TN Tennessee State Government

TENNESSEE STATE SCHOOL BOND AUTHORITY
AUDIT COMMITTEE
June 27, 2019 – 10:50 AM
AGENDA

1. Call Meeting to Order
2. Approval of Minutes from May 16, 2018 **(ACTION REQUIRED)**
3. Review and Approval of Management's Risk Assessment as of 12/31/2018 **(ACTION REQUIRED)**
4. Review of Audit Results
5. Other Business
6. Adjourn

TENNESSEE STATE SCHOOL BOND AUTHORITY
Audit Committee Meeting Minutes
May 16, 2018

The Tennessee State School Bond Authority Audit Committee met at 12:30 p.m. CST Wednesday, May 16, 2018 in the State Capitol Executive Conference Room, G Level, Nashville, Tennessee.

The following members were physically present:

Commissioner Larry Martin, Chairman, Department of Finance & Administration
Honorable Tre Hargett, Secretary of State
Vice Chancellor Danny Gibbs, Designee for Dr. Flora Tydings, Chancellor, Tennessee Board of Regents

The following members participated via teleconference:

Mr. Ron Maples, Designee for Dr. Joe DiPietro, President, University of Tennessee

Recognizing a quorum physically present, Chairman Martin called the meeting to order.

Chairman Martin presented the minutes from the last audit committee meeting conducted on May 11, 2017 for approval. A motion to approve was made by Secretary Hargett and seconded by Vice Chancellor Gibbs. No comments or corrections were voiced. A roll call vote was taken and the motion passed unanimously.

Chairman Martin moved to agenda item number two, review and approval of management's risk assessment documents. Chairman Martin asked Thad DelConte, Director of Internal Audit, Finance and Administration and TSSBA Audit Committee Secretary, to present the assessment to the Committee. Mr. DelConte stated that all members should have a copy of the assessment and that it was sent to staff two weeks prior. It appears thorough and complete and follows the new approach that was deployed by F&A last year. Control activities are properly documented and tested when necessary based on the severity of the associated risk. The results indicate that controls are operating effectively to reduce risk to an acceptable level. Mr. Maples asked whether the revised approach and templates were used by the Office of State and Local Finance (OSLF). Mr. DelConte confirmed that the revised approach and templates were both used by OSLF.

There being no further questions or discussion, Secretary Hargett made a motion to approve management's risk assessment, and the motion was seconded by Vice Chancellor Gibbs. A roll call vote was taken and the motion passed unanimously.

Chairman Martin then asked Mr. Derek Martin, Audit Manager, Comptroller of the Treasury, Division of State Audit to update the committee on recent audit results. Mr. Derek Martin informed the committee that the audit for the year ended 6/30/17 was completed and there were no findings. He also informed the committee that the CAFR audit report was released with a clean opinion. Chairman Martin informed the Committee that the state audit report contained no findings for the 15th consecutive year.

After asking the committee whether any additional items needed to be brought before the committee and hearing none, Secretary Hargett made a motion to adjourn the meeting, and the motion was seconded by Vice Chancellor Gibbs. A voice vote was taken and the motion was unanimously approved. Meeting adjourned at 12:36 pm.

Approved on this _____ day of __________, 2019.

Respectfully submitted,

Thad DelConte
Secretary

The ERM components listed above correlate with Green Book principles 7 - 12, which address the identification, analysis, and response to risks throughout the organization, including fraud risk as well as significant changes that could impact the internal control system, and the effective design and implementation of control activities to mitigate risks in accordance with management's risk appetite. Additional information on these principles can be found at the Green Book link to the left beginning on page 37.

SECTION A HEADER INFORMATION
Contact Information for Individual Completing Form

Name -	Reporting Year - 2018
Email -	State Agency - COT
	Division/Section - State and Local Finance

SECTION C

	Risk / Control #	Event (Risk) Identification & Control Activities	Frequency	Control Effective Y/N	Links to Objective #'s from Form 2	Risk Assessment (Inherent & Residual) & Risk Response: Inherent Risk Impact	Inherent Risk Likelihood	Risk Response	Residual Risk Impact	Residual Risk Likelihood
SECTION B	*Insert risk # here, according to your agency's numbering convention*	*Describe the risk here, be as specific as necessary in order to focus on the actual risk faced by your organization.*	DO NOT USE	DO NOT USE	*Insert the objective number(s) from Form 2 that the related risk would impact if it materialized, do so for each risk. The same objective may be linked to more than one risk and vice versa.*	*Select the appropriate Inherent Impact rating from the dropdown list*	*Select the appropriate Inherent Likelihood rating from the dropdown list*	*Select the appropriate Risk Response from the dropdown list*	*Select the appropriate Residual Impact rating from the dropdown list*	*Select the appropriate Residual Likelihood rating from the dropdown list*
SECTION D	*You may wish to use a unique control numbering convention*	*Describe here the control activities in place to mitigate the risk above, one control activity per cell, insert or delete rows as needed.*	*Indicate how often each control activity occurs, e.g. daily, monthly, as needed, etc.*	*Insert results of effectiveness testing (Y/N) here, if N then document action plan in 'CAP' tab*	DO NOT USE	DO NOT USE	DO NOT USE	DO NOT USE	DO NOT USE	DO NOT USE

