBLIGATIONS			TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
	QZAB	OTHER PLEDGED	OBLIGATIONS			
	OBLIGATIONS	(Non-Authority)	OBLIGATIONS			
2000	\$ -	\$ 5,154	\$ 5,154	\$ 7,669,885	1488.04 x	
2001	\$ 215,467	\$ 5,293	\$ 220,760	\$ 9,620,232	43.58 x	
2002	\$ 215,467	\$ -	\$ 215,467	\$ 7,393,451	34.31 x	

LINCOLN COUNTY SCHOOLS

FISCAL YEAR	STATE SHARED TAX OBLIGATIONS			TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
	QZAB	OTHER PLEDGED	OBLIGATIONS			
	OBLIGATIONS	(Non-Authority)	OBLIGATIONS			
2000	\$ -	\$ -	\$ -	\$ 2,214,402	0.00 x	
2001	\$ 10,342	\$ -	\$ 10,342	\$ 2,292,559	221.67 x	
2002	\$ 10,342	\$ -	\$ 10,342	\$ 2,344,500	226.70 x	

MEMPHIS CITY SCHOOLS

FISCAL YEAR	STATE SHARED TAX OBLIGATIONS			TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
	QZAB	OTHER PLEDGED	OBLIGATIONS			
	OBLIGATIONS	(Non-Authority)	OBLIGATIONS			
2000	\$ -	\$ 1,418,240	\$ 1,418,240	\$ 71,766,738	50.60 x	
2001	\$ 369,372	\$ 1,425,894	\$ 1,795,266	\$ 75,711,759	42.17 x	
2002	\$ 369,372	\$ 1,434,165	\$ 1,803,537	\$ 78,916,828	43.76 x	

MONTGOMERY COUNTY SCHOOLS

STATE SHARED TAX OBLIGATIONS						
FISCAL YEAR	QZAB OBLIGATIONS	OTHER PLEDGED		TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
		OBLIGATIONS	(Non-Authority)			
2000	\$ -	\$ -	-	\$ -	\$ 3,280,145	0.00 x
2001	\$ -	\$ -	-	\$ -	\$ 3,503,975	0.00 x
2002	\$ -	\$ -	-	\$ -	\$ 3,575,661	0.00 x

RHEA COUNTY SCHOOLS

STATE SHARED TAX OBLIGATIONS						
FISCAL YEAR	QZAB OBLIGATIONS	OTHER PLEDGED		TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
		OBLIGATIONS	(Non-Authority)			
2000	\$ -	\$ -	-	\$ -	\$ 2,145,497	0.00 x
2001	\$ 77,568	\$ -	-	\$ 77,568	\$ 2,160,862	27.86 x
2002	\$ 77,568	\$ -	-	\$ 77,568	\$ 2,219,179	28.61 x

SCOTT COUNTY SCHOOLS

STATE SHARED TAX OBLIGATIONS						
FISCAL YEAR	QZAB OBLIGATIONS	OTHER PLEDGED		TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
		OBLIGATIONS	(Non-Authority)			
2000	\$ -	\$ -	-	\$ -	\$ 1,963,312	0.00 x
2001	\$ -	\$ -	-	\$ -	\$ 2,036,463	0.00 x
2002	\$ 71,206	\$ -	-	\$ 71,206	\$ 2,104,216	29.55 x

UNICOI COUNTY SCHOOLS

STATE SHARED TAX OBLIGATIONS						
FISCAL YEAR	QZAB OBLIGATIONS	OTHER PLEDGED		TOTAL OBLIGATIONS	PRIOR YEAR STATE SHARED TAXES	COVERAGE
		OBLIGATIONS	(Non-Authority)			
2000	\$ -	\$ -	-	\$ -	\$ 1,434,645	0.00 x
2001	\$ -	\$ 3,597	-	\$ 3,597	\$ 1,449,412	402.95 x
2002	\$ -	\$ 15,235	-	\$ 15,235	\$ 1,472,841	96.67 x

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

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

**TENNESSEE STATE SCHOOL BOND AUTHORITY
FALL TERM HEADCOUNT ENROLLMENT
HIGHER EDUCATION FACILITIES INSTITUTIONS
FOR THE LAST TEN YEARS**

