

# TENNESSEE STATE SCHOOL BOND AUTHORITY

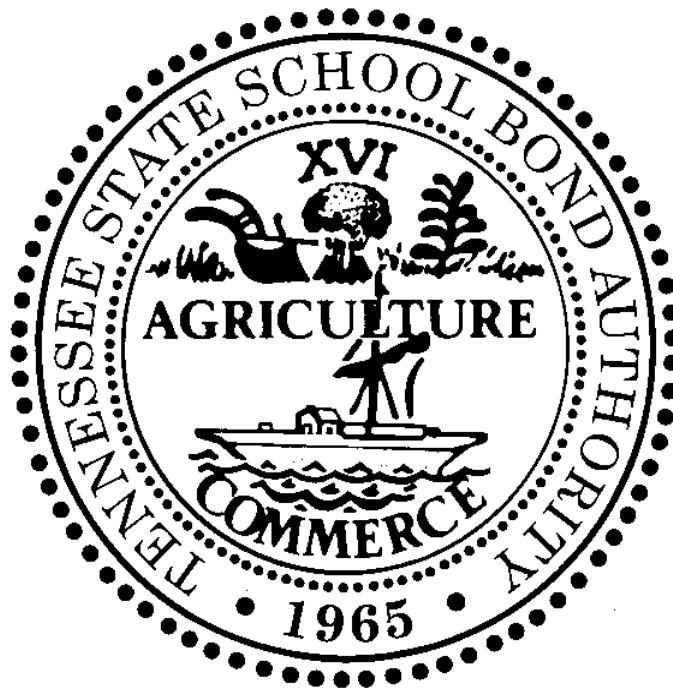
*A Component Unit of the State of Tennessee*



*Comprehensive Annual Financial Report  
For the Year Ended June 30, 2005*

# **Tennessee State School Bond Authority Comprehensive Annual Financial Report For the Year Ended June 30, 2005**

**PHIL BREDESEN, Governor and Chairman**



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

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

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

**TENNESSEE STATE SCHOOL BOND AUTHORITY  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2005**

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# INTRODUCTORY SECTION

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**TENNESSEE STATE SCHOOL BOND AUTHORITY**  
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0273  
PHONE (615) 401-7872  
FAX (615) 741-5986

*Governor Phil Bredesen, Chairman*

*John G. Morgan, Secretary*

December 9, 2005

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

I am pleased to submit the Comprehensive Annual Financial Report of the Tennessee State School Bond Authority (the "Authority"), a component unit of the State of Tennessee, for the fiscal year ended June 30, 2005. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

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

## **BUSINESS ENVIRONMENT**

### **Legal Authority**

The Tennessee State School Bond Authority, created in 1965, is a corporate governmental agency and instrumentality of the state of Tennessee whose purpose is to finance capital projects for 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 ("1967 Resolution"), bonds were issued to provide funds to make loans to the institutions of higher education. In April 1998, the Authority adopted the Higher Educational Facilities Second Program General Bond Resolution ("1998 Resolution") with the same purpose. At that time, the 1967 Resolution was closed, and all bonds are now issued pursuant to the 1998 Resolution. Projects financed by the Authority must be revenue producing. The fee charged for 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.

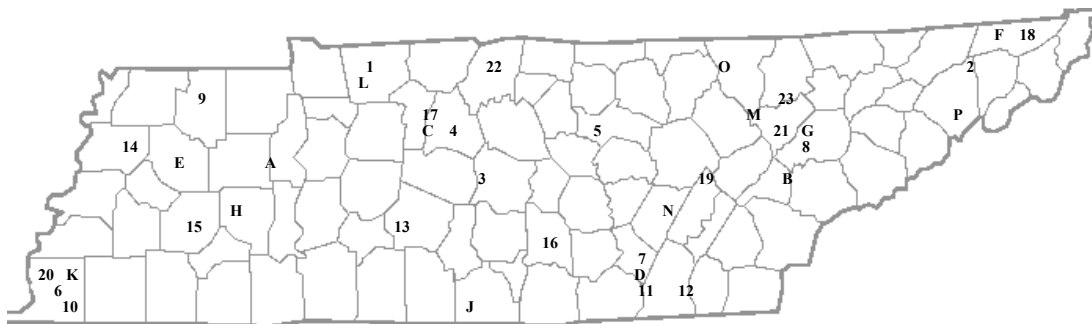
In 1997, the Authority approved a Commercial Paper Resolution that authorizes the issuance of up to \$150 million. The Commercial Paper is used to fund higher education facilities projects during the construction phase. When the projects are placed in service, long-term, fixed-rate debt is issued to 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 1967 Resolution or the 1998 Resolution. 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 Community College             |
| 6 University of Memphis                                     | 18 Northeast State Technical Community College   |
| 7 University of Tennessee at Chattanooga                    | 19 Roane State Community College                 |
| 8 University of Tennessee at Knoxville                      | 20 Southwest Tennessee Community College         |
| 9 University of Tennessee at Martin                         | 21 Pellissippi State Technical Community College |
| 10 University of Tennessee Health Science Center at Memphis | 22 Volunteer State Community College             |
| 11 Chattanooga State Technical Community College            | 23 Walters State Community College               |
| 12 Cleveland State Community College                        |  |

**Participating QZAB Local Education Agencies**

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

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

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

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

Under each financing agreement, the relevant board covenants and agrees to establish and collect fees and charges at each institution at a level sufficient to produce in each fiscal year no less than two times the amount required for the payment of the aggregate of financing charges.

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

### **Future Outlook**

**Enrollment Trends in Higher Education.** Enrollment, on a full-time equivalent basis, in four-year public institutions of higher education has increased 13.8% over the past ten years and 8.4% in two-year public institutions with a combined increase of 11.4%. 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. More Tennesseans have been able to attend college since the advent of the lottery in 2002, which provides funding for the Tennessee Education Lottery Scholarship program. In Fall of 2005, the lottery provided funding to more than 56,000 students. The growing demand will guarantee that the higher education system will sustain its long-term debt commitments well into the future

**Infrastructure Demand, K-12 Education.** The Tennessee Advisory Commission on Intergovernmental Relations (“TACIR”) reports that during the five year period of June 2003 to June 2008 the demand for improvements to existing schools and for technology upgrades totals over \$1.9 billion with \$700 million of that being for technology. The State has been allocated in 2005 \$8.758 million of QZABs to aid in funding of this demand. It is expected that the State will receive a similar amount in 2006. 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, 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 6 - 8 in the Management's Discussion and Analysis section of this Comprehensive Annual Financial Report.

**Cash Management.** Permitted investments are identified in the various bond and note resolutions. Unexpended bond and note proceeds are invested by the State Treasurer in the State Investment Pool. Investments of moneys held in the debt service reserve fund for the Higher Education Facilities Programs are held by the Trustee. Decisions on investments in the debt service reserve fund are made by the State Treasurer's staff in consultation with the staff to the Authority and the Trustee. The payments into the sinking fund for the Series 1999, 2001, and 2003 QZAB bonds are held in the State Pooled Investment Fund and invested by the State Treasurer. However, for the Series 2004 bonds, the Authority entered into a Forward Delivery Agreement (the "Agreement") with the Bank of America, N.A. (the "Bank") whereby the Bank selects the sinking fund investments from eligible securities defined in the Agreement. Such investments will be held by the State Treasurer in the Authority's name. Investments are described in the Notes to the Financial Statements, Note 2, of this report.

## OTHER INFORMATION

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

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

**Independent Audit Committee.** As a result of the fraud-related business failures of companies such as Enron and WorldCom in recent years, Congress and the accounting profession have taken aggressive measures to try to detect and prevent future failures related to fraud. These measures have included the signing of the Sarbanes-Oxley Act of 2002 by the President of the United States and the issuance of Statement on Auditing Standards No. 99 by the American Institute of Certified Public Accountants. This new fraud auditing standard has not only changed the way auditors perform audits but has also provided guidance to management and boards of directors on creating antifraud programs and controls. This guidance has included the need for an independent audit committee. As a result, the Authority appointed an independent audit committee on August 12, 2004.

**Awards.** The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tennessee State School Bond Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the third consecutive year that the Authority has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

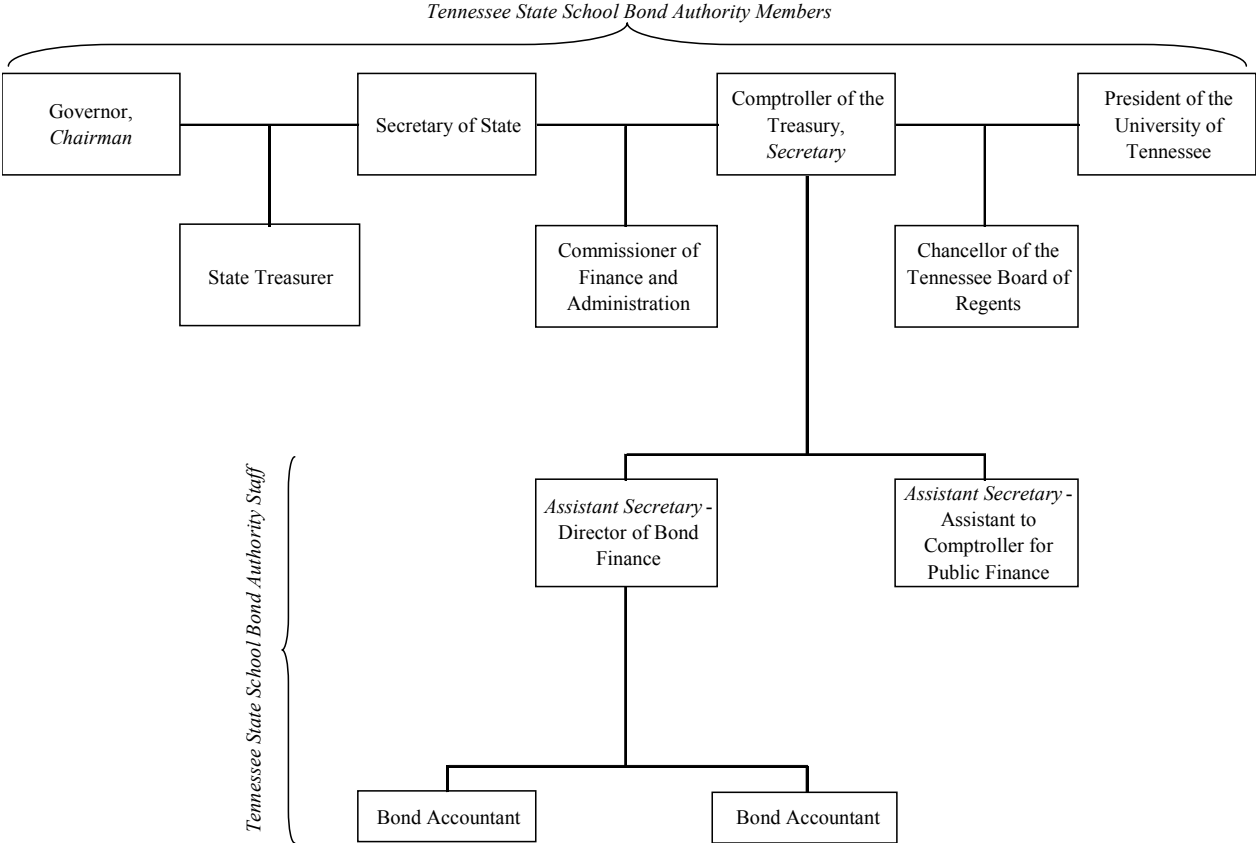
**Acknowledgements.** The preparation of the comprehensive annual financial report was made possible by the dedication of the staff of the Division of Bond Finance in the Office of the Comptroller of the Treasury.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mary-Margaret Collier".

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

# Tennessee State School Bond Authority Organization Chart





## TENNESSEE STATE SCHOOL BOND AUTHORITY

### MEMBERS

Phil Bredesen, Governor, *Chairman*

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

Riley C. Darnell, Secretary of State

Dale Sims, State Treasurer

Dave Goetz, Commissioner of Finance and Administration

Dr. John Petersen, President of the University of Tennessee

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

### STAFF

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

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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Tennessee State School Bond Authority

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2004

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



*Nancy L. Zielke*

President

*Jeffrey R. Emer*

Executive Director

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# FINANCIAL SECTION

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765

**Independent Auditor's Report**

December 9, 2005

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

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of June 30, 2005, and June 30, 2004, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2005, and June 30, 2004, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Honorable John G. Morgan  
December 9, 2005  
Page Two

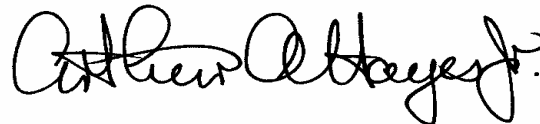
of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supplementary schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2005, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions) and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA  
Director

AAH/rrp

## 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, 2005. These activities are compared to the results of the fiscal years ended June 30, 2004, and 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i - v of this report.