ROWS ABOVE ARE FOR INSTRUCTIONAL PURPOSES - CAPTURE RISKS, CONTROLS, ETC. BELOW, INSERT ADDITIONAL ROWS AS NECESSARY

	Risk / Control #	Event (Risk) Identification & Control Activities	Frequency	Control Effective Y/N	Risk Links to Objective #'s from Form 2	Risk Assessment (Inherent & Residual) & Risk Response: Inherent Risk Impact	Inherent Risk Likelihood	Risk Response	Residual Risk Impact	Residual Risk Likelihood	Describe Test of Controls
Risk	**SLF - 1**	A rating downgrade of one of the state issuers could negatively impact the cost of borrowing.			SLF-2.2	Low	Medium	Reduce	Low	Low	
Control	SLF - 1.1	SLF provides information as requested by the rating agencies and periodically schedules calls to update the rating agencies of relevant developments within the state.	Monthly, or more often as necessary	Y							On 9/19/2018, we posted the State's Revenue Reports to the Investor Update website and distributed the report to the ListServ which includes the rating agency analysts.
Control	1.2										
Risk	**SLF - 2**	Opportunities to issue (or refund) debt at the right time are missed.			SLF-2.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 2.1	SLF has secured professional services to assist with identifying these opportunities (i.e., bond counsel, financial advisor, etc.) and monitor the level of service provided.	Ongoing	Y							Public Financial Management serves as the state's financial advisor to identify these opportunities.
Control	SLF - 2.2	There is ongoing monitoring of CP program balances and project expenditures through monthly meetings with F&A, attendance at State Building Commission meetings, periodic conference calls with financial advisor and discussions within SLF to ensure timeliness of debt issuances.	Monthly	Y							Observed on 10/25/2018, that the state's commercial paper capacity, based on the CP outstanding, was insufficient to cover expenditures for the next several months and an additional $10 million in taxable CP should be issued.
Control	2.3										
Risk	**SLF - 3**	Allocation of proceeds to a project is calculated incorrectly which results in the bond issue being over or undersized.			SLF-2.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 3.1	SLF works in conjunction with the financial advisor who performs all calculations using special software designed for this purpose. (PFM, the state's current financial advisor, uses DBC Finance, the most generally accepted software in the market for this purpose.) When numbers are prepared to be sent to the financial advisor for use in the sizing calculations these numbers are reviewed by the appropriate supervisor within SLF before being sent.	Annually	Y							During TSSBA bond sale in September 2017, observed and reviewed the schedules of projects to be financed to be submitted to Public Financial Management who serves as the state's financial advisor. No bond issue occurred in 2018.
Control	SLF - 3.2	In the case of GO debt, all projects and amounts to be bonded are reviewed and verified by Capital Projects and Accounts, as well as bond counsel and the state's financial advisor.	Annually	Y							In July - September 2017, worked directly with Capital Projects, PFM and bond counsel and provided the necessary information to calculate the amounts of debt to be issued for each project. No bond issue occurred in 2018
Control	3.3										
Risk	**SLF - 4**	Failure to become aware of pertinent information regarding approval of a project which may affect the decision for the need to issue more short-term or long-term debt.			SLF-2.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 4.1	SLF maintains an awareness for the activity of all governing bodies who approve projects (to be funded with debt) or who may approve the issuance of debt, by attending the meetings of such governing bodies. (i.e. State Building Commission, State Funding Board, TLDA, TSSBA).	As needed	Y							Appropriate staff attended the TSSBA meeting on June 19, 2018, to approve specific projects to be financed with short-term and long-term debt.
Control	SLF - 4.2	SLF also maintains records of such meetings in order to keep documentation of the decisions made.	As needed	Y							The program accountant documented the discussion of the TSSBA meeting dated June 19, 2018.
Control	4.3										
Risk	**SLF - 5**	Failure to disclose material information related to an investor's decision to purchase a bond issued through one of the state's bond programs.			SLF-7.1	High	Medium	Reduce	Low	Low	
Control	SLF - 5.1	SLF monitors important events that may require action.	As needed	Y							SLF is assisted in this process by the AG's office, bond counsel and PFM, the financial advisor. In addition, monthly investor updates are issued around the 15th of each month which includes at least the state's revenue report.

Control	SLF - 5.3	The filings made by SLF are also reviewed by counsel hired by the underwriter for every bond sale - this is a part of due diligence conducted.	As needed	Y							All disclosures are submitted to AG's office and bond counsel for review. The disclosure due on January 31, 2018, that we filed with EMMA, was reviewed by bond counsel and the AG's office.
Control	5.4										
Risk	**SLF - 6**	Five-year calculations are not prepared in compliance with IRS regulations. IRS form 8038T and check for IRS rebate payable for five-year calculations are not sent to the IRS by the due date.			SLF-7.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 6.1	SLF monitors any and all unspent bond proceeds so that if they are not spent within the three-year spend-down provision, a rebate calculation may need to be prepared for the bond issue. SLF then consults with bond/tax counsel to determine if rebate calculation is required.	Annually, or as needed	Y							Observed the "unspent" bond proceeds reports for the month of October 2018 for both GO debt and TSSBA debt. The TSSBA bonds were issued in August of 2017, so the proceeds are just a little over a year old. There are GO bond proceeds that have been unspent for over three years; however, OSLF is carefully monitoring the interest rates to insure that the earnings on the unspent proceeds does not exceed the interest rate on the bonds.
Control	6.2										
Risk	**SLF - 7**	Changing the intent of a project could jeopardize the tax-exempt status of the entire debt issue.			SLF-2.1	High	Medium	Reduce	Low	Low	
Control	SLF - 7.1	The questionnaire for the project is completed by the project owner initially and this is sent to bond counsel for review.	As needed	Y							Observed applications submitted to bond counsel on January 8, 2018.
Control	SLF - 7.2	If bond counsel has any questions about the private use of monies for the project, he will indicate those to SLF staff who will then communicate with the project owner.	As needed	Y							Observed questions via email from bond counsel on applications submitted in 7.1 on January 8, 2018
Control	SLF - 7.3	SLF attends State Building Commission meetings to stay alert of any private-use or changes in project scope and periodically communicates with the project owners as needed.	Monthly	Y							Cindy Liddell attended a State Building Commission Executive Subcommittee meeting on 2/26/2018 where she learned that an existing bond-financed GO project requesting to lease space for private use and brought it to the attention of AG's counsel and bond counsel. It was determined it did not have a negative impact on the status of the tax-exempt bonds.
Control	7.4										
Risk	**SLF - 8**	Due to an illiquid market, short-term debt/commercial paper can not be sold/remarketed.			SLF-2.1	High	Low	Reduce	Low	Low	
Control	SLF - 8.1	A stand-by purchase agreement (with TCRS) is in place for general obligation commercial paper, in which TCRS is required to purchase the commercial paper in the event that it could not be sold/remarketed.	As needed	Y							SLF successfully completed a test of the draw on the stand-by purchase agreement on October 6, 2016. Though the likelihood is determined to be low, because of the potential impact that this could have, SLF chooses to periodically test this intercept.
Control	8.2										
Control	8.3										
Control	8.4										
Risk	**SLF - 9**	Failure to become aware of a debt issuance by another state agency/program (could harm the State's ability to issue debt in that time period).			SLF-2.2	High	Medium	Reduce	Low	Low	
Control	SLF - 9.1	SLF maintains oversight responsibility for the Tennessee Housing Development Agency (THDA).	As needed	Y							There will continue to be ongoing monitoring of the bond market by the financial advisors and underwriters (if applicable) when a debt issue is in progress. We observed during the THDA bond sale in October 2018; underwriters updated SLF on the bond market. THDA is unable to issue bonds without the consent of the bond finance committee.
Control	9.3										
Control	9.4										
Risk	**SLF - 10**	Debt service payments which are wired to DTC may not be properly identified with the appropriate CUSIP numbers which could cause the payments to be identified as "late". DTC may claim compensation for any late payments. It is apparent that there are inherent risks associated with late and unidentified payments.			SLF-2.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 10.1	A detailed schedule supporting the debt service payments to be made include the CUSIP number of the bond for which payments are being made and the payment amounts are verified with DTC prior to payment. All payments are wired on the morning of payment due date.	Monthly	Y							Observed the detailed schedule supporting the debt service payments to be made on November 1, 2018, which included the CUSIP number of each bond series for which payments were being made and the payment amounts.
Control	10.2										
Risk	**SLF - 11**	Project revenues for the TSSBA bond program are not adequate to support the debt service on the TSSBA debt issued for that project.			SLF-2.2	Medium	Low	Reduce	Low	Low	
Control	SLF - 11.1	The TSSBA, upon failure of a higher education institution to timely pay debt service, has legal authority to intercept the state appropriation to that higher education institution.	Semi-annually	Y							The state intercept for the TSSBA, Higher Ed Program, was tested and successfully completed on April 10, 2018. Reserves and security deposits are reconciled periodically for adequacy. State-shared taxes are monitored for coverage.
Control	11.2										