Institution	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	% Change			
												2001-02	1997-02	1992-02	
Four Year Institutions															
APSU	5,709	5,992	5,740	5,763	6,072	5,968	5,816	5,721	5,671	5,769	6,079	5.4%	1.9%	6.5%	
ETSU**	9,667	9,321	9,312	9,355	9,450	9,549	9,792	9,638	9,364	9,507	9,664	1.7%	1.2%	0.0%	
MTSU	14,239	14,629	14,226	14,504	14,916	15,455	15,655	16,173	16,339	17,125	18,151	6.0%	17.4%	27.5%	
TSU	5,957	6,110	6,438	6,787	7,007	7,168	7,383	7,629	7,431	7,425	7,703	3.7%	7.5%	29.3%	
TTU	7,473	7,472	7,353	7,303	7,230	7,287	7,112	7,227	7,212	7,327	7,554	3.1%	3.7%	1.1%	
UM	15,254	15,317	15,177	15,495	15,001	15,452	15,771	15,909	15,613	15,890	15,696	-1.2%	1.6%	2.9%	
TBR Total	58,298	58,840	58,245	59,207	59,676	60,879	61,529	62,298	61,629	63,043	64,846	2.9%	6.5%	11.2%	
UTC	6,375	6,515	6,438	6,540	6,608	6,816	7,040	7,019	6,832	6,955	7,050	1.4%	3.4%	10.6%	
UTK*	22,065	21,696	21,575	21,454	21,528	21,819	22,476	23,277	22,960	23,183	23,221	0.2%	6.4%	5.2%	
UTM	5,333	5,313	5,308	5,497	5,376	5,607	5,480	5,278	5,324	5,379	5,311	-1.3%	-5.3%	-0.4%	
UTMHSC	1,838	1,909	1,923	1,950	1,962	1,949	2,024	2,023	1,999	1,949	1,977	1.4%	1.4%	7.6%	
UT Total	35,611	35,434	35,244	35,441	35,475	36,191	37,020	37,597	37,115	37,466	37,559	0.2%	3.8%	5.5%	
Total 4 Yr	93,910	94,274	93,489	94,647	95,151	97,070	98,549	99,895	98,744	100,509	102,404	1.9%	5.5%	9.0%	
Two-Year Institutions															
CSTCC	5,369	5,214	5,144	4,982	5,427	5,227	5,140	5,038	4,832	5,269	5,264	-0.1%	0.7%	-2.0%	
CLSCC	2,234	2,151	1,929	2,204	2,111	2,376	2,176	2,158	2,083	2,318	2,200	-5.1%	-7.4%	-1.5%	
COSCC	2,361	2,255	2,331	2,501	2,639	2,820	2,947	2,906	2,788	2,984	3,108	4.2%	10.2%	31.7%	
DSCC	1,289	1,357	1,380	1,373	1,531	1,533	1,522	1,435	1,563	1,577	1,657	5.1%	8.1%	28.6%	
JSCC	2,188	2,143	2,088	2,155	2,223	2,328	2,416	2,548	2,514	2,658	2,713	2.1%	16.5%	24.0%	
MSCC	2,150	2,117	2,133	2,077	2,116	2,287	2,273	2,221	2,199	2,441	2,556	4.7%	11.7%	18.9%	
NSTCC	2,222	2,288	2,372	2,314	2,459	2,422	2,513	2,601	2,607	2,879	2,968	3.1%	22.5%	33.6%	
NSCC	2,710	2,602	2,749	2,778	3,112	3,357	3,492	3,527	3,548	3,631	3,757	3.5%	11.9%	38.6%	
PSTCC	5,098	4,941	4,866	4,768	5,003	5,217	5,258	5,080	5,079	5,151	5,208	1.1%	-0.2%	2.2%	
RSCC	3,848	3,713	3,614	3,591	3,688	3,720	3,675	3,797	3,474	3,647	3,767	3.3%	1.3%	-2.1%	
SSCC	4,482	4,567	4,189	3,998	3,740	3,193	2,887	2,805	n/a	n/a	n/a	n/a	n/a	n/a	
STIM	5,273	5,378	5,227	5,022	4,900	4,660	4,472	4,532	n/a	n/a	n/a	n/a	n/a	n/a	
STCC***	9,755	9,945	9,416	9,019	8,640	7,852	7,359	7,338	7,059	7,743	7,141	-2.7%	-20.8%	-4.4%	
VSCC	3,369	3,611	3,783	3,904	4,129	4,236	4,198	4,107	4,138	4,295	4,525	5.4%	6.8%	34.3%	
WSCC	3,542	3,520	3,602	3,507	3,731	3,807	3,666	3,594	3,665	3,909	3,867	-1.1%	1.6%	9.2%	
Total 2 Yr	46,135	45,855	45,407	45,174	46,809	47,181	46,635	46,349	45,550	48,502	48,729	0.5%	3.3%	5.6%	
Grand Total	140,045	140,129	138,896	139,822	141,960	144,251	145,184	146,244	144,294	149,011	151,133	1.4%	4.8%	7.9%	

*Includes UT Space Institute and UT Veterinary College

**Includes ETSU Medical School

***Contains combined totals for STIM and SSCC from 1990-99

Source: Tennessee Higher Education Commission

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DIVISION OF BOND FINANCE

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