### Program Activity Highlights

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

|  | <b>Higher Education Facilities Programs</b> |                |                |
|--|---|----------------|----------------|
|  | <b>2005</b>                                 | <b>2004</b>    | <b>2003</b>    |
| Number of institutions with outstanding loans            | 23  | 14             | 14             |
| Total number of outstanding loans                        | 264   | 208            | 200            |
| Balance of outstanding loans                             | \$ 520,133,184                              | \$ 477,867,414 | \$ 454,172,896 |
| Number of loans approved in fiscal year                  | 57  | 20             | 15             |
| Dollar value of loans approved in fiscal year            | \$ 243,921,382                              | \$ 113,686,550 | \$ 82,014,000  |
| Dollar value of loans approved in fiscal year - unfunded | \$ 224,420,872                              | \$ 109,417,744 | \$ 76,770,858  |
| Dollar value of loans issued in fiscal year              | \$ 57,553,324                               | \$ 46,155,418  | \$ 58,677,534  |
| Bonds issued in fiscal year                              | \$ 131,500,000                              | \$ 165,770,000 | \$ -           |
| Commercial paper issued in fiscal year                   | \$ 44,000,000                               | \$ 39,000,000  | \$ 42,300,000  |

|  | <b>Qualified Zone Academy Bond Program</b> |               |               |
|--|--|---------------|---------------|
|  | <b>2005</b>                                | <b>2004</b>   | <b>2003</b>   |
| Number of LEAs with outstanding loans                    | 13   | 10            | 9             |
| Total number of outstanding loans                        | 16   | 12            | 10            |
| Balance of outstanding loans                             | \$ 15,766,633                              | \$ 17,375,137 | \$ 13,555,514 |
| Number of loans approved in fiscal year                  | 7  | 6             | -             |
| Dollar value of loans approved in fiscal year            | \$ 14,554,567                              | \$ 14,956,774 | \$ -          |
| Dollar value of loans approved in fiscal year - unfunded | \$ 14,554,567                              | \$ 14,243,867 | \$ -          |
| Dollar value of loans issued in fiscal year              | \$ 4,256,804                               | \$ 5,205,991  | \$ 5,383,748  |
| Bonds issued in fiscal year                              | \$ 12,600,000                              | \$ 2,445,000  | \$ -          |

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

### **Debt Administration**

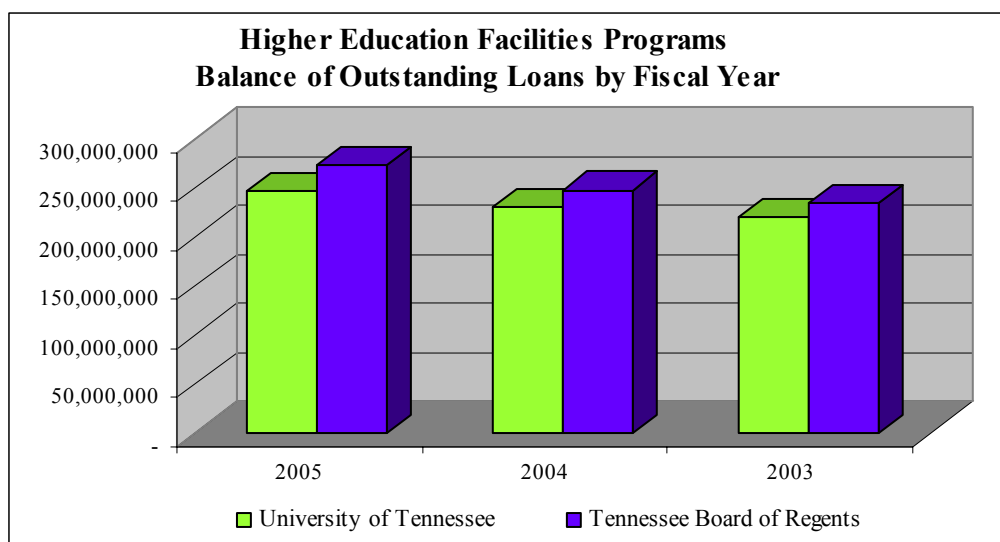
Pursuant to Section 49-3-1201 et seq., *Tennessee Code Annotated*, the General Assembly of the State created the Tennessee State School Bond Authority to issue bonds and notes to fund capital projects for the higher education institutions including both four-year institutions and two-year community colleges as well as to issue the QZABs on behalf of local education agencies throughout the State. For more specific financial information on long-term debt activity, see Note 5, Debt Payable, on pages 21 - 26 in the Notes to the Financial Statements.

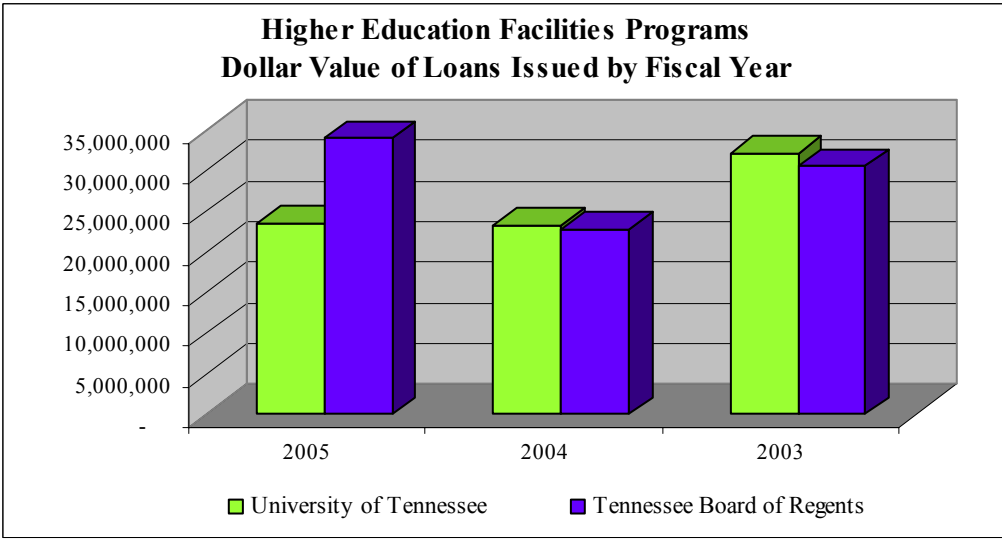
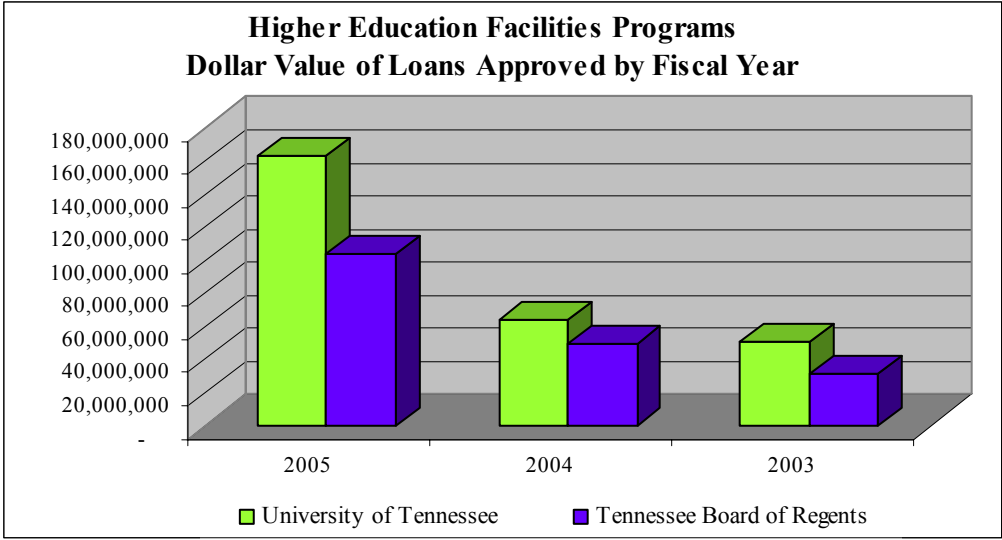
**Higher Education Facilities Programs.** An analysis of the financial feasibility of each loan application is undertaken before it is approved by the Authority. The Boards are required by the Financing Agreements to pledge or assign to the Authority all of the revenues, fees, rentals, and other charges and moneys received by or for the institution for the payment of the Annual Financing Charges. If the revenues, fees, rentals, and other charges are insufficient to pay the Annual Financing Charges, the Board and the Authority will deduct from the amounts appropriated by the General Assembly for the operation and maintenance of the institution for which the project is undertaken. The Authority is also authorized by statute to intercept the state appropriation to that institution and system if the institution fails to make timely debt service payments to the Authority.

Generally under the financing program for higher education institutions, a project is funded through the Authority's commercial paper program during its construction phase. When projects totaling \$50 million or greater are completed or near completion, the Authority fixes the interest rate for the term of the project by issuing long-term debt. Commercial paper interest rates ranged from 1.00% to 3.07% during the fiscal year 2005, 0.75% to 1.28% in fiscal year 2004, and 0.85% to 1.85% in fiscal year 2003. 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 WestLB. The commitment fee is .180% paid quarterly in arrears. The Agreement terminates on December 15, 2015, subject to extension and earlier termination. If the liquidity facility is called upon, the Authority has ninety days to repay the advance from the facility. Should the Authority fail to repay the loan within the ninety-day period, the loan converts to a term loan with the bank with four semi-annual payments. Thus, the commercial paper is reported as a long-term liability.

Interest rates on the higher educational facilities long-term fixed-rate bonds range from a low of 2.00% to a high of 7.15%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency were achieved. The creditworthiness of both large and small institutions is homogenized into one credit resulting in a lower cost of borrowing and providing a more equitable cost to students who repay the debt through their student debt service fees. Additional benefits accrue to the higher education institutions and the two systems by having one point of debt issuance and administration for all institutions of higher education throughout the state.

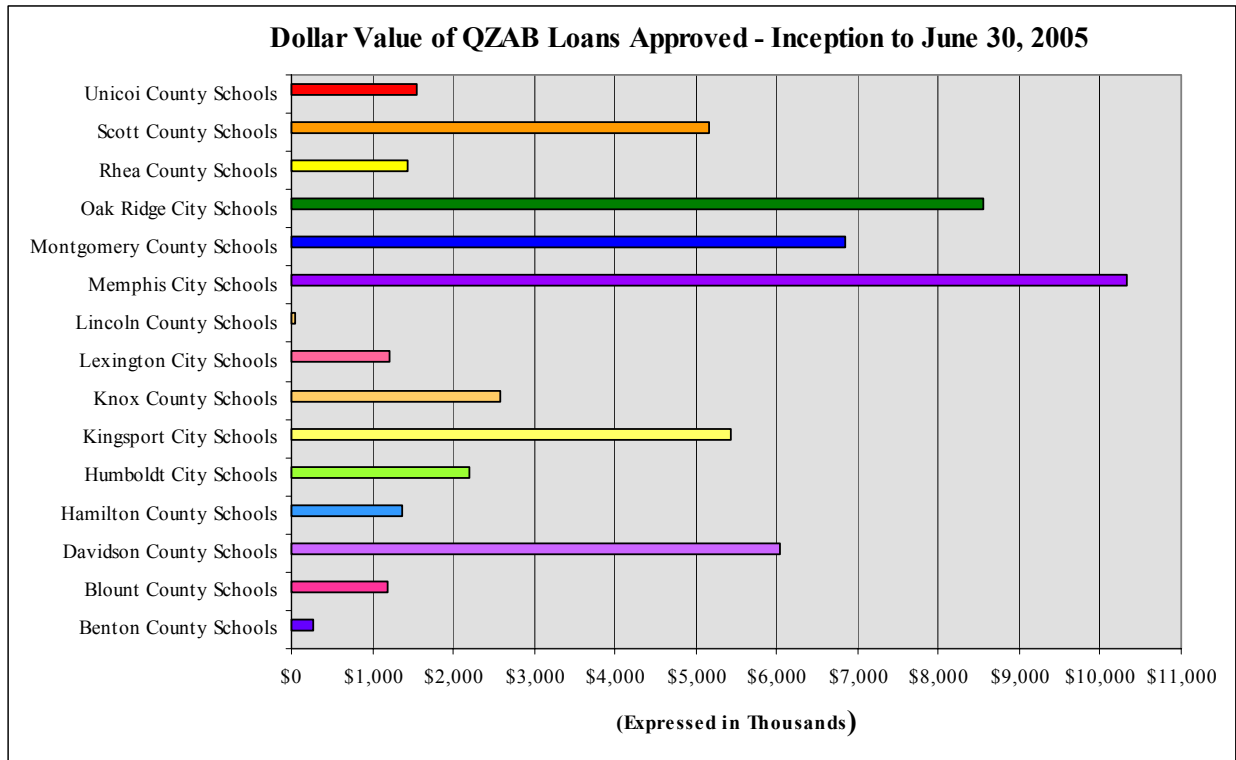




The Authority’s higher education facilities program is rated AA, Aa3, and AA- by Fitch, Moody’s Investors Service and Standard & Poor’s Rating Group, respectively. Fitch comments that the rating reflects the broad coverage provided by higher education fees and charges, the provision to intercept state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

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

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



### **Overview of the Financial Statements**

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

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

The Statements of Net Assets found on page 13 depict the Authority's financial position at June 30, 2005, and June 30, 2004. The Statements of Revenues, Expenses and Changes in Net Assets found on page 14 show the results of operations and the change in net assets for the years presented. The Statements of Cash Flows found on pages 15 - 16 summarize the sources and uses of cash for the fiscal years presented. These statements are accompanied by notes to the financial statements that provide information that is essential to the reader's understanding of the financial statements. The Authority's basic financial statements are followed by supplementary information containing the financial statement information at the program level.