Risk	**SLF - 12**	Reserve funds are not in place or available to fund or meet debt service requirements.			SLF-2.2	High	Low	Reduce	Low	Low	
Control	SLF - 12.1	Reserve funds for TSSBA are now cash funded due to lack of surety bond providers for debt service reserve funds.	Semi-annually	Y							Observed the supplemental resolution that created the cash funded ($0) TSSBA reserve fund.
Control	SLF - 12.2	The state intercept is in place in the event a school system or local government borrower does not meet their debt service obligation and a surety bond provider fails to fund a draw request.	Semi-annually, quarterly, monthly	Y							The state intercept for the TSSBA, Higher Ed Program, was tested and successfully completed on April 10, 2018. Reserves and security deposits are reconciled periodically for adequacy. State-shared taxes are monitored for coverage.
Control	12.3										
Risk	**SLF - 14**	SLF does not administer the federal programs in accordance with federal regulations.			SLF-7.1	High	Low	Reduce	Low	Low	
Control	SLF - 14.1	SLF staff are aware of federal regulations and program requirements for the proper administration of the ARRA programs (QSCB), as well as other federal programs (QZAB, SRF).	As needed; Ongoing	Y							Discussed with AG's office (issuer's counsel) during post-issuance compliance team meeting held on November 9, 2018, about what preventative measures are in place to assist SLF in complying with federal regulations for federally-created programs.
Control	14.2										
Risk	**SLF - 15**	Subrecipients are not reimbursed timely causing a financial burden for the subrecipient.			SLF-2.2	Low	Low	Reduce	Low	Low	
Control	SLF - 15.1	Disbursements are processed in Edison and are monitored for timely payment and means to expedite payments have been developed.	As needed; Ongoing	Y							Observed on October 31, 2018, payment and approval process in place for reimbursement to subrecipients.
Control	15.2										
Risk	**SLF - 16**	Debt issue recorded incorrectly in the accounting system.			SLF-2.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 16.1	There is a multi-level external authorization process before projects are approved or debt is issued. Significant transactions are carefully reviewed and approved within SLF and F&A.	As needed; Ongoing	Y							Observed on October 31, 2018, the payment and approval process for SLF.
Control	SLF - 16.2	Accounting records and external reports are regularly reconciled. Subsidiary records are reconciled with control amounts.	As needed; Ongoing	Y							Journal entries to record debt issuances were reviewed as made and appeared to be correct, therefore it appears that controls are operating effectively.
Control	16.4										
Risk	**SLF - 17**	Borrower payments are not calculated correctly/accurately or received on a timely basis.			SLF-2.1	High	Low	Reduce	Low	Low	
Control	SLF - 17.1	Borrower payment schedules (amortization schedules) for bonded projects are prepared by the underwriter or financial advisor at the time the loans are made.	As needed	Y							SLF relies on its financial advisory/bond counsel to accurately calculate and review bond amortization schedules at the time of the bond sale.
Control	SLF- 17.2	In the case of certain loan programs, the amortization schedules are prepared by SLF staff but must be reviewed by a supervisor prior to sending the schedule out.	As needed	Y							If incorrect amounts are billed or received, prior review by the supervisor should catch these errors.
Control	SLF - 17.3										
Risk	**SLF - 18**	Collections are not applied to the correct customer account.			SLF-2.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 18.1	SLF staff receiving borrower payments (checks) chooses from pre-established speedcharts in the cashiering system (iNovah) which creates the entry to deposit to the correct borrower account.	As needed	Y							Observed on October 30, 2018, borrower payments processed by Michael Mercer
Control	SLF - 18.2	In addition, all deposits are reviewed by another employee after they are entered and, if needed, corrections are made at that time.	As needed	Y							Observed on October 30, 2018, the review and approval by Alicia West.
Control	18.3										
Control	18.4										
Risk	**SLF - 19**	Project expenditures are not posted to the project file which tracks project year-to-date expenditures.			SLF-2.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 19.1	The program accountants initiate the accounts payable entry for projects except those associated with GO debt.	As needed; Ongoing	Y							Observed on October 31, 2018, the reconciliation of unspent/spent proceeds for the TSSBA bond program. The reconciliation, lack of reconciliation, would uncover any project expenditures that had not been updated to the specific project file.
Control	SLF - 19.2	All accounts payable vouchers are approved electronically.	As needed; Ongoing	Y							
Control	SLF - 19.3	Support/approvals for project expenses are attached via FileNet to the AP voucher for review and approval.	As needed; Ongoing	Y							
Control	SLF - 19.4	Accounting entries are reviewed for accuracy.	As needed; Ongoing	Y							
Control	SLF - 19.5	Billings are mailed/e-mailed to borrowers as necessary, so periodic statements are provided to borrowers for their review.	As needed; Ongoing	Y							
Control	SLF - 19.6	Accounts Receivable are established and reconciled monthly via an Edison allocation process.	As needed; Ongoing	Y							
Control	SLF - 19.7	Project expenditures are updated in the Project Budget module of Edison.	As needed; Ongoing	Y							
Risk	**SLF - 20**	Debt service payments are not entered on a timely basis.			SLF-2.1	High	Medium	Reduce	Low	Low	
Control	SLF - 20.1	Debt principal and interest payments for all programs are monitored by the bond accountant, the bond accountant's backup (in case of absence) and trustees.	Monthly; As needed	Y							Observed communication between bond accountant and Trustee's office regarding upcoming debt service due to the trustee on October 31, 2018, and to the bondholders on November 1, 2018.
Control	SLF - 20.2										

Risk	**SLF - 21**	Disbursements are not processed (approved and paid) timely in Edison, i.e. RCA interest or administrative payments; vendor payments, payments to borrowers.			SLF-2.1	High	Medium	Reduce	Low	Low	
Control	SLF - 21.1	Disbursements are processed in Edison and are monitored for timely payment and a process to expedite payments is in place.	Weekly	Y							On October 31, 2018, examined worksheet used by program accountant and program analyst to monitor payments of expenditures for the TSSBA program to ensure timely payment. From entry to payment, the average payment process was approximately two weeks.
Control	21.2										
Risk	**SLF - 22**	Cash disbursement exceeds invoice amounts.			SLF-2.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 22.1	All cash disbursements are processed through Edison, which first requires approval within the Office.	As needed	Y							Supporting documentation must be attached for all expenditures. Reviewers check this invoice against the payment for the correct amount. On October 30, 2018, observed invoices with correct payment amounts.
Control	SLF - 22.2										
Risk	**SLF - 24**	Expenditures not recorded in proper fund.			SLF-2.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 24.1	All disbursements must be reviewed by an approver within SLF.	As needed; Ongoing	Y							On October 30, 2018, Sharon Schmucker review a payment to be processed and looked to ensure that expenditure had a supporting invoice and was charged to the appropriate fund.
Control	SLF - 24.3	Supporting invoices must be attached to the transaction.	As needed; Ongoing	Y							
Control	24.4										
Risk	**SLF - 25**	Fraudulent invoices accepted resulting in payment for goods not received.			SLF-2.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 25.1	All administrative service invoices must be reviewed by either the Director or Assistant Director.	As needed; Ongoing	Y							On October 19, 2018, I approved payments to be processed for costs of issuance and looked to ensure that expenditure had a supporting invoice and was charged to the appropriate fund.
Control	SLF - 25.3	Supporting invoices must be attached to the transaction.	As needed; Ongoing	y							
Control	25.4										
Risk	**SLF - 29**	Invoices are not marked paid resulting in duplicate payments.			SLF-2.1	Low	Low	Reduce	Low	Low	
Control	SLF - 29.1	The invoice number is recorded on each AP voucher.	As needed; Ongoing	Y							On October 23, 2018, Sharon Schmucker reviewed a payment to be processed and looked to ensure that expenditure had a supporting invoice, with a proper invoice number.
Control	SLF - 29.2	All disbursements must be reviewed by an approver within SLF.	As needed; Ongoing	Y							
Control	SLF - 29.4	Supporting invoices must be attached to the transaction.	As needed; Ongoing	Y							
Risk	**SLF - 30**	Funds are not deposited immediately as required by TCA 9-4-301 and as defined by F&A Policy 25.			SLF-2.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 30.1	Funds are deposited daily by designated SLF staff (or his backup).	Daily (ongoing)	Y							On October 26, 2018, observed Kathy Palmer processing the deposit.
Control	30.2										
Risk	**SLF - 31**	Revenues recorded in the system do not match the amounts deposited or received.			SLF-1.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 31.1	The Cashier (with two backups) creates a deposit through the Edison iNovah system.	Daily (ongoing)	Y							On October 30, 2018, observed Michael Mercer process the deposit to be recorded in Edison, and is electronically submitted to Cindy Liddell or Alicia West for approval.
Control	SLF - 31.2	The remittance advice documentation is forwarded to a supervisor for review and approval.									
Control	SLF - 31.3	Revenue is recognized in the Edison GL accounts through transactions recorded in iNovah.									
Control	31.4										
Risk	**SLF - 32**	Revenues are recorded prior to being earned.			SLF-1.1	Low	Low	Reduce	Low	Low	
Control	SLF - 32.1	All journal entries are processed through Edison, which first requires approval by SLF then by F&A.	Daily (ongoing)	Y							Examined journal entries in Edison for the TSSBA semi-annual billing for May 1, 2018, along with supporting documentation.
Control	SLF - 32.2	Supporting documentation must be attached.	Daily (ongoing)	Y							
Control	32.3										
Risk	**SLF - 33**	Deferred revenue is not transferred to earned revenue in the period earned.			SLF-1.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 33.1	Deferred revenue accounts are examined each year during the year-end process.	As needed	Y							Reviewed and signed form provided by F & A to document and certify that the balances in the deferred revenue accounts were verified and accurate.
Control	SLF - 33.2	The program accountants must fill out a form provided by F&A and the Director of SLF must certify that the balances of deferred revenue accounts are correct.	As needed	Y							
Control	33.3										
Risk	**SLF - 34**	Vendor invoices received prior to year-end are not entered into the accounting records until the following year, creating an understatement of liabilities at year-end.			SLF-1.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 34.1	Accounting entries in Edison prepared by SLF staff are monitored for timely payment and a process to expedite payments is in place.	As needed	Y							Discussed this process with program accountants (CL, JF, AW), and accounting analysts, DL, and affirmed that all invoices for FY are paid or accrued prior to the close of that fiscal year.
Control	SLF - 34.2	In addition, payments made in the beginning of a fiscal year are examined to determine if they should have been recorded in the prior fiscal year and if so, an entry is made to accrue the liability.	As needed	Y							
Control	34.4										