**Financial Analysis of the Authority**

Standard indicators of financial success are not applicable to the Authority. The financial goal of the Authority is to provide timely access to the capital markets for qualified educational institutions at the lowest possible cost. The Authority successfully achieved this goal. The Authority frequently entered the short-term market with great success. There were no incidents requiring the Authority to draw from the debt service reserve fund or refuse a loan from an applicant due to the inability to obtain capital funding.

| <b>Statements of Net Assets Summary</b>            |                 |                 |                 |
|--|-----------------|-----------------|-----------------|
| <b>(in thousands)</b>                              |                 |                 |                 |
|  | <u>2005</u>     | <u>2004</u>     | <u>2003</u>     |
| Current assets                                     | \$ 81,717       | \$ 86,801       | \$ 54,377       |
| Noncurrent assets                                  | <u>536,800</u>  | <u>493,461</u>  | <u>463,491</u>  |
| Total assets                                       | <u>618,517</u>  | <u>580,262</u>  | <u>517,868</u>  |
| Current liabilities                                | 27,532          | 27,529          | 32,081          |
| Noncurrent liabilities                             | <u>584,185</u>  | <u>546,553</u>  | <u>479,617</u>  |
| Total liabilities                                  | <u>611,717</u>  | <u>574,082</u>  | <u>511,698</u>  |
| Net assets (unrestricted)                          | <u>\$ 6,800</u> | <u>\$ 6,180</u> | <u>\$ 6,170</u> |
| <i>Note: The Authority owns no capital assets.</i> |                 |                 |                 |

Current assets include approximately \$45,889,000 of unexpended bond proceeds and commercial paper at June 30, 2005, that will fund approved loans, as compared to approximately \$51,233,000 at June 30, 2004, and approximately \$14,508,000 in the fiscal year 2003. During the year ended June 30, 2005, the Authority issued \$131,500,000 in Higher Education Facilities Second Program Bonds which was used to refund \$126,955,000 aggregate principal amount from a portion of the 1998A, 1998B, 1998C, 2000A, 2000B, and 2002A bonds that resulted in net present value savings of \$7,242,140. During the year ended June 30, 2004, the Authority issued \$165,770,000 in Higher Education Facilities Second Program Bonds of which \$67,965,000 was used to refund a portion of the 1987 and 1996A bonds that resulted in net present value savings of \$4,044,540. The Authority also issued \$12,600,000 of Qualified Zone Academy Bonds during the year ended June 30, 2005, and \$2,445,000 during the year ended June 30, 2004. However, during the year ended June 30, 2003, the Authority did not issue any new long-term debt. Principal payments were made on the long-term bonds in the amount of \$22,569,000 in 2005; \$22,911,000 in 2004; and \$22,520,000 in 2003. During 2005 the Authority issued \$44,000,000 in new commercial paper and redeemed \$1,914,000. The Authority issued \$39,000,000 in new commercial paper and redeemed \$53,591,000 during 2004 and issued \$42,300,000 of new commercial paper and redeemed \$9,310,000 during 2003.

The net assets are available to fund operations and other expenses necessary to meet the goals of the Authority. The increase in net assets during the year ending June 30, 2005, was due to an increase in the funding from the Authority to the higher education facilities and eligible public schools. During the year ending June 30, 2004, net assets did not significantly change. The Authority continues to absorb certain administrative costs associated with bonded indebtedness of the higher education facilities program rather than passing those costs to the borrowers of the higher education facilities program.



| <b>Statements of Revenues, Expenses, and<br/>Changes in Net Assets Summary<br/>(in thousands)</b> |               |               |                   |
|---|---------------|---------------|-------------------|
|   | <u>2005</u>   | <u>2004</u>   | <u>2003</u>       |
| <b>Operating Revenues</b>   |               |               |                   |
| Revenue from loans  | \$ 27,027     | \$ 22,956     | \$ 24,927         |
| Investment earnings   | <u>1,138</u>  | <u>423</u>    | <u>781</u>        |
| Total operating revenue   | <u>28,165</u> | <u>23,379</u> | <u>25,708</u>     |
| <b>Operating Expenses</b>   |               |               |                   |
| Interest expense  | 25,855        | 22,273        | 24,445            |
| Subsidy to borrowers  | 847           | 340           | 2,382             |
| Other expenses  | <u>843</u>    | <u>756</u>    | <u>662</u>        |
| Total operating expenses  | <u>27,545</u> | <u>23,369</u> | <u>27,489</u>     |
| Operating income (loss)<br>and change in net assets   | <u>\$ 620</u> | <u>\$ 10</u>  | <u>\$ (1,781)</u> |
| <i>Note: The Authority has no non-operating revenues or expenses.</i>                             |               |               |                   |

The Authority's operating revenues are supported by revenue from loans in the form of administrative fees, interest on loans, and investment income earned on cash. Operating expenses include interest expense on outstanding bonds and commercial paper, administrative expenses, and the amortization of bond costs of issuance. The Authority elected to return the investment income that it earns on funds held by the Trustee and interest earned on unspent bond proceeds as a subsidy to its borrowers in the higher education facilities program. During 2003, the Authority had elected to provide an additional \$1.7 million in subsidy to its borrowers from its unrestricted net assets.

Pursuant to the bond resolution for the QZABs, Sinking Fund payments are invested in the State Pooled Investment Fund (the "SPIF"). SPIF rates for 2005 ranged from 1.23% to 3.07%. 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 increase in operating income and change in net assets between the fiscal years 2005 and 2004 was mostly affected by the Authority's investments earning at a higher rate in fiscal year 2005 than in fiscal year 2004. The increase in operating income and change in net assets between the fiscal years 2004 and 2003 was affected by the savings from the 2004 refunding bond issuance, decrease in the amount given in subsidy to the Authority's borrowers, and from a stabilizing market. The investment earnings are a function of prevailing market interest rates and the daily invested balance.

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

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

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

- The demographic composition of the state is changing dramatically and higher education must position itself to serve the needs of an increasingly diverse populace.

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

**Qualified Zone Academy Bond Program.** As of June 30, 2005, the QZAB program had unused allocations totaling \$19,700,000. Subsequent to the year ended June 30, 2005, the Authority priced QZAB bonds in the amount of \$17,545,000, dated December 8, 2005. The State has up to two years after the yearly allocations are made by the Federal government to issue bonds or the funds are forfeited. After the issuance of the QZAB bonds, dated December 8, 2005, the total unused allocation will be \$2,155,000 which will expire on December 31, 2007. The Authority staff along with the staff of the State Department of Education is encouraging local education authorities, cities and counties to take advantage of these tax-free loans.

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

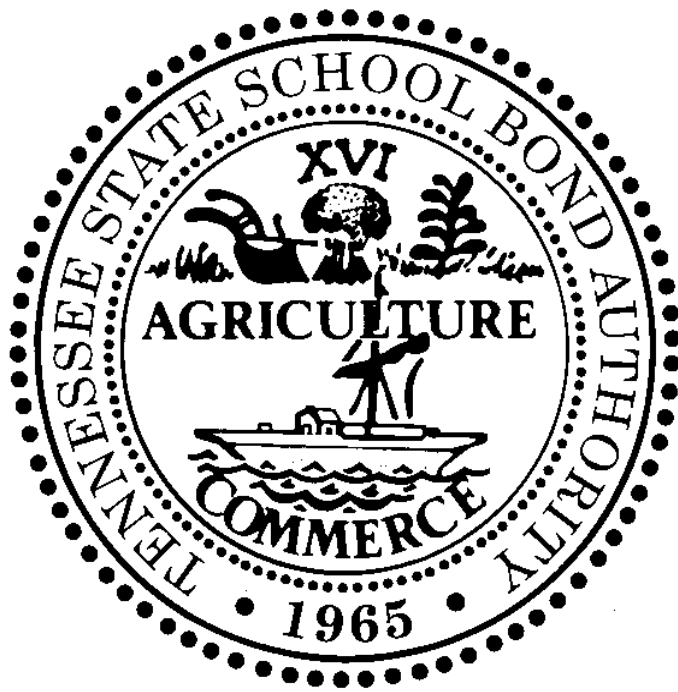
This discussion and analysis is designed to provide our citizens, education agencies, investors and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information,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



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# BASIC FINANCIAL STATEMENTS

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TENNESSEE STATE SCHOOL BOND AUTHORITY  
 STATEMENTS OF NET ASSETS  
 JUNE 30, 2005, AND JUNE 30, 2004

(Expressed in Thousands)

|  | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                |                      |                      |
| Current assets:                              |                      |                      |
| Cash (Note 2)                                | \$ 53,013            | \$ 58,222            |
| Cash with fiscal agent (Note 2)              | -                    | 1                    |
| Investments with fiscal agent (Note 2)       | 370                  | 5                    |
| Loans receivable (Note 3)                    | 24,369               | 24,178               |
| Interest receivable (Note 3)                 | 3,596                | 4,024                |
| Receivables for administrative fees (Note 3) | <u>369</u>           | <u>371</u>           |
| Total current assets                         | <u>81,717</u>        | <u>86,801</u>        |
| Noncurrent assets:                           |                      |                      |
| Restricted cash (Notes 2 and 4)              | 7,509                | 5,299                |
| Restricted investments (Notes 2 and 4)       | 12,300               | 11,601               |
| Loans receivable (Note 3)                    | 511,515              | 471,065              |
| Deferred charges                             | <u>5,476</u>         | <u>5,496</u>         |
| Total noncurrent assets                      | <u>536,800</u>       | <u>493,461</u>       |
| Total assets                                 | <u>618,517</u>       | <u>580,262</u>       |
| <b>LIABILITIES</b>                           |                      |                      |
| Current liabilities:                         |                      |                      |
| Accounts payable                             | 31                   | -                    |
| Due to local education authorities           | 615                  | -                    |
| Accrued interest payable                     | 3,801                | 4,176                |
| Deferred revenue (Note 6)                    | 1,035                | 933                  |
| Bonds payable (Note 5)                       | <u>22,050</u>        | <u>22,420</u>        |
| Total current liabilities                    | <u>27,532</u>        | <u>27,529</u>        |
| Noncurrent liabilities:                      |                      |                      |
| Deferred revenue (Note 6)                    | 11,906               | 9,432                |
| Commercial paper payable (Note 5)            | 74,242               | 32,156               |
| Bonds payable (Note 5)                       | <u>498,037</u>       | <u>504,965</u>       |
| Total noncurrent liabilities                 | <u>584,185</u>       | <u>546,553</u>       |
| Total liabilities                            | <u>611,717</u>       | <u>574,082</u>       |
| <b>NET ASSETS</b>                            |                      |                      |
| Unrestricted                                 | <u>\$ 6,800</u>      | <u>\$ 6,180</u>      |

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, 2005, AND JUNE 30, 2004

(Expressed in Thousands)

|   | <u>Year Ended<br/>June 30, 2005</u> | <u>Year Ended<br/>June 30, 2004</u> |
|---|-------------------------------------|-------------------------------------|
| <b>OPERATING REVENUES</b>                 |                                     |                                     |
| Revenue from loans                        | \$ 27,027                           | \$ 22,956                           |
| Investment earnings                       | 1,138                               | 423                                 |
| Total operating revenues                  | <u>28,165</u>                       | <u>23,379</u>                       |
| <b>OPERATING EXPENSES</b>                 |                                     |                                     |
| Interest expense-commercial paper         | 939                                 | 515                                 |
| Interest expense-bonds                    | 24,916                              | 21,758                              |
| Subsidy to borrowers                      | 847                                 | 340                                 |
| Administrative expense                    | 548                                 | 527                                 |
| Amortization of bond issuance costs       | 295                                 | 229                                 |
| Total operating expenses                  | <u>27,545</u>                       | <u>23,369</u>                       |
| Operating income and change in net assets | 620                                 | 10                                  |
| Net assets, July 1                        | <u>6,180</u>                        | <u>6,170</u>                        |
| Net assets, June 30                       | <u><u>\$ 6,800</u></u>              | <u><u>\$ 6,180</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, 2005, AND JUNE 30, 2004

(Expressed in Thousands)

|   | <u>Year Ended</u><br><u>June 30, 2005</u> | <u>Year Ended</u><br><u>June 30, 2004</u> |
|---|---|---|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>               |   |   |
| Receipts from borrowers for administrative fees           | \$ 376                                    | \$ 268                                    |
| Payment to suppliers                                      | (548)                                     | (527)                                     |
| Receipts from borrowers to the interest rate reserve fund | 174                                       | 183                                       |
| Payments to borrowers from the interest rate reserve fund | <u>(257)</u>                              | <u>(30)</u>                               |
| Net cash used in operating activities                     | <u>(255)</u>                              | <u>(106)</u>                              |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>    |   |   |
| Proceeds from sale of bonds                               | 12,600                                    | 101,527                                   |
| Proceeds from sale of refunding bonds                     | 139,009                                   | 70,377                                    |
| Proceeds from sale of commercial paper                    | 44,000                                    | 39,000                                    |
| Bond issuance costs paid                                  | (884)                                     | (526)                                     |
| Refunding bond proceeds placed in escrow                  | (137,705)                                 | (70,130)                                  |
| Principal paid - bonds and commercial paper               | (24,483)                                  | (80,811)                                  |
| Interest paid - bonds and commercial paper                | (25,620)                                  | (20,718)                                  |
| Subsidy to borrowers                                      | <u>(793)</u>                              | <u>(255)</u>                              |
| Net cash provided by noncapital financing activities      | <u>6,124</u>                              | <u>38,464</u>                             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>               |   |   |
| Purchases of investments                                  | (19,439)                                  | (45,229)                                  |
| Proceeds from sales and maturities of investments         | 23,006                                    | 46,736                                    |
| Interest received on investments                          | 924                                       | 374                                       |
| Loans issued  | (61,810)                                  | (51,361)                                  |
| Collections of loan principal                             | 22,898                                    | 24,526                                    |
| Interest received on loans                                | <u>25,552</u>                             | <u>20,671</u>                             |
| Net cash used in investing activities                     | <u>(8,869)</u>                            | <u>(4,283)</u>                            |
| Net increase (decrease) in cash                           | (3,000)                                   | 34,075                                    |
| Cash, July 1  | <u>63,522</u>                             | <u>29,447</u>                             |
| Cash, June 30   | <u>\$ 60,522</u>                          | <u>\$ 63,522</u>                          |