Risk	**SLF - 35**	Processed transactions and procedures fail to provide timely data to compile financial statements that are accurate and reliable.			SLF-1.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 35.1	Reviews are required both by SLF and by reviewers in F&A before any transactions may post.	As needed	Y							Reviewed and submitted financial statements for all bond programs for fiscal year end 2018 by the 9/28/2018 deadline. Program accountants were not aware of any transactions that did not post or procedures that failed.
Control	35.4										
Risk	**SLF - 36**	SLF fails to properly adopt new accounting pronouncements due to uninformed and untrained personnel.			SLF-6.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 36.1	SLF coordinates with a Fund Coordinator in F&A during the financial statement preparation process.	As needed	Y							OSLF in the Comptroller's Office is committed to providing proper training to its employees. Observed the training schedule maintained by Jacque Felland for FY2018 which included internal accounting training provided by the department of State Audit and the Division of Finance and Administration.
Control	SLF - 36.2	Efforts are also made to send SLF staff to appropriate annual training on new accounting standards.	As needed	Y							
Control	36.4										
Risk	**SLF - 37**	Approval is granted for debt requests materially non-compliant with state law (including laws regarding balloon indebtedness.)			SLF-3.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 37.1	Only SLF staff who have sufficient training and experience regarding applicable debt statutes are authorized to review/approve debt requests.	Daily (ongoing)	Y							On11/2/2018 I reviewed one debt request and approval from our tracking system for a capital outlay note for the City of Bells. Our approval letter is dated May 31, 2018. Lori Barnard, Senior Financial Analyst reviewed the transaction and drafted the approval letter. As Assistant Director, I performed a supervisory review and Sandi Thompson, Director, reviewed the documents supporting the request and draft approval letter and signed the approval letter. No exception noted. - SAR
Control	SLF - 37.2	Annual independent audits of local governments are conducted in accordance with *Government Auditing Standards* per state law.	Annually	Y							On 11/2/2018 I observed that the FY2017 audit for the City of Bells had been filed and posted to the Division of Local Government Audit's website. No exception noted. SAR
Control	37.3										
Control	37.4										
Risk	**SLF - 38**	Approval is granted for budgets that are materially non-compliant with state law			SLF-3.2	Medium	Medium	Reduce	Low	Low	
Control	SLF - 38.1	Only SLF staff who have sufficient training and experience regarding applicable budget statutes are authorized to review/approve budgets.	Daily (ongoing)	Y							On 11/2/2018 I reviewed supporting documents for a budget review entered and tracked in our SharePoint tracking system for Fentress County. The budget year is FY2019 and our acknowledgement letter is dated October 19, 2018. Lori Barnard, Senior Financial Analyst reviewed the budget and related documents and drafted an approval letter. As Assistant Director, I performed a supervisory review of the draft letter and budget and Sandi Thompson, Director, reviewed and signed the approval letter. No exception noted. - SAR
Control	SLF - 38.2	Annual independent audits of local governments are conducted in accordance with *Government Auditing Standards* per state law.	Annually	Y							On 11/1/2018 I observed that the FY2017 audit for Fentress County had been filed and posted to the Division of Local Government Audit's website. No exception noted. - SAR
Control	38.3										
Control	38.4										
Risk	**SLF - 39**	Acceptance of debt information reports that are materially non-compliant with state law; approval of investment requests that are materially non-compliant with state law; approval of feasibility of cable plans that are unfeasible			SLF-4.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 39.1	Only SLF staff who have sufficient training and experience regarding applicable statutes related to debt information reports, investments, and cable plans are authorized to perform the duties involved with these functions.	Daily (ongoing)	Y							On 11/2/2018 I reviewed supporting documents for a cable feasibility plan tracked in our SharePoint tracking system for the Johnson City Energy Authority dba BrightRidge. Our letter for the plan is dated June 21, 2018, and filed on the H Drive with other permanent files. Ron Queen, Senior Financial Analyst, and Steve Osborne, Senior Financial Analyst both participated in the feasibility review. As Assistant Director, I performed a supervisory review and Sandi Thompson, Director, reviewed and signed the letter addressing our conclusions. - SAR
Control	SLF - 39.2	Annual independent audits of local governments are conducted in accordance with *Government Auditing Standards* per state law.	Annually	Y							On 11/2/2018 I observed that the FY2017 audit for the Johnson City Energy Authority had been filed and posted to the Division of Local Government Audit's website. No exception noted. - SAR
Control	39.3										
Control	39.4										
Risk	**SLF - 40**	Provide untimely, inadequate and incorrect information to management			SLF-8.1	Medium	Medium	Reduce	Low	Low	

Control	SFL - 40.1	SLF staff providing information to management have sufficient education and experience in the applicable areas. Information is reviewed by SLF management prior to submission.	Ongoing	Y								On 11/2/2018 I observed a request from Montgomery County to enter into a PBA Loan. The request was received on 6/29/2018 and the senior financial analyst, Steve Osborne, reviewed the request and drafted a letter. After assistant director review the letter and supporting request documents were submitted to our director for review and approval, the final approval letter was sent on 7/3/2018, six days prior to the due date. No exception noted. - SAR
Control	40.2											
Control	40.3											
Control	40.4											
Risk	**SLF - 41**	Local government defaults on a payment to a loan program.			SLF-2.2, SLF-3.1, SLF-3.2	Low	Medium	Reduce	Low	Low		
Control	SLF - 41.1	Monitor through the budgeting process to verify all debt payments are budgeted and that budgets are balanced.	As needed	Y								On 11/7/2018 I reviewed the supporting documents for Steve Osborne's review of the budget for the City of Lebanon. Lebanon participates in the Drinking Water State Revolving Fund program, per the confirmation information on the Division of Local Government's website. Lebanon's Biennial FY2018/FY2019 budget included budgeted amounts for debt service for this loan program. No exception noted. -SAR
Control	SLF - 41.2	Certain loan programs (State Revolving Funds) are administered by SLF. A program accountant records and monitors the payments made by borrowers.	As needed	Y								On 11/7/2018 I observed the excel spreadsheet maintained by Donna Kaukas that contained documentation that the City of Lebanon is current on its principal and interest payments for the revolving loan program. No exception noted. -SAR
Control	41.3											
Risk	**SLF - 42**	Failure to comply with record retention requirements			SLF-8.1	Medium	Low	Share	Low	Low		
Control	SLF - 42.1	SLF is made aware of record retention requirements as required by the IRS.	As needed; Ongoing	Y								On 11/2/2018 I observed an interoffice email communication from Martha L. Brown dated 5/7/2018 regarding RDAs. The email shared all updated RDAs and noted where the RDAs had been saved on OSLF's H Drive (H Drive>State and Local Finance>Approved RDAs.4.2018) No exceptions noted. SAR
Control	SLF - 42.2	RDAs have been put in place for critical document types.	As needed	Y								On 11/2/2018 I observed RDAs that have been put into place filed in a folder on the H Drive named: Approved RDAs.4.2018. No exceptions noted. SAR
Control	42.3											
Control	42.4											
Risk	**SLF - 43**	Employee turnover - Changes in or loss of key personnel or the loss of valuable employees. The number of staff within SLF is small and tends to be specialized in certain areas. New employees may not have a clear understanding of what their duties or responsibilities are and may overlook critical job tasks.			SLF-6.1	High	Medium	Share	Medium	Low		
Control	SLF - 43.1	The overall experience and knowledge of some SLF staff allows for the ability to perform day-to-day operations. Because many of the programs have similar characteristics, SLF staff may assist each other with certain functions and/or provide a backup.	Daily (ongoing)	Y								On 11/8/2018 I spoke with Alicia West and Tammy Fields. Alicia and Tammy both work with the EESI and SRF programs. Alicia explained that staff are cross-trained to perform different tasks related to EESI and the SRF programs to ensure that our office can continue to function when employee turnover occurs or employees are out on medical or annual leave or assigned on special projects. No exception noted. SAR
Control	SLF - 43.2	Critical job tasks are not immediately assigned to new employees.	As necessary	Y								On 11/8/2018 I spoke with Tammy Fields. When she was first hired to OSLF, training was purposefully progressive. Tasks performed were closely supervised. More critical responsibilities will continue to be added as specific foundational concepts continue to be established. - SAR
Control	SLF - 43.3	The work of new employees is closely supervised until they are familiar with the task.	As necessary	Y								Refer to immediately preceding test. - SAR
Control	43.4											
Risk	**SLF - 44**	Provide insufficient or inadequate training to SLF staff			SLF-6.1	Medium	Medium	Reduce	Low	Low		
Control	SLF - 44.1	Adhere to Comptroller's Office Training Standards.	Ongoing	Y								On 11/8/2018 I observed a document that outlines our planned training for FY2019. This is a plan that is submitted to OMS to ensure we comply with COT training standards. It is used throughout the year by management and is located at: H:\State and Local Finance\Secretarial (MB)Reference-General SLF Info\PERTINENT SLF RECORDS. Additionally, there is a folder on the H Drive named: Training. This folder includes documents that track training for each employee in SLF. No exceptions noted. - SAR

Control	SLF - 44.2	The Director and Assistant Directors oversee and stay informed regarding training programs and encourage SLF staff to attend applicable training sessions.	Ongoing	Y							Our Director, Sandi Thompson, regularly informs me of different training opportunities for staff that I in turn encourage staff to attend. - SAR
Control	44.3										
Control	44.4										
Risk	**SLF - 45**	Confidential employee information is accessed by other individuals without authority.			SLF-8.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 45.1	All personnel files are with HR with the exception of a few that are maintained on supervisors' F drives.	As needed	Y							On 11/2/2018 I performed a search on the H drive for filenames or folders with "performance" or "review" in its naming convention. One isolated exception was noted. A folder with scanned performance reviews from one previous year was accessible on the H drive. This was the only exception. No other exceptions were noted; therefore, the control appears to be effective. - SAR
Control	45.2										
Control	45.3										
Control	45.4										
Risk	**SLF - 46**	An employee illegitimately uses leave benefits or reports time not actually worked.			SLF-9.1	Medium	Medium	Reduce	Low	Low	
Control	SLF - 46.1	Timesheets are reviewed and approved by the Director, Assistant Directors, and Bond Finance Operations Officer.	weekly and/or semi-monthly	Y							If the Director, Assistant Director, or Bond Finance Operations Manager does not approve time, an exception report from Edison is emailed to the respective supervisor. Staff are required to notify supervisors when they use sick leave or annual leave. On 11/2/2018 I reviewed an email dated 3/19/2018 at 2:08 PM from Kathy Palmer notifying me of a medical appointment and her departure time (noon) from work on Thursday, 3/22/2018. No exceptions noted. SAR
Control	SLF - 46.2	HR in Management Services then reviews Edison time reports for appropriateness.	semi-monthly	Y							On 11/2/2018 I reviewed an Edison exception report sent by Shelly Eisman on 3/19/2018 at 9:39 AM. No exception noted. - SAR
Control	46.3										
Control	46.4										
Risk	**SLF - 47**	Theft or loss of assets, especially "sensitive equipment" such as recorders, etc., or employees use these assets for personal use.			SLF-9.1	Low	Medium	Reduce	Low	Low	
Control	SLF - 47.1	SLF staff is aware that assets are to be used for business purposes and SLF has established specific, secured locations for such devices.	ongoing	Y							On 11/9/2018 I confirmed that the recorder used for minutes at board meetings is secure in a locked cabinet. No exception noted. SAR
Control	SLF - 47.2	Also, the supply cabinet is now kept locked and the key must be obtained from a designated staff person.	ongoing	Y							On 11/8/2018 I went to our supply cabinet/drawers and it was locked. No exception noted. SAR
Control	47.3										
Control	47.4										
Risk	**SLF - 48**	Supplies ordered are not for appropriate use			SLF-9.1	Low	Medium	Share	Low	Low	
Control	SLF - 48.1	Supplies are ordered by a designated SLF staff person. Control for supply orders is shared with OMS.	As necessary	Y							On 11/8/2018 I observed: (1) a request for supplies submitted to OMS by Martha Brown on 7/18/2018; (2) approval for the purchase in Edison; and (3) a final invoice initialed as received by Martha on 7/21/20183. The items ordered included premium retractable gel ink pens; 48 individual notebooks, and 10 reams of paper. No exceptions noted. SAR
Control	SLF - 48.2	Supply order is reviewed and approved by the SLF Director.	As necessary	Y							On 11/8/2018 I observed the supporting approval in Edison. This particular invoice was noted as approved by OMS because Sandi could not gain access to the approval page due to an issue with our allotment code in Edison. I spoke with both Sandi and OMS and they remembered the occurrence and approval was given and documented in Edison. No exceptions noted. SAR
Control	48.3										
Control	48.4										
Risk	**SLF - 49**	Failure to comply with recommendations made by a governing board.			SLF-2.2	High	Low	Reduce	Low	Low	
Control	SLF - 49.1	SLF staff attends meetings and document minutes from the meetings which are maintained in the SLF library.	As needed	Y							Program accountant drafts the minutes of the Board that oversees their program while management reviews the minutes for content and accuracy. There are ongoing discussions regarding actions taken or needed to be taken in the future.
Control	49.2										
Control	49.3										
Control	49.4										