(Continued on next page)



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TENNESSEE STATE SCHOOL BOND AUTHORITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

(Expressed in Thousands)

|   | Year Ended<br>June 30, 2005 | Year Ended<br>June 30, 2004 |
|---|-----------------------------|-----------------------------|
| <b>Reconciliation of cash to the Statement of Net Assets:</b>                       |                             |                             |
| Cash  | \$ 53,013                   | \$ 58,222                   |
| Cash with fiscal agent  | -                           | 1                           |
| Restricted cash   | 7,509                       | 5,299                       |
| Cash, June 30   | <u>\$ 60,522</u>            | <u>\$ 63,522</u>            |
| <b>Reconciliation of operating income to net cash used in operating activities:</b> |                             |                             |
| Operating income  | <u>\$ 620</u>               | <u>\$ 10</u>                |
| Adjustments to reconcile operating income to net cash used in operating activities: |                             |                             |
| Amortization of bond issuance costs   | 295                         | 229                         |
| Investment earnings   | (1,138)                     | (423)                       |
| Interest expense  | 25,855                      | 22,273                      |
| Subsidy to borrowers  | 847                         | 340                         |
| Interest income from loans  | (26,653)                    | (22,581)                    |
| Changes in assets and liabilities:  |                             |                             |
| (Increase) decrease in receivables for administrative fees                          | 2                           | (106)                       |
| Increase (decrease) in deferred revenue   | (83)                        | 152                         |
| Total adjustments   | <u>(875)</u>                | <u>(116)</u>                |
| Net cash used in operating activities   | <u>\$ (255)</u>             | <u>\$ (106)</u>             |
| <b>Noncash financing activities:</b>  |                             |                             |
| Accretion of capital appreciation bonds   | \$ 898                      | \$ 1,018                    |
| Bond issuance costs   | <u>(7,059)</u>              | <u>(3,689)</u>              |
| Total noncash financing activities  | <u>\$ (6,161)</u>           | <u>\$ (2,671)</u>           |
| <b>Noncash investing activities:</b>  |                             |                             |
| Net appreciation in value of investments reported at fair value                     | <u>\$ 40</u>                | <u>\$ 8</u>                 |

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, 2005, and June 30, 2004**

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

**Reporting Entity**

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

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

**Basis of Presentation**

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

**Measurement Focus and Basis of Accounting**

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

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

**Investments**

Investments are stated at fair value.

**Amortized Amounts**

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

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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- 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 statement of net assets as deferred revenue and amortized on a straight-line basis over the life of the related bond.

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

**NOTE 2. DEPOSITS AND INVESTMENTS**

The Authority has implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, which established and modified the disclosure requirements for deposits and investments. Therefore, the 2004 deposit and investment disclosures have been presented in compliance with GASB 40, for comparative purposes. The investments under the Higher Education First Program General Bond Resolution of the Tennessee State School Bond Authority can be invested in direct obligations of the United States, or obligations of which the principal and interest are guaranteed by the United States. Moneys pertaining to the Higher Education Second Program General Bond Resolution and the Qualified Zone Academy Bonds First Program Resolution of the Tennessee State School Bond Authority, pursuant to *Tennessee Code Annotated*, Section 49-3-1205, can be invested in obligations of the United States or its agencies under flexible repurchase agreements which are fully collateralized by obligations of the United States or obligations the timely payment of the principal of and interest on which are guaranteed by the United States, the state investment pool as

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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provided in *Tennessee Code Annotated*, Section 9-4-603, and any other investment authorized by the state investment policy adopted by the State Funding Board pursuant to *Tennessee Code Annotated*, Section 9-4-602.

**Deposits**

The Tennessee State School Bond Authority has cash on deposit in the Pooled Investment Fund administered by the State Treasurer. The fund's investment policy and required risk disclosures are presented in the *Tennessee Comprehensive Annual Financial Report* for the years ended June 30, 2005, and June 30, 2004. The report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eight Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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

**Investments**

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

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

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

As of June 30, 2004, the Authority had the following investments:

| <u>Investment</u>   | <u>Maturity</u>  | <u>Fair Value</u> |
|---------------------|------------------|-------------------|
| U.S. Treasury Bills | October 24, 2004 | \$11,606,497      |

**Interest Rate Risk**

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

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2005, and June 30, 2004, the Authority's investments were in U.S. Government obligations which are not considered to have credit risk.

**Custodial Credit Risk**

Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. At June 30, 2005, and June 30, 2004, the Authority's investments were registered in the name of the Authority.

**Concentration of Credit Risk**

A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. At June 30, 2005, and June 30, 2004, the Authority's investments were in U.S. Treasury securities.

**Derivative**

On November 24, 2004, the Authority entered into a Forward Delivery Agreement (the "Agreement") with Bank of America, N.A. relating to the Series 2004 QZABs. The notional amount of the Agreement is \$624,050. The Agreement guarantees a fixed rate of interest of 3% on the funds deposited in the sinking fund account. The deposits, from borrowers' loan repayments, will be deposited into the account on November 24, 2005, and each November 24 thereafter through 2020 to ensure the moneys are available to purchase securities from Bank of America. The deposits along with the interest earnings will be used to redeem the \$12,600,000 Series 2004 QZAB at maturity. As a result of the Agreement, borrowers will repay only \$9,984,800 of the \$12,600,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2005, no funds were invested in the Agreement. The fair market value of the Agreement, as it relates to the QZAB program, for the fiscal year ended June 30, 2005, was approximately (\$639,334).

The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also has the right to optionally terminate the Agreement at any time. At the time of the optional termination, if the market rate is above the guaranteed rate, the Authority would be obligated to make a termination payment to the Provider.

**NOTE 3. LOANS RECEIVABLE**

**Higher Education Facilities Programs**

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

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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**Qualified Zone Academy Bonds Program**

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

**NOTE 4. RESTRICTED ASSETS**

**Cash and Investments**

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

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

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

**NOTE 5. DEBT PAYABLE**

**Higher Education Facilities Programs**

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

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

**Qualified Zone Academy Bonds Program**

On September 9, 1999, the Authority adopted a Qualified Zone Academy Bond Resolution authorizing the issuance of Qualified Zone Academy Bonds to local education agencies for the purpose of financing eligible costs of certain projects. The State Department of Education recommends the projects to the Authority that should be funded under the QZABs program. The Taxpayer Relief Act of 1997 provided this financial tool whereby interest on QZABs is paid by the federal government in the form of an annual tax credit to the financial institutions that hold the QZABs. The bonds are secured solely by the payments made by the borrowers under the Loan Agreements, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local education agencies and by certain funds held under the Qualified Zone Academy Bond Resolution. The Authority has no taxing power. Furthermore, the State of Tennessee shall not be liable on the bonds and the bonds shall not be a debt of the State of Tennessee.

Changes in debt payable for the year ended June 30, 2005, and 2004 are as follows (expressed in thousands):

|   | Balance           |                   |                   | Amounts           |                  |
|---|-------------------|-------------------|-------------------|-------------------|------------------|
|   | Balance           |                   |                   | Balance           | Due Within       |
|   | July 1, 2004      | Additions         | Deletions         | June 30, 2005     | One Year         |
| Commercial paper                                | \$ 32,156         | \$ 44,000         | \$ 1,914          | \$ 74,242         | \$ -             |
| Bonds payable                                   | \$ 531,212        | \$ 144,998        | \$ 149,524        | \$ 526,686        | \$ 22,050        |
| Less: unamortized bond discount/premium         | 5,551             | 7,634             | 491               | 12,694            | -                |
| Less: unamortized deferred amount on refundings | (9,378)           | (10,632)          | (717)             | (19,293)          | -                |
| Total bonds payable                             | <u>\$ 527,385</u> | <u>\$ 142,000</u> | <u>\$ 149,298</u> | <u>\$ 520,087</u> | <u>\$ 22,050</u> |
|   |                   |                   |                   |                   |                  |
|   | Balance           |                   |                   | Amounts           |                  |
|   | Balance           |                   |                   | Balance           | Due Within       |
|   | July 1, 2003      | Additions         | Deletions         | June 30, 2004     | One Year         |
| Commercial paper                                | \$ 46,747         | \$ 39,000         | \$ 53,591         | \$ 32,156         | \$ -             |
| Bonds payable                                   | \$ 452,305        | \$ 169,233        | \$ 90,326         | \$ 531,212        | \$ 22,420        |
| Less: unamortized bond discount/premium         | (213)             | 5,374             | (390)             | 5,551             | -                |
| Less: unamortized deferred amount on refundings | (2,283)           | (7,331)           | (236)             | (9,378)           | -                |
| Total bonds payable                             | <u>\$ 449,809</u> | <u>\$ 167,276</u> | <u>\$ 89,700</u>  | <u>\$ 527,385</u> | <u>\$ 22,420</u> |

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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Additions to bonds payable include accretion of interest in the amount of \$897,897 in 2005 and \$1,017,780 in 2004.

Bonds and commercial paper payable at June 30, 2005, and June 30, 2004, are as follows (expressed in thousands):

|   | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|---|----------------------|----------------------|
| Bonds Payable:  |                      |                      |
| 1976 Series B at an interest rate of 3.0% maturing to 2011 (original par - \$6,037)   | \$ 1,117             | \$ 1,366             |
| 1989 College Saver Bonds with yields of 6.85% to 6.9% maturing to 2010 (at accreted value); (original principal - \$21,935)   | 11,449               | 13,311               |
| 1996 Series A at an interest rate of 6.0% maturing to 2006 (original par - \$102,710)   | 2,815                | 5,475                |
| 1996 Refunding Series B at interest rates from 5.0% to 5.25% maturing to 2011 (original par - \$55,300)   | 7,280                | 8,355                |
| 1996 Refunding Series C at interest rates from 5.375% to 6.0% maturing to 2020 (original - par \$4,045)   | 4,045                | 4,045                |
| 1998 Series A at interest rates from 4.30% to 5.00% maturing to 2028 (original par - \$54,865); see additional disclosures regarding the 2005 advance refunding           | 24,825               | 48,365               |
| 1998 Series B (Taxable) at interest rates from 5.85% to 6.00% maturing to 2009 (original - par \$15,460); see additional disclosures regarding the 2005 advance refunding | 1,420                | 14,265               |
| 1998 Refunding Series C at interest rates from 4.20% to 5.00% maturing to 2008 (original par - \$48,735); see additional disclosures regarding the 2005 advance refunding | 4,170                | 14,375               |
| 1998 Refunding Series D at interest rates from 4.05% to 4.85% maturing to 2021 (original par - \$33,540)  | 21,395               | 22,400               |
| 2000 Series A at interest rates from 4.60% to 5.125% maturing to 2010 (original par - \$70,680); see additional disclosures regarding the 2005 advance refunding          | 10,250               | 65,150               |
| 2000 Series B at an interest rate at 7.15% maturing to 2010 (original par - \$33,730); see additional disclosures regarding the 2005 advance refunding                    | 12,290               | 28,240               |



**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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|  |                   |                   |
|--|-------------------|-------------------|
| 2002 Series A at interest rates from 4.50% to 5.25% maturing to 2032 (original par - \$119,135); see additional disclosures regarding the 2005 advance refunding | 90,665            | 113,030           |
| 2004 Series A at interest rates from 2.25% to 4.50% maturing to 2026 (original par - \$67,965)   | 67,685            | 67,965            |
| 2004 Series B at interest rates from 2.25% to 4.50% maturing to 2034 (original par - \$60,575)   | 58,965            | 60,575            |
| 2004 Series C at interest rates from 2.00% to 5.50% maturing to 2034 (original par - \$37,230)   | 37,150            | 37,230            |
| 2005 Series A at interest rates from 3.25% to 5.00% maturing to 2030 (original par - \$100,540)  | 100,540           | -                 |
| 2005 Series B at interest rates from 4.15% to 4.88% maturing to 2028 (original par - \$30,960)   | 30,960            | -                 |
| 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            | 11,330            |
| Qualified Zone Academy Bonds non-interest bearing maturing in 2018 (original par - \$2,445)  | 2,445             | 2,445             |
| Qualified Zone Academy Bonds non-interest bearing maturing in 2021 (original par - \$12,600)   | 12,600            | -                 |
| Total Par Amount of Bonds Payable  | 526,686           | 531,212           |
| Plus Unamortized Premium/Less Unamortized Discount   | 12,694            | 5,551             |
| Bonds Payable Net of Unamortized Premium/ Discount   | 539,380           | 536,763           |
| Less: Deferred Amount on Refundings  | (19,293)          | (9,378)           |
| Net Bonds Payable  | <u>\$ 520,087</u> | <u>\$ 527,385</u> |
| Commercial paper, at varied interest rates from 2.35% to 3.07%   | <u>\$ 74,242</u>  | <u>\$ 32,156</u>  |

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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Debt service requirements to maturity of the bonds payable at June 30, 2005, are as follows (expressed in thousands):

| For the Year(s)<br><u>Ending June 30</u> | <u>Principal</u>  | <u>Interest</u>   | <u>Total</u>      |
|--|-------------------|-------------------|-------------------|
| 2006                                     | \$ 21,070         | \$ 22,821         | \$ 43,891         |
| 2007                                     | 21,379            | 22,496            | 43,875            |
| 2008                                     | 22,176            | 21,740            | 43,916            |
| 2009                                     | 23,095            | 20,986            | 44,081            |
| 2010                                     | 24,116            | 20,139            | 44,255            |
| 2011-2015                                | 118,804           | 76,082            | 194,886           |
| 2016-2020                                | 115,346           | 53,135            | 168,481           |
| 2021-2025                                | 100,951           | 31,062            | 132,013           |
| 2026-2030                                | 64,023            | 12,763            | 76,786            |
| 2031-2034                                | 20,978            | 2,193             | 23,171            |
|  | <u>\$ 531,938</u> | <u>\$ 283,417</u> | <u>\$ 815,355</u> |

The above principal for bonds is more than that presented on the accompanying financial statements by \$11.851 million. Of this amount, \$7.442 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 (2006-2010) in which the bonds mature. The \$11.851 million also includes \$19.293 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, 2005, and 2004, the Authority did not have a liability for arbitrage.