Risk	**SLF - 50**	Not performing a requirement/duty or missing a deadline under a contract may put the State at risk.			SLF-2.2	High	Medium	Share	Low	Low	
Control	SLF - 50.1	Senior management is familiar with the contracts that SLF maintains.	As needed	Y							Contract provisions are reviewed by SLF periodically.
Control	50.2										
Control	50.3										
Control	50.4										
Risk	**SLF - 51**	Unknown legislative changes in law.			SLF-5.1	High	Medium	Share	Low	Low	
Control	SLF - 51.1	SLF works with the Comptroller's Office of General Counsel (OGC) and legislative liaisons to ensure that we are aware of all legislative changes and that they are properly addressed. We rely upon OGC's process to notify our office to keep us informed.	As needed	Y							On 11/2/2018 I observed an email dated 3/27/2018, 10:01 AM from Greg Cothron with OGC notifying our office of passed legislation (i.e., public chapters) that that has potential impact to SLF. OGC notifies SLF of both proposed and passed legislation. No exception noted. SAR
Control	51.2	SLF receives notification of new bills and we track the ones that may have impact to our office.	As needed	Y							On 11/2/2018 I observed an email dated 1/24/2018 from Steve Osborne with our office that included legislation that was introduced that may have potential impact to SLF. Our office also keeps a log of bills of interest that we track. The log is maintained by Steve Osborne and located at <G:\Fiscal Notes\OSLF\2018>. I observed the log on11/22/2018. SAR
Control	51.3										
Control	51.4										
Risk	**SLF - 52**	Lack of good relationships with General Assembly.			SLF-10.1	Medium	Low	Reduce	Low	Low	
Control	SLF - 52.1	SLF works through the Comptroller's legislative liaisons and responds timely to all requests for information to ensure that relationships are maintained.	As needed	Y							On 11/2/2018 I observed an email documenting an entry made by Lori Barnard to the "Five-Minute Rule Legislative Contact Tracking" online system. Documentation as to the resolution noted that the request from the legislator was handled immediately. No exception noted. - SAR
Control	52.2										
Control	52.3										
Control	52.4										
Risk	**SLF - 53**	Employee could benefit illegally from insider information related to a negotiated bond sale.			SLF-6.1	Low	Low	Reduce	Low	Low	
Control	SLF - 53.2	The RFP process (used for negotiated sales) requires multiple reviews of proposals for selection of the underwriter.	As needed	Y							Although the OSLF did not conduct a bond sale in 2018, the process remains the same. Request for Proposal/Pricing would be submitted by the Authority's financial advisor, PFM, and responses would be reviewed and a selection would be made by the Authority at the recommendation of staff and the financial advisor.
Control	SLF - 53.3	Employees are annually required to certify that they do not directly own, or have not directly purchased State of Tennessee bonds.	As needed	Y							On November 16, 2018, observed file containing signed copies of conflict of interest statements from SLF employees.
Control	53.4										
Risk	**SLF - 54**	Lack of interagency cooperation - SLF relies on other divisions and outside entities for timely and accurate information for board meetings, rating presentations, etc.			SLF-5.1	Medium	Medium	Share	Low	Low	
Control	SLF - 54.1	SLF takes the initiative to contact those entities on which we rely, instead of simply waiting for that information to be communicated.	Ongoing	Y							For GO, observed and initiated the process for gathering information to be included in the state's credit rating presentation. Information was obtained from Budget, F&A, TCRS, Treasury and the Governor's office. For TSSBA, observed the process of gathering information from THEC and the institutions of higher education in order to prepare for the TSSBA surveillance review by S&P Global. I am aware that we set deadlines to receive the information and that the information was reviewed for accuracy.
Control	SLF - 54.2	SLF staff communicates the need for information and the time at which it is needed.	Ongoing	Y							
Control	SLF - 54.3	Once the information is received, it is reviewed for accuracy.	Ongoing	Y							
Control	54.4										
Risk	**SLF - 55**	Accounting systems do not fully meet the needs of the department.			SLF-1.2	Medium	Medium	Share	Low	Low	
Control	SLF - 55.1	Dedicated individual on staff is coordinating the department's efforts to communicate the department's needs to Edison staff.	Ongoing	Y							A review process is followed to ensure proper and accurate accounting entries. Observed various emails from Sharon Schmucker to Edison staff and to Emphasys staff (DMS), inquiring about system issues, entry issues, access issues.
Control	SLF - 55.2	The Office of State and Local Finance is currently seeking a new provider for a sub-accounting or Debt Management System (DMS)	Ongoing	Y							
Control	55.3										
Control	55.4										
Risk	**SLF - 56**	Risk of losing critical/sensitive data that is used to administer the State's debt financing program (catastrophe, data corruption, sabotage).			SLF-1.1; SLF-1.2	High	Medium	Share	Low	Low	

Control	SLF - 56.1	SLF staff are knowledgeable of the need to use web-based drives which are backed up by OMS, or ECM (Electronic Content Management) which is backed up by OIR for the storing of electronic data.	As needed; Ongoing	Y							Staff has moved most of its electronically stored information a new data storage application, OpenText. Remaining information to be stored is undergoing file-naming and should be complete by 12.31.2018. Because of the move to the Cordell Hull building, SLF has scanned and stored (either electronically or phsically) all information that is maintained under a record retention policy (RDA -Record Disposition Authorization).
Control	SLF - 56.2	Outside parties have duplicate copies of many key paper documents, and have the ability to reproduce such documents for SLF if needed.	As needed; Ongoing	Y							

TENNESSEE
COMPTROLLER
OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee State School Bond Authority, a component unit of the State of Tennessee, as of and for the years ended June 30, 2018, and June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State School Bond Authority as of June 30, 2018, and June 30, 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tennessee State School Bond Authority's basic financial statements. The 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the Tennessee State School Bond Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions) and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee State School Bond Authority's internal control over financial reporting and compliance.