On November 24, 2004, the Authority issued \$12,600,000 of Qualified Zone Academy Bonds (QZABs) to finance improvement loans for qualifying primary and secondary (K-12) schools in the state. The QZABs are part of a federal government program administered by the Tennessee Department of Education in which a federal tax credit is given to investors in lieu of interest on the bonds. On each November 24, the 2004 QZAB borrowers make an annual principal payment into a bond fund held by the State Treasurer to pay the bonds at maturity on November 24, 2020.

On June 8, 2005, the Authority issued two new series of bonds, 2005 Series A and B. The 2005 Series A tax-exempt bond proceeds in the amount of \$100,540,000 went to advance refund \$22,060,000 aggregate principal amount of the 1998 Series A bonds, \$6,245,000 aggregate principal amount of the 1998 Series C bonds, \$53,135,000 aggregate principal amount of the 2000 Series A bonds, and \$19,010,000 aggregate principal amount of the 2002 Series A bonds. The 2005 Series A refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$6,716,722. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2030. The 2005 Series A refunding resulted in a reduction of total debt

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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service payments of \$6,792,801 over the next 25 years and an economic gain (difference between the present values of the old and new debt service payments) of \$4,905,281. The 2005 Series B taxable bond proceeds in the amount of \$30,960,000 went to advance refund \$12,540,000 aggregate principal amount of the 1998 Series B bonds and \$13,965,000 aggregate principal amount of the 2000 Series B bonds. The 2005 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3,914,939. This amount is reported as a deduction from bonds payable and is being charged to operations through the year 2028. The 2005 Series B refunding resulted in a reduction of total debt service payments of \$1,921,181 over the next 23 years and an economic gain (difference between the present values of the old and new debt service payments) of \$1,724,215. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption the redemption price then due on the refunded bonds.

**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, 2005, \$97,745,000 of bonds outstanding is considered defeased.

**Commercial Paper Program**

The Tennessee State School Bond Authority issues short-term debt to finance certain capital projects for the State of Tennessee's higher education institutions. The maximum principal to be issued by the Authority is \$150,000,000. Commercial paper may be issued as tax-exempt or as taxable. At the program's inception, commercial paper refinanced certain outstanding bond anticipation note indebtedness that the Authority had previously issued to finance capital projects. The commercial paper dealer is J.P. Morgan Chase. At June 30, 2005, \$72,922,000 of tax-exempt commercial paper and \$1,320,000 of taxable commercial paper was outstanding. At June 30, 2004, \$30,836,000 of tax-exempt commercial paper and \$1,320,000 of taxable commercial paper was outstanding.

The maturity of the paper may not exceed 270 days, and the maximum interest rate may not exceed 12%. Upon maturity, the paper is remarketed by the commercial paper dealer, redeemed, or extinguished with long-term debt. Interest on commercial paper is at varied rates, ranging from 1.00% to 3.07% during the fiscal year. Interest is payable upon maturity.

The commercial paper liquidity provider, under an Advance Agreement, is WestLB, New York branch with a termination date of December 15, 2015, subject to extension and earlier termination. The total available commitment is \$152,250,000. The obligation of WestLB is to purchase unremarketed commercial paper. In the event the liquidity facility is called upon, the Authority has ninety days to repay the advance from the facility. Should the Authority fail to repay the loan within the ninety-day period, it converts to a term loan with four semi-annual payments. In accordance with Financial Accounting Standards Board Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced*, this agreement meets the criteria of a financing agreement, thus, the commercial paper payable is classified as a long-term liability.

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

**NOTE 6. DEFERRED REVENUE**

Changes in deferred revenue for the year ended June 30, 2005, and 2004, are as follows (expressed in thousands):

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

|                               | Balance         |                 |               | Balance          |
|-------------------------------|-----------------|-----------------|---------------|------------------|
|                               | July 1, 2003    | Additions       | Deletions     | June 30, 2004    |
| Interest rate reserve fund    | \$ 210          | \$ 183          | \$ 30         | \$ 363           |
| Other deferred revenue        | 7,034           | 3,936           | 968           | 10,002           |
| <b>Total deferred revenue</b> | <b>\$ 7,244</b> | <b>\$ 4,119</b> | <b>\$ 998</b> | <b>\$ 10,365</b> |

Deferred revenue at June 30, 2005, and June 30, 2004, is as follows (expressed in thousands):

|  | <u>June 30, 2005</u> | <u>June 30, 2004</u> |
|--|----------------------|----------------------|
| Interest Rate Reserve Fund   | \$ 279               | \$ 363               |
| Difference in bond proceeds available for capital expenditure and the par value of bonds to be repaid-adjustments for discount/premium, underwriters' fees, and other costs of issuance: |                      |                      |
| 1996 Series B bonds; amortized through 2011  | 270                  | 315                  |
| 1996 Series C bonds, which was a cross-over refunding of the 1989 Current Interest Bonds; amortized through 2020   | 117                  | 124                  |
| 1998 Series A bonds; amortized through 2028  | 280                  | 552                  |
| 1998 Series B bonds; amortized through 2009  | 17                   | 179                  |
| 1998 Series C bonds; amortized through 2008  | 69                   | 192                  |
| 1998 Series D bonds, which was an advance  | 2,218                | 2,358                |

**Tennessee State School Bond Authority**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2005, and June 30, 2004**

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|  |           |           |
|--|-----------|-----------|
| refunding of the 1992 Series A bonds; amortized through 2021 |           |           |
| 1999 Qualified Zone Academy Bonds; amortized through 2012    | 250       | 272       |
| 2000 Series A bonds; amortized through 2010                  | 125       | 807       |
| 2000 Series B bonds; amortized through 2010                  | 82        | 187       |
| 2001 Qualified Zone Academy Bonds; amortized through 2016    | 220       | 241       |
| 2002 Series A bonds; amortized through 2032                  | 709       | 890       |
| 2003 Qualified Zone Academy Bonds; amortized through 2019    | 109       | 117       |
| 2004 Series A bonds; amortized through 2026                  | 4,583     | 4,803     |
| 2004 Series B bonds; amortized through 2034                  | (1,465)   | (1,516)   |
| 2004 Series C bonds; amortized through 2034                  | 465       | 481       |
| 2004 Qualified Zone Academy Bonds; amortized through 2021    | 84        | -         |
| 2005 Series A bonds; amortized through 2030                  | 90        | -         |
| 2005 Series B bonds; amortized through 2028                  | 4,439     | -         |
| Total  | \$ 12,941 | \$ 10,365 |

**NOTE 7. SUBSEQUENT EVENTS**

On December 9, 2005, the Authority had outstanding \$91,138,000 in tax-exempt commercial paper and \$4,320,000 in taxable commercial paper. Between June 30, 2005, and December 9, 2005, the Authority has issued \$29,000,000 in commercial paper to pay construction expenditures.

On December 8, 2005 the Authority priced \$17,545,000 of Qualified Zone Academy Bonds. The Authority anticipates closing on this obligation on December 28, 2005.

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# SUPPLEMENTARY SCHEDULES

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TENNESSEE STATE SCHOOL BOND AUTHORITY  
 SUPPLEMENTARY SCHEDULES OF NET ASSETS - PROGRAM LEVEL  
 JUNE 30, 2005, AND JUNE 30, 2004

(Expressed in Thousands)

|                                     | June 30, 2005                             |  |           | June 30, 2004                             |  |           |
|-------------------------------------|---|--|-----------|---|--|-----------|
|                                     | Higher Education<br>Facilities<br>Program | Qualified Zone<br>Academy Bonds<br>Program | Total     | Higher Education<br>Facilities<br>Program | Qualified Zone<br>Academy Bonds<br>Program | Total     |
| <b>ASSETS</b>                       |   |  |           |   |  |           |
| Current assets:                     |   |  |           |   |  |           |
| Cash                                | \$ 40,314                                 | \$ 12,699                                  | \$ 53,013 | \$ 53,755                                 | \$ 4,467                                   | \$ 58,222 |
| Cash with fiscal agent              | -   | -  | -         | 1   | -  | 1         |
| Investments with fiscal agent       | 370                                       | -  | 370       | 5   | -  | 5         |
| Loans receivable                    | 22,050                                    | 2,319                                      | 24,369    | 22,420                                    | 1,758                                      | 24,178    |
| Interest receivable                 | 3,581                                     | 15   | 3,596     | 4,024                                     | -  | 4,024     |
| Receivables for administrative fees | 361                                       | 8  | 369       | 366                                       | 5  | 371       |
| Total current assets                | 66,676                                    | 15,041                                     | 81,717    | 80,571                                    | 6,230                                      | 86,801    |
| Noncurrent assets:                  |   |  |           |   |  |           |
| Restricted cash                     | -   | 7,509                                      | 7,509     | -   | 5,299                                      | 5,299     |
| Restricted investments              | 7,881                                     | 4,419                                      | 12,300    | 11,601                                    | -  | 11,601    |
| Loans receivable                    | 498,083                                   | 13,432                                     | 511,515   | 455,448                                   | 15,617                                     | 471,065   |
| Deferred charges                    | 4,986                                     | 490  | 5,476     | 5,030                                     | 466  | 5,496     |
| Total noncurrent assets             | 510,950                                   | 25,850                                     | 536,800   | 472,079                                   | 21,382                                     | 493,461   |
| Total assets                        | 577,626                                   | 40,891                                     | 618,517   | 552,650                                   | 27,612                                     | 580,262   |
| <b>LIABILITIES</b>                  |   |  |           |   |  |           |
| Current liabilities:                |   |  |           |   |  |           |
| Accounts payable                    | 31  | -  | 31        | -   | -  | -         |
| Due to local education authorities  | -   | 615  | 615       | -   | -  | -         |
| Accrued interest payable            | 3,801                                     | -  | 3,801     | 4,176                                     | -  | 4,176     |
| Deferred revenue                    | 963                                       | 72   | 1,035     | 867                                       | 66   | 933       |
| Bonds payable                       | 22,050                                    | -  | 22,050    | 22,420                                    | -  | 22,420    |
| Total current liabilities           | 26,845                                    | 687  | 27,532    | 27,463                                    | 66   | 27,529    |
| Noncurrent liabilities:             |   |  |           |   |  |           |
| Deferred revenue                    | 11,315                                    | 591  | 11,906    | 8,869                                     | 563  | 9,432     |
| Commercial paper payable            | 74,242                                    | -  | 74,242    | 32,156                                    | -  | 32,156    |
| Bonds payable                       | 458,465                                   | 39,572                                     | 498,037   | 478,006                                   | 26,959                                     | 504,965   |
| Total noncurrent liabilities        | 544,022                                   | 40,163                                     | 584,185   | 519,031                                   | 27,522                                     | 546,553   |
| Total liabilities                   | 570,867                                   | 40,850                                     | 611,717   | 546,494                                   | 27,588                                     | 574,082   |
| <b>NET ASSETS</b>                   |   |  |           |   |  |           |
| Unrestricted                        | \$ 6,759                                  | \$ 41                                      | \$ 6,800  | \$ 6,156                                  | \$ 24                                      | \$ 6,180  |



TENNESSEE STATE SCHOOL BOND AUTHORITY  
 SUPPLEMENTARY SCHEDULES OF REVENUES,  
 EXPENSES AND CHANGES IN NET ASSETS - PROGRAM LEVEL  
 FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

(Expressed in Thousands)

|  | Year ended June 30, 2005                  |  |           | Year ended June 30, 2004                  |  |           |
|--|---|--|-----------|---|--|-----------|
|  | Higher Education<br>Facilities<br>Program | Qualified Zone<br>Academy Bonds<br>Program | Total     | Higher Education<br>Facilities<br>Program | Qualified Zone<br>Academy Bonds<br>Program | Total     |
| <b>OPERATING REVENUES</b>                        |   |  |           |   |  |           |
| Revenue from loans                               | \$ 26,945                                 | \$ 82                                      | \$ 27,027 | \$ 22,884                                 | \$ 72                                      | \$ 22,956 |
| Investment earnings                              | 1,138                                     | -  | 1,138     | 423                                       | -  | 423       |
| Total operating revenues                         | 28,083                                    | 82   | 28,165    | 23,307                                    | 72   | 23,379    |
| <b>OPERATING EXPENSES</b>                        |   |  |           |   |  |           |
| Interest expense-commercial paper                | 939                                       | -  | 939       | 515                                       | -  | 515       |
| Interest expense-bonds                           | 24,903                                    | 13   | 24,916    | 21,746                                    | 12   | 21,758    |
| Subsidy to borrowers                             | 847                                       | -  | 847       | 340                                       | -  | 340       |
| Administrative expense                           | 548                                       | -  | 548       | 527                                       | -  | 527       |
| Amortization of bond issuance costs              | 243                                       | 52   | 295       | 183                                       | 46   | 229       |
| Total operating expenses                         | 27,480                                    | 65   | 27,545    | 23,311                                    | 58   | 23,369    |
| Operating income (loss) and change in net assets | 603                                       | 17   | 620       | (4)                                       | 14   | 10        |
| Net assets, July 1                               | 6,156                                     | 24   | 6,180     | 6,160                                     | 10   | 6,170     |
| Net assets, June 30                              | \$ 6,759                                  | \$ 41                                      | \$ 6,800  | \$ 6,156                                  | \$ 24                                      | \$ 6,180  |

TENNESSEE STATE SCHOOL BOND AUTHORITY  
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL  
FOR THE YEARS ENDED JUNE 30, 2005, AND JUNE 30, 2004

|  | (Expressed in Thousands)                  |  |                   |   |  |                   |
|--|---|--|-------------------|---|--|-------------------|
|  | Year ended June 30, 2005                  |  |                   | Year ended June 30, 2004                  |  |                   |
|  | Higher Education<br>Facilities<br>Program | Qualified Zone<br>Academy Bonds<br>Program | Total             | Higher Education<br>Facilities<br>Program | Qualified Zone<br>Academy Bonds<br>Program | Total             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |   |  |                   |   |  |                   |
| Receipts from borrowers for administrative fees  | \$ 366                                    | \$ 10                                      | \$ 376            | \$ 259                                    | \$ 9                                       | \$ 268            |
| Payment to suppliers   | (548)                                     | -  | (548)             | (527)                                     | -  | (527)             |
| Receipts from borrowers to the interest rate reserve fund                                  | 174                                       | -  | 174               | 183                                       | -  | 183               |
| Payments to borrowers from the interest rate reserve fund                                  | (257)                                     | -  | (257)             | (30)                                      | -  | (30)              |
| Net cash provided by (used in) operating activities  | <u>(265)</u>                              | <u>10</u>                                  | <u>(255)</u>      | <u>(115)</u>                              | <u>9</u>                                   | <u>(106)</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                     |   |  |                   |   |  |                   |
| Proceeds from sale of bonds  | -   | 12,600                                     | 12,600            | 99,130                                    | 2,397                                      | 101,527           |
| Proceeds from sale of refunding bonds  | 139,009                                   | -  | 139,009           | 70,377                                    | -  | 70,377            |
| Proceeds from sale of commercial paper   | 44,000                                    | -  | 44,000            | 39,000                                    | -  | 39,000            |
| Bond issuance costs paid   | (809)                                     | (75)                                       | (884)             | (477)                                     | (49)                                       | (526)             |
| Refunding bond proceeds placed in escrow   | (137,705)                                 | -  | (137,705)         | (70,130)                                  | -  | (70,130)          |
| Principal paid - bonds and commercial paper  | (24,483)                                  | -  | (24,483)          | (80,811)                                  | -  | (80,811)          |
| Interest paid - bonds and commercial paper   | (25,620)                                  | -  | (25,620)          | (20,718)                                  | -  | (20,718)          |
| Subsidy to borrowers   | (793)                                     | -  | (793)             | (255)                                     | -  | (255)             |
| Net cash provided by (used in) noncapital financing activities                             | <u>(6,401)</u>                            | <u>12,525</u>                              | <u>6,124</u>      | <u>36,116</u>                             | <u>2,348</u>                               | <u>38,464</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |   |  |                   |   |  |                   |
| Purchases of investments   | (19,439)                                  | -  | (19,439)          | (45,229)                                  | -  | (45,229)          |
| Proceeds from sales and maturities of investments  | 23,006                                    | -  | 23,006            | 46,736                                    | -  | 46,736            |
| Interest received on investments   | 924                                       | -  | 924               | 374                                       | -  | 374               |
| Loans issued   | (57,553)                                  | (4,257)                                    | (61,810)          | (46,155)                                  | (5,206)                                    | (51,361)          |
| Collections of loan principal  | 20,734                                    | 2,164                                      | 22,898            | 23,105                                    | 1,421                                      | 24,526            |
| Interest received on loans   | 25,552                                    | -  | 25,552            | 20,671                                    | -  | 20,671            |
| Net cash used in investing activities  | <u>(6,776)</u>                            | <u>(2,093)</u>                             | <u>(8,869)</u>    | <u>(498)</u>                              | <u>(3,785)</u>                             | <u>(4,283)</u>    |
| Net increase (decrease) in cash  | (13,442)                                  | 10,442                                     | (3,000)           | 35,503                                    | (1,428)                                    | 34,075            |
| Cash, July 1   | 53,756                                    | 9,766                                      | 63,522            | 18,253                                    | 11,194                                     | 29,447            |
| Cash, June 30  | <u>\$ 40,314</u>                          | <u>\$ 20,208</u>                           | <u>\$ 60,522</u>  | <u>\$ 53,756</u>                          | <u>\$ 9,766</u>                            | <u>\$ 63,522</u>  |
| <b>Reconciliation of cash to the Statement of Net Assets:</b>                              |   |  |                   |   |  |                   |
| Cash   | \$ 40,314                                 | \$ 12,699                                  | \$ 53,013         | \$ 53,755                                 | \$ 4,467                                   | \$ 58,222         |
| Cash with fiscal agent   | -   | -  | -                 | 1   | -  | 1                 |
| Restricted cash  | -   | 7,509                                      | 7,509             | -   | 5,299                                      | 5,299             |
| Cash, June 30  | <u>\$ 40,314</u>                          | <u>\$ 20,208</u>                           | <u>\$ 60,522</u>  | <u>\$ 53,756</u>                          | <u>\$ 9,766</u>                            | <u>\$ 63,522</u>  |
| <b>Reconciliation of operating income (loss) to net cash used in operating activities:</b> |   |  |                   |   |  |                   |
| Operating income (loss)  | \$ 603                                    | \$ 17                                      | \$ 620            | \$ (4)                                    | \$ 14                                      | \$ 10             |
| Adjustments to reconcile operating income (loss) to net cash used in operating activities: |   |  |                   |   |  |                   |
| Amortization of bond issuance costs  | 243                                       | 52   | 295               | 183                                       | 46   | 229               |
| Investment earnings  | (1,138)                                   | -  | (1,138)           | (423)                                     | -  | (423)             |
| Interest expense   | 25,842                                    | 13   | 25,855            | 22,261                                    | 12   | 22,273            |
| Subsidy to borrowers   | 847                                       | -  | 847               | 340                                       | -  | 340               |
| Interest income from loans   | (26,584)                                  | (69)                                       | (26,653)          | (22,518)                                  | (63)                                       | (22,581)          |
| Changes in assets and liabilities:   |   |  |                   |   |  |                   |
| (Increase) decrease in receivables for administrative fees                                 | 5   | (3)  | 2                 | (106)                                     | -  | (106)             |
| Increase (decrease) in deferred revenue  | (83)                                      | -  | (83)              | 152                                       | -  | 152               |
| Total adjustments  | <u>(868)</u>                              | <u>(7)</u>                                 | <u>(875)</u>      | <u>(111)</u>                              | <u>(5)</u>                                 | <u>(116)</u>      |
| Net cash provided by (used in) operating activities  | <u>\$ (265)</u>                           | <u>\$ 10</u>                               | <u>\$ (255)</u>   | <u>\$ (115)</u>                           | <u>\$ 9</u>                                | <u>\$ (106)</u>   |
| <b>Noncash financing activities:</b>   |   |  |                   |   |  |                   |
| Accretion of capital appreciation bonds  | \$ 898                                    | \$ -                                       | \$ 898            | \$ 1,018                                  | \$ -                                       | \$ 1,018          |
| Bond issuance costs  | (7,134)                                   | 75   | (7,059)           | (3,736)                                   | 47   | (3,689)           |
| Total noncash financing activities   | <u>\$ (6,236)</u>                         | <u>\$ 75</u>                               | <u>\$ (6,161)</u> | <u>\$ (2,718)</u>                         | <u>\$ 47</u>                               | <u>\$ (2,671)</u> |
| <b>Noncash investing activities:</b>   |   |  |                   |   |  |                   |
| Net appreciation in value of investments reported at fair value                            | \$ 40                                     | \$ -                                       | \$ 40             | \$ 8                                      | \$ -                                       | \$ 8              |



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# STATISTICAL SECTION

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

(Expressed in Thousands)

| Fiscal<br>Year | Revenue<br>from Loans | Investment<br>Earnings | Total     |
|----------------|-----------------------|------------------------|-----------|
| 2005           | \$ 27,027             | \$ 1,138               | \$ 28,165 |
| 2004           | 22,956                | 423                    | 23,379    |
| 2003           | 24,927                | 781                    | 25,708    |
| 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    |

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

(Expressed in Thousands)

| Fiscal Year | Interest<br>Expense | Subsidy to<br>Borrowers | Administrative<br>Expense | Amortization<br>of Bond Issue<br>Costs | Total     |
|-------------|---------------------|-------------------------|---------------------------|--|-----------|
| 2005        | \$ 25,855           | \$ 847                  | \$ 548                    | \$ 295                                 | \$ 27,545 |
| 2004        | 22,273              | 340                     | 527                       | 229                                    | 23,369    |
| 2003        | 24,445              | 2,382                   | 457                       | 205                                    | 27,489    |
| 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    |

(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<br>Year | Higher Education<br>Facilities Programs | Qualified Zone<br>Academy Bonds<br>Program | Total      |
|----------------|---|--|------------|
| 2005           | \$ 520,133                              | \$ 15,751                                  | \$ 535,884 |
| 2004           | 477,867                                 | 17,375                                     | 495,242    |
| 2003           | 454,173                                 | 13,556                                     | 467,729    |
| 2002           | 416,264                                 | 9,485                                      | 425,749    |
| 2001           | 382,606                                 | 5,272                                      | 387,878    |
| 2000           | 343,643                                 | -  | 343,643    |
| 1999           | 457,342                                 | -  | 457,342    |
| 1998           | 361,249                                 | -  | 361,249    |
| 1997           | 327,907                                 | -  | 327,907    |
| 1996           | 312,071                                 | -  | 312,071    |

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<br>Year | Higher Education Facilities Programs |                     |                               | Qualified Zone<br>Academy Bonds<br>Program | Total      |
|----------------|--------------------------------------|---------------------|-------------------------------|--|------------|
|                | Bonds                                | Commercial<br>Paper | Bond<br>Anticipation<br>Notes | QZAB Bonds                                 |            |
| 2005           | \$ 480,515                           | \$ 74,242           | \$ -                          | \$ 39,572                                  | \$ 594,329 |
| 2004           | 500,426                              | 32,156              | -                             | 26,959                                     | 559,541    |
| 2003           | 425,282                              | 46,747              | -                             | 24,527                                     | 496,556    |
| 2002           | 446,620                              | 13,757              | -                             | 24,516                                     | 484,893    |
| 2001           | 346,050                              | 60,277              | -                             | 13,175                                     | 419,502    |
| 2000           | 258,651                              | 102,700             | -                             | 13,163                                     | 374,514    |
| 1999           | 329,562                              | 162,050             | -                             | -  | 491,612    |
| 1998           | 318,696                              | 91,750              | -                             | -  | 410,446    |
| 1997           | 337,233                              | -                   | 42,095                        | -  | 379,328    |
| 1996           | 246,641                              | -                   | 104,585                       | -  | 351,226    |

Note:

QZAB bonds were obtained in fiscal year 2000.

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

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

(Expressed in Thousands)

**UNIVERSITY OF TENNESSEE**

| Fiscal<br>Year | Total Fees<br>and Charges | Legislative<br>Appropriations | Prior and Subordinate<br>Debt Service Requirements<br>(Non Authority) | Debt Service<br>Requirements<br>(Authority Bonds) |
|----------------|---------------------------|-------------------------------|---|---|
| 2005           | \$ 448,955                | \$ 430,412                    | \$ 66   | \$ 23,896   |
| 2004           | 417,191                   | 406,033                       | 75  | 25,317  |
| 2003           | 413,632                   | 409,612                       | -   | 24,508  |
| 2002           | 438,956                   | 406,146                       | 21  | 24,804  |
| 2001           | 401,918                   | 408,671                       | 21  | 18,628  |
| 2000           | 410,086                   | 375,872                       | 21  | 16,872  |
| 1999           | 622,109                   | 373,207                       | 21  | 24,431  |
| 1998           | 559,661                   | 367,938                       | 21  | 28,657  |
| 1997           | 587,138                   | 374,249                       | 21  | 26,891  |
| 1996           | 563,302                   | 369,853                       | 21  | 21,749  |

**AUSTIN PEAY STATE UNIVERSITY**

| Fiscal<br>Year | Total Fees<br>and Charges | Legislative<br>Appropriations | Prior and Subordinate<br>Debt Service Requirements<br>(Non Authority) | Debt Service<br>Requirements<br>(Authority Bonds) |
|----------------|---------------------------|-------------------------------|---|---|
| 2005           | \$ 34,012                 | \$ 32,216                     | \$ -  | \$ 2,104  |
| 2004           | 33,058                    | 30,712                        | 48  | 2,242   |
| 2003           | 36,201                    | 31,100                        | 48  | 1,515   |
| 2002           | 33,157                    | 30,484                        | 48  | 1,516   |
| 2001           | 26,555                    | 28,051                        | 48  | 649   |
| 2000           | 24,288                    | 28,001                        | 48  | 649   |
| 1999           | 23,188                    | 27,444                        | 48  | 651   |
| 1998           | 20,420                    | 25,559                        | 48  | 672   |
| 1997           | 19,178                    | 25,733                        | 48  | 641   |
| 1996           | 18,235                    | 25,209                        | 48  | 535   |

**EAST TENNESSEE STATE UNIVERSITY**

| Fiscal<br>Year | Total Fees<br>and Charges | Legislative<br>Appropriations | Prior and Subordinate<br>Debt Service Requirements<br>(Non Authority) | Debt Service<br>Requirements<br>(Authority Bonds) |
|----------------|---------------------------|-------------------------------|---|---|
| 2005           | \$ 77,284                 | \$ 83,221                     | \$ 312  | \$ 2,221  |
| 2004           | 77,570                    | 79,247                        | 315   | 2,824   |
| 2003           | 68,805                    | 79,735                        | 319   | 2,609   |
| 2002           | 65,342                    | 77,965                        | 261   | 2,608   |
| 2001           | 59,516                    | 75,937                        | 261   | 1,916   |
| 2000           | 64,386                    | 72,837                        | 258   | 1,954   |
| 1999           | 64,652                    | 70,814                        | -   | 1,743   |
| 1998           | 57,826                    | 67,202                        | -   | 1,588   |
| 1997           | 53,232                    | 68,469                        | -   | 1,597   |
| 1996           | 49,502                    | 67,549                        | -   | 1,636   |

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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> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 107,719                    | \$ 82,305                         | \$ -   | \$ 6,455   |
| 2004               | 98,844                        | 81,057                            | -  | 6,937  |
| 2003               | 93,953                        | 83,208                            | -  | 6,540  |
| 2002               | 98,031                        | 77,990                            | -  | 6,537  |
| 2001               | 86,328                        | 76,159                            | -  | 5,472  |
| 2000               | 78,317                        | 73,273                            | -  | 4,886  |
| 1999               | 70,530                        | 70,576                            | -  | 3,357  |
| 1998               | 62,814                        | 64,469                            | -  | 1,872  |
| 1997               | 57,341                        | 63,529                            | -  | 1,668  |
| 1996               | 54,128                        | 61,920                            | -  | 1,166  |

**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> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 44,167                     | \$ 42,305                         | \$ -   | \$ 2,893   |
| 2004               | 53,840                        | 40,621                            | -  | 3,001  |
| 2003               | 57,939                        | 39,040                            | -  | 3,136  |
| 2002               | 45,119                        | 35,067                            | -  | 3,137  |
| 2001               | 54,979                        | 34,843                            | 66   | 2,193  |
| 2000               | 52,156                        | 36,337                            | 66   | 2,056  |
| 1999               | 46,423                        | 35,597                            | 66   | 1,470  |
| 1998               | 39,141                        | 32,052                            | 135  | 1,257  |
| 1997               | 34,352                        | 32,227                            | 135  | 1,157  |
| 1996               | 31,231                        | 31,477                            | 135  | 1,100  |

**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> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 44,801                     | \$ 47,869                         | \$ -   | \$ 1,042   |
| 2004               | 47,194                        | 40,165                            | -  | 1,168  |
| 2003               | 53,518                        | 45,813                            | -  | 897  |
| 2002               | 41,311                        | 40,392                            | -  | 415  |
| 2001               | 37,065                        | 43,568                            | -  | 639  |
| 2000               | 33,791                        | 38,938                            | -  | 844  |
| 1999               | 31,616                        | 39,259                            | -  | 1,075  |
| 1998               | 28,831                        | 37,699                            | -  | 1,145  |
| 1997               | 27,208                        | 38,164                            | -  | 1,150  |
| 1996               | 26,110                        | 38,452                            | -  | 1,173  |

**UNIVERSITY OF MEMPHIS**

| <u>Fiscal Year</u> | <u>Total Fees and Charges</u> | <u>Legislative Appropriations</u> | <u>Prior and Subordinate Debt Service Requirements (Non Authority)</u> | <u>Debt Service Requirements (Authority Bonds)</u> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 134,065                    | \$ 106,393                        | \$ -   | \$ 4,993   |
| 2004               | 128,880                       | 100,602                           | -  | 5,609  |
| 2003               | 127,638                       | 102,139                           | -  | 6,291  |
| 2002               | 120,196                       | 99,786                            | -  | 6,334  |
| 2001               | 114,031                       | 97,499                            | -  | 3,777  |
| 2000               | 102,186                       | 94,289                            | -  | 2,353  |
| 1999               | 93,593                        | 93,576                            | -  | 3,054  |
| 1998               | 80,625                        | 89,924                            | -  | 2,991  |
| 1997               | 75,167                        | 91,212                            | -  | 2,889  |
| 1996               | 72,587                        | 90,400                            | -  | 2,451  |

**CHATTANOOGA STATE TECHNICAL COMMUNITY COLLEGE**

| <u>Fiscal Year</u> | <u>Total Fees and Charges</u> | <u>Legislative Appropriations</u> | <u>Prior and Subordinate Debt Service Requirements (Non Authority)</u> | <u>Debt Service Requirements (Authority Bonds)</u> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 12,306                     | \$ 21,977                         | \$ -   | \$ 69  |
| 2004               | 11,937                        | 20,979                            | 65   | 73   |
| 2003               | 13,428                        | 21,108                            | 60   | 73   |
| 2002               | 12,380                        | 21,233                            | 70   | 73   |
| 2001               | 11,650                        | 20,684                            | 69   | 34   |
| 2000               | 11,074                        | 20,234                            | 72   | -  |
| 1999               | 10,453                        | 19,602                            | 69   | -  |
| 1998               | 9,818                         | 18,589                            | 68   | -  |
| 1997               | 9,032                         | 18,514                            | 71   | -  |
| 1996               | 8,701                         | 18,284                            | 74   | -  |

**COLUMBIA STATE COMMUNITY COLLEGE**

| <u>Fiscal Year</u> | <u>Total Fees and Charges</u> | <u>Legislative Appropriations</u> | <u>Prior and Subordinate Debt Service Requirements (Non Authority)</u> | <u>Debt Service Requirements (Authority Bonds)</u> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 12,133                     | \$ 12,839                         | \$ -   | \$ 17  |
| 2004               | 10,799                        | 11,344                            | -  | 17   |
| 2003               | 14,921                        | 11,540                            | -  | -  |
| 2002               | 13,136                        | 11,437                            | -  | -  |
| 2001               | 7,294                         | 11,016                            | -  | -  |
| 2000               | 6,836                         | 10,675                            | -  | -  |
| 1999               | 6,615                         | 10,143                            | -  | -  |
| 1998               | 5,753                         | 9,069                             | -  | -  |
| 1997               | 4,966                         | 8,670                             | -  | -  |
| 1996               | 4,605                         | 8,361                             | -  | -  |

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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)

**NASHVILLE STATE COMMUNITY COLLEGE**

| <u>Fiscal Year</u> | <u>Total Fees and Charges</u> | <u>Legislative Appropriations</u> | <u>Prior and Subordinate Debt Service Requirements (Non Authority)</u> | <u>Debt Service Requirements (Authority Bonds)</u> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 13,955                     | \$ 13,449                         | \$ -   | \$ 13  |
| 2004               | 12,202                        | 12,730                            | -  | 13   |
| 2003               | 13,519                        | 13,099                            | -  | 13   |
| 2002               | 8,254                         | 12,525                            | -  | 13   |
| 2001               | 8,322                         | 12,168                            | -  | -  |
| 2000               | 7,474                         | 11,655                            | -  | -  |
| 1999               | 6,816                         | 11,092                            | -  | -  |
| 1998               | 6,260                         | 9,864                             | -  | -  |
| 1997               | 4,777                         | 9,677                             | -  | -  |
| 1996               | 4,300                         | 9,716                             | -  | -  |

**ROANE 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> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 7,890                      | \$ 16,470                         | \$ -   | \$ -   |
| 2004               | 7,473                         | 15,518                            | -  | -  |
| 2003               | 9,532                         | 15,779                            | -  | -  |
| 2002               | 8,589                         | 15,771                            | -  | -  |
| 2001               | 7,697                         | 15,524                            | 33   | -  |
| 2000               | 7,565                         | 14,879                            | 33   | -  |
| 1999               | 6,940                         | 14,254                            | -  | -  |
| 1998               | 6,268                         | 13,441                            | -  | -  |
| 1997               | 5,878                         | 13,649                            | -  | -  |
| 1996               | 5,349                         | 13,509                            | -  | -  |

**SOUTHWEST TENNESSEE COMMUNITY COLLEGE\***

| <u>Fiscal Year</u> | <u>Total Fees and Charges</u> | <u>Legislative Appropriations</u> | <u>Prior and Subordinate Debt Service Requirements (Non Authority)</u> | <u>Debt Service Requirements (Authority Bonds)</u> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 16,749                     | \$ 36,210                         | \$ -   | \$ 169   |
| 2004               | 16,472                        | 34,191                            | -  | 179  |
| 2003               | 21,839                        | 34,827                            | -  | 179  |
| 2002               | 19,022                        | 35,175                            | -  | 179  |
| 2001               | 18,325                        | 34,451                            | -  | 146  |
| 2000               | 10,838                        | 18,464                            | -  | 146  |
| 1999               | 9,991                         | 18,527                            | -  | 56   |
| 1998               | 9,837                         | 17,898                            | -  | -  |
| 1997               | 9,712                         | 18,174                            | -  | -  |
| 1996               | 9,250                         | 17,988                            | 74   | -  |

**VOLUNTEER STATE COMMUNITY COLLEGE**

| <u>Fiscal Year</u> | <u>Total Fees and Charges</u> | <u>Legislative Appropriations</u> | <u>Prior and Subordinate Debt Service Requirements (Non Authority)</u> | <u>Debt Service Requirements (Authority Bonds)</u> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 19,115                     | \$ 18,049                         | \$ -   | \$ 17  |
| 2004               | 9,395                         | 15,417                            | -  | 17   |
| 2003               | 12,941                        | 15,813                            | -  | -  |
| 2002               | 15,060                        | 15,862                            | -  | -  |
| 2001               | 15,567                        | 15,394                            | -  | -  |
| 2000               | 17,843                        | 14,947                            | -  | -  |
| 1999               | 15,088                        | 14,323                            | -  | -  |
| 1998               | 13,046                        | 13,232                            | -  | -  |
| 1997               | 12,855                        | 12,029                            | -  | -  |
| 1996               | 11,309                        | 11,504                            | -  | -  |

**WALTERS 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> |
|--------------------|-------------------------------|-----------------------------------|--|--|
| 2005               | \$ 21,318                     | \$ 16,780                         | \$ -   | \$ -   |
| 2004               | 20,827                        | 15,821                            | -  | -  |
| 2003               | 20,031                        | 16,045                            | 70   | -  |
| 2002               | 17,832                        | 15,595                            | 88   | -  |
| 2001               | 10,170                        | 15,173                            | -  | -  |
| 2000               | 9,001                         | 14,767                            | 286  | -  |
| 1999               | 8,408                         | 14,265                            | -  | -  |
| 1998               | 8,350                         | 13,132                            | -  | -  |
| 1997               | 7,236                         | 12,658                            | -  | -  |
| 1996               | 6,595                         | 12,308                            | -  | -  |

\* As of July 1, 2000, State Technical Institute at Memphis 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 SIX YEARS**

**BENTON COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                     |   |                      |                                     |          |
|------------------------------|---------------------|---|----------------------|-------------------------------------|----------|
| Fiscal<br>Year               | QZAB<br>Obligations | Other Pledged<br>Obligations<br>(Non-Authority) | Total<br>Obligations | Prior Year<br>State Shared<br>Taxes | Coverage |
| 2000                         | \$ -                | \$ -  | \$ -                 | \$ -                                | 0.00 x   |
| 2001                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2002                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2003                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2004                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2005                         | -                   | -   | -                    | 2,601,421                           | 0.00 x   |

**BLOUNT COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                     |   |                      |                                     |          |
|------------------------------|---------------------|---|----------------------|-------------------------------------|----------|
| Fiscal<br>Year               | QZAB<br>Obligations | Other Pledged<br>Obligations<br>(Non-Authority) | Total<br>Obligations | Prior Year<br>State Shared<br>Taxes | Coverage |
| 2000                         | \$ -                | \$ -  | \$ -                 | \$ -                                | 0.00 x   |
| 2001                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2002                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2003                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2004                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2005                         | -                   | -   | -                    | 3,536,465                           | 0.00 x   |

**DAVIDSON COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                     |   |                      |                                     |          |
|------------------------------|---------------------|---|----------------------|-------------------------------------|----------|
| Fiscal<br>Year               | QZAB<br>Obligations | Other Pledged<br>Obligations<br>(Non-Authority) | Total<br>Obligations | Prior Year<br>State Shared<br>Taxes | Coverage |
| 2000                         | \$ -                | \$ -  | \$ -                 | \$ -                                | 0.00 x   |
| 2001                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2002                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2003                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2004                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2005                         | -                   | 32,491,787                                      | 32,491,787           | 57,318,885                          | 1.76 x   |

**HAMILTON COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                     |   |                      |                                     |          |
|------------------------------|---------------------|---|----------------------|-------------------------------------|----------|
| Fiscal<br>Year               | QZAB<br>Obligations | Other Pledged<br>Obligations<br>(Non-Authority) | Total<br>Obligations | Prior Year<br>State Shared<br>Taxes | Coverage |
| 2000                         | \$ -                | \$ -  | \$ -                 | \$ -                                | 0.00 x   |
| 2001                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2002                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2003                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2004                         | -                   | -   | -                    | -                                   | 0.00 x   |
| 2005                         | 90,733              | -   | 90,733               | 6,928,633                           | 76.36 x  |

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

| Fiscal Year | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
|-------------|------------------|---|-------------------|-------------------------------|----------|
| 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   |
| 2003        | 157,688          | 203,028                                   | 360,716           | 974,979                       | 2.70 x   |
| 2004        | 157,688          | 203,028                                   | 360,716           | 936,242                       | 2.60 x   |
| 2005        | 157,688          | 203,028                                   | 360,716           | 936,615                       | 2.60 x   |

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

| Fiscal Year | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
|-------------|------------------|---|-------------------|-------------------------------|----------|
| 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   |
| 2003        | 34,474           | 516,318                                   | 550,792           | 5,064,956                     | 9.20 x   |
| 2004        | 34,474           | 960,828                                   | 995,302           | 5,117,928                     | 5.14 x   |
| 2005        | 34,474           | 960,828                                   | 995,302           | 4,906,463                     | 4.93 x   |

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

| Fiscal Year | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage  |
|-------------|------------------|---|-------------------|-------------------------------|-----------|
| 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   |
| 2003        | 215,467          | -   | 215,467           | 8,561,204                     | 39.73 x   |
| 2004        | 215,467          | -   | 215,467           | 8,234,588                     | 38.22 x   |
| 2005        | 215,467          | -   | 215,467           | 7,680,837                     | 35.65 x   |

**LEXINGTON CITY SCHOOLS****STATE SHARED TAX OBLIGATIONS**

| Fiscal Year | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
|-------------|------------------|---|-------------------|-------------------------------|----------|
| 2000        | \$ -             | \$ -                                      | \$ -              | \$ -                          | 0.00 x   |
| 2001        | -                | -   | -                 | -                             | 0.00 x   |
| 2002        | -                | -   | -                 | -                             | 0.00 x   |
| 2003        | -                | -   | -                 | -                             | 0.00 x   |
| 2004        | -                | -   | -                 | -                             | 0.00 x   |
| 2005        | -                | -   | -                 | 731,862                       | 0.00 x   |

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

**LINCOLN COUNTY SCHOOLS**

| Fiscal Year | STATE SHARED TAX OBLIGATIONS |   |                   | Prior Year State Shared Taxes | Coverage |
|-------------|------------------------------|---|-------------------|-------------------------------|----------|
|             | QZAB Obligations             | Other Pledged Obligations (Non-Authority) | Total 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 |
| 2003        | 10,342                       | -   | 10,342            | 2,317,281                     | 224.07 x |
| 2004        | 10,342                       | -   | 10,342            | 2,300,217                     | 226.81 x |
| 2005        | 10,344                       | -   | 10,344            | 2,387,784                     | 230.84 x |

**LOUDON COUNTY SCHOOLS**

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

**MEMPHIS CITY SCHOOLS**

| Fiscal Year | STATE SHARED TAX OBLIGATIONS |   |                   | Prior Year State Shared Taxes | Coverage |
|-------------|------------------------------|---|-------------------|-------------------------------|----------|
|             | QZAB Obligations             | Other Pledged Obligations (Non-Authority) | Total 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  |
| 2003        | 844,489                      | 1,434,165                                 | 2,278,654         | 76,878,569                    | 33.74 x  |
| 2004        | 844,489                      | 677,652                                   | 1,522,141         | 76,656,061                    | 50.36 x  |
| 2005        | 916,756                      | -   | 916,756           | 78,499,249                    | 85.63 x  |

**MONTGOMERY COUNTY SCHOOLS**

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

**OAK RIDGE CITY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                  |   |                   |                               |          |
|------------------------------|------------------|---|-------------------|-------------------------------|----------|
| Fiscal Year                  | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
| 2000                         | \$ -             | \$ 1,258,098                              | \$ 1,258,098      | \$ -                          | 0.00 x   |
| 2001                         | -                | 1,258,098                                 | 1,258,098         | -                             | 0.00 x   |
| 2002                         | -                | 1,258,098                                 | 1,258,098         | -                             | 0.00 x   |
| 2003                         | -                | 1,258,098                                 | 1,258,098         | -                             | 0.00 x   |
| 2004                         | -                | 1,759,628                                 | 1,759,628         | 2,974,953                     | 1.69 x   |
| 2005                         | -                | 1,759,628                                 | 1,759,628         | 2,921,589                     | 1.66 x   |

**RHEA COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                  |   |                   |                               |          |
|------------------------------|------------------|---|-------------------|-------------------------------|----------|
| Fiscal Year                  | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
| 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  |
| 2003                         | 77,568           | -   | 77,568            | 2,208,385                     | 28.47 x  |
| 2004                         | 77,568           | -   | 77,568            | 2,249,062                     | 28.99 x  |
| 2005                         | 77,568           | -   | 77,568            | 2,300,870                     | 29.66 x  |

**SCOTT COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                  |   |                   |                               |          |
|------------------------------|------------------|---|-------------------|-------------------------------|----------|
| Fiscal Year                  | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
| 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  |
| 2003                         | 115,000          | -   | 115,000           | 2,089,600                     | 18.17 x  |
| 2004                         | 140,000          | -   | 140,000           | 2,131,461                     | 15.22 x  |
| 2005                         | 440,000          | -   | 440,000           | 2,164,159                     | 4.92 x   |

**UNICOI COUNTY SCHOOLS**

| STATE SHARED TAX OBLIGATIONS |                  |   |                   |                               |          |
|------------------------------|------------------|---|-------------------|-------------------------------|----------|
| Fiscal Year                  | QZAB Obligations | Other Pledged Obligations (Non-Authority) | Total Obligations | Prior Year State Shared Taxes | Coverage |
| 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  |
| 2003                         | -                | -   | -                 | 1,489,426                     | 0.00 x   |
| 2004                         | 73,689           | -   | 73,689            | 1,514,309                     | 20.55 x  |
| 2005                         | 73,689           | -   | 73,689            | 1,480,173                     | 20.09 x  |

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

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

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

| Institution                  | 1994           | 1995           | 1996           | 1997           | 1998           | 1999           | Four-Year Institutions |                |                |                | % Change       |                |              |             |              |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------------|----------------|----------------|----------------|----------------|----------------|--------------|-------------|--------------|
|                              |                |                |                |                |                |                | 2000                   | 2001           | 2002           | 2003           | 2004           | 2005           | 2004-05      | 2000-05     | 1995-05      |
| APSU                         | 5,740          | 5,763          | 6,072          | 5,968          | 5,816          | 5,721          | 5,671                  | 5,769          | 6,079          | 6,278          | 6,939          | 6,974          | 0.5%         | 23.0%       | 21.0%        |
| ETSU**                       | 9,312          | 9,355          | 9,450          | 9,549          | 9,792          | 9,638          | 9,364                  | 9,507          | 9,664          | 9,936          | 10,070         | 10,422         | 3.5%         | 11.3%       | 11.4%        |
| MTSU                         | 14,226         | 14,504         | 14,916         | 15,455         | 15,655         | 16,173         | 16,339                 | 17,125         | 18,151         | 18,735         | 19,037         | 19,139         | 0.5%         | 17.1%       | 32.0%        |
| TSU                          | 6,438          | 6,787          | 7,007          | 7,168          | 7,383          | 7,629          | 7,431                  | 7,425          | 7,703          | 7,716          | 7,662          | 7,462          | -2.6%        | 0.4%        | 9.9%         |
| TTU                          | 7,353          | 7,303          | 7,230          | 7,287          | 7,112          | 7,227          | 7,212                  | 7,327          | 7,554          | 7,509          | 7,559          | 7,562          | 0.0%         | 4.9%        | 3.5%         |
| UM                           | 15,177         | 15,495         | 15,001         | 15,452         | 15,771         | 15,909         | 15,613                 | 15,890         | 15,696         | 15,720         | 16,128         | 15,910         | -1.4%        | 1.9%        | 2.7%         |
| TBR Total                    | 58,245         | 59,207         | 59,676         | 60,879         | 61,529         | 62,298         | 61,629                 | 63,043         | 64,846         | 65,894         | 67,394         | 67,468         | 0.1%         | 9.5%        | 14.0%        |
| UTC                          | 6,438          | 6,540          | 6,608          | 6,816          | 7,040          | 7,019          | 6,832                  | 6,955          | 7,050          | 7,138          | 7,326          | 7,317          | -0.1%        | 7.1%        | 11.9%        |
| UTK*                         | 21,575         | 21,454         | 21,528         | 21,819         | 22,476         | 23,277         | 22,960                 | 23,183         | 23,221         | 22,730         | 23,141         | 23,642         | 2.2%         | 3.0%        | 10.2%        |
| UTM                          | 5,308          | 5,497          | 5,376          | 5,607          | 5,480          | 5,278          | 5,324                  | 5,379          | 5,311          | 5,265          | 5,570          | 5,833          | 4.7%         | 9.6%        | 6.1%         |
| UTMHSC                       | 1,923          | 1,950          | 1,962          | 1,949          | 2,024          | 2,023          | 1,999                  | 1,949          | 1,977          | 2,008          | 2,062          | 3,412          | 65.4%        | 70.7%       | 75.0%        |
| UT Total                     | 35,244         | 35,441         | 35,475         | 36,191         | 37,020         | 37,597         | 37,115                 | 37,466         | 37,559         | 37,141         | 38,099         | 40,205         | 5.5%         | 8.3%        | 13.4%        |
| Total 4 Yr                   | 93,489         | 94,647         | 95,151         | 97,070         | 98,549         | 99,895         | 98,744                 | 100,509        | 102,404        | 103,035        | 105,494        | 107,673        | 2.1%         | 9.0%        | 13.8%        |
| <b>Two-Year Institutions</b> |                |                |                |                |                |                |                        |                |                |                |                |                |              |             |              |
| CSTCC                        | 5,144          | 4,982          | 5,427          | 5,227          | 5,140          | 5,038          | 4,832                  | 5,269          | 5,264          | 5,186          | 5,124          | 4,890          | -4.6%        | 1.2%        | -1.9%        |
| CLSCC                        | 1,929          | 2,004          | 2,111          | 2,376          | 2,176          | 2,158          | 2,083                  | 2,318          | 2,200          | 2,224          | 2,088          | 2,103          | 0.7%         | 0.9%        | -4.6%        |
| COSCC                        | 2,331          | 2,501          | 2,639          | 2,820          | 2,947          | 2,906          | 2,788                  | 2,984          | 3,108          | 3,082          | 3,145          | 3,120          | -0.8%        | 11.9%       | 24.8%        |
| DSCC                         | 1,380          | 1,373          | 1,531          | 1,533          | 1,522          | 1,435          | 1,563                  | 1,577          | 1,657          | 1,819          | 1,770          | 1,744          | -1.4%        | 11.6%       | 27.1%        |
| JSCC                         | 2,088          | 2,155          | 2,223          | 2,328          | 2,416          | 2,548          | 2,514                  | 2,658          | 2,713          | 2,743          | 2,702          | 2,573          | -4.8%        | 2.3%        | 19.4%        |
| MSCC                         | 2,133          | 2,077          | 2,116          | 2,287          | 2,273          | 2,221          | 2,199                  | 2,441          | 2,556          | 2,436          | 2,465          | 2,392          | -3.0%        | 8.8%        | 15.1%        |
| NSTCC                        | 2,372          | 2,314          | 2,459          | 2,422          | 2,513          | 2,601          | 2,607                  | 2,879          | 2,968          | 3,112          | 3,334          | 3,142          | -5.8%        | 20.5%       | 35.8%        |
| NSCC                         | 2,749          | 2,778          | 3,112          | 3,357          | 3,492          | 3,527          | 3,548                  | 3,631          | 3,757          | 3,769          | 3,889          | 4,074          | 4.8%         | 14.8%       | 46.7%        |
| PSTCC                        | 4,866          | 4,768          | 5,003          | 5,217          | 5,258          | 5,080          | 5,079                  | 5,151          | 5,208          | 5,013          | 4,963          | 4,963          | 0.0%         | -2.3%       | 4.1%         |
| RSCC                         | 3,614          | 3,591          | 3,688          | 3,720          | 3,675          | 3,797          | 3,474                  | 3,647          | 3,767          | 3,775          | 3,850          | 3,603          | -6.4%        | 3.7%        | 0.3%         |
| SSCC                         | 4,189          | 3,998          | 3,740          | 3,193          | 2,887          | 2,805          | n/a                    | n/a            | n/a            | n/a            | n/a            | n/a            | n/a          | n/a         | n/a          |
| STIM                         | 5,227          | 5,022          | 4,900          | 4,660          | 4,472          | 4,532          | n/a                    | n/a            | n/a            | n/a            | n/a            | n/a            | n/a          | n/a         | n/a          |
| STCC***                      | 9,416          | 9,019          | 8,640          | 7,852          | 7,359          | 7,338          | 7,059                  | 7,743          | 7,141          | 7,361          | 7,561          | 7,332          | -3.0%        | 3.9%        | -18.7%       |
| VSCC                         | 3,783          | 3,904          | 4,129          | 4,236          | 4,198          | 4,107          | 4,138                  | 4,295          | 4,525          | 4,426          | 4,483          | 4,553          | 1.6%         | 10.0%       | 16.6%        |
| WSCC                         | 3,602          | 3,507          | 3,731          | 3,807          | 3,666          | 3,594          | 3,665                  | 3,909          | 3,867          | 4,067          | 3,864          | 3,826          | -1.0%        | 4.4%        | 9.1%         |
| <b>Total 2 Yr</b>            | <b>45,407</b>  | <b>45,174</b>  | <b>46,809</b>  | <b>47,181</b>  | <b>46,635</b>  | <b>46,349</b>  | <b>45,550</b>          | <b>48,502</b>  | <b>48,729</b>  | <b>49,013</b>  | <b>49,238</b>  | <b>48,315</b>  | <b>-1.9%</b> | <b>6.1%</b> | <b>7.0%</b>  |
| <b>Grand Total</b>           | <b>138,896</b> | <b>139,822</b> | <b>141,960</b> | <b>144,251</b> | <b>145,184</b> | <b>146,244</b> | <b>144,294</b>         | <b>149,011</b> | <b>151,133</b> | <b>152,048</b> | <b>154,732</b> | <b>155,987</b> | <b>0.8%</b>  | <b>8.1%</b> | <b>11.6%</b> |

\*Includes UT Space Institute and UT Veterinary College

\*\*Includes ETSU Medical School

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

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# ACKNOWLEDGMENTS

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