Deborah Loveless

Deborah V. Loveless, CPA, Director
Division of State Audit
December 11, 2018

Management's Discussion and Analysis

As management of the Tennessee State School Bond Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities as presented in the financial statements and notes to the financial statements of the Authority for the fiscal year ended June 30, 2018. These activities are compared to the results of the fiscal years ended June 30, 2017, and June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal along with the Independent Auditor's Report, the audited financial statements and accompanying notes of this report.

Program Activity Highlights

The Authority's purpose is to provide loans to the state's higher education institutions by issuing bonds and notes of the Authority and to local governments on behalf of local education agencies (LEAs) through Qualified Zone Academy Bonds (QZABs) and Qualified School Construction Bonds (QSCBs). The tables below summarize this business activity.

	Higher Education Facilities Programs		
	2018	2017	2016
Number of higher education facilities with outstanding loans	19	19	19
Balance of outstanding loans	$ 1,773,613,511	$ 1,685,658,324	$ 1,595,683,475
Total number of projects with outstanding loans	230	225	221
Number of projects approved in fiscal year	9	13	8
Dollar amount of loans approved in fiscal year	$ 197,490,000	$ 159,828,000	$ 196,829,000
Dollar amount of loans approved in fiscal year - unspent	$ 196,658,200	$ 129,714,086	$ 193,267,544
Dollar amount of loans financed in fiscal year	$ 196,656,725	$ 135,382,974	$ 243,257,387
Balance of outstanding debt	$ 1,881,272,947	$ 1,768,511,257	$ 1,739,673,979
Bonds issued in fiscal year	$ 402,460,000	$ -	$ -
Revolving credit facility loans issued in fiscal year	$ 48,000,000	$ 117,000,000	$ 35,000,000

	Qualified Zone Academy Bond Program		
	2018	2017	2016
Number of LEAs with outstanding loans	11	11	11
Total number of outstanding loans	13	13	13
Balance of outstanding loans	$ 5,197,888	$ 7,505,974	$ 9,975,299
Balance held in Sinking Fund	$ 27,322,433	$ 25,014,347	$ 22,614,701
Balance of outstanding debt	$ 32,590,000	$ 32,590,000	$ 32,590,000

	Qualified School Construction Bond Program		
	2018	2017	2016
Number of LEAs with outstanding loans	23	23	23
Total number of outstanding loans	28	28	28
Balance of outstanding loans	$ 211,859,661	$ 235,032,069	$ 259,596,908
Balance held in Sinking Fund	$ 176,098,188	$ 157,702,303	$ 140,878,305
Balance of outstanding debt	$ 389,440,000	$ 389,440,000	$ 389,440,000

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

Debt Administration

Pursuant to Section 49-3-1201 et seq., *Tennessee Code Annotated*, the General Assembly of the state created the Tennessee State School Bond Authority to issue revenue bonds and notes to fund capital projects for the higher education institutions including both four-year institutions and two-year community colleges. Such loans are payable from user fees or savings generated from the projects in the case of energy conservation projects. The statute was amended in 1999 to authorize the Authority to issue QZABs and again in 2009 to authorize the Authority to issue QSCBs on behalf of LEAs throughout the State. For more specific financial information on long-term debt activity, **see Note 5, Debt Payable, on pages 26 - 30 in the Notes to the Financial Statements.**

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

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

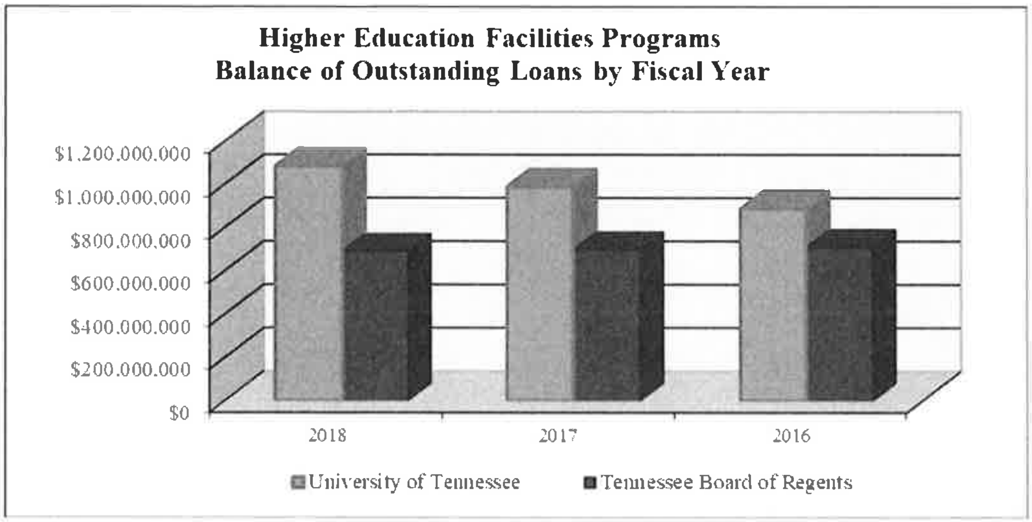
On March 20, 2014, all outstanding commercial paper was redeemed and the commercial paper program was terminated when the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. As of March 20, 2014, and thereafter, projects are funded through the RCA program during its construction phase. For projects in the construction phase that are completed or near completion, the Authority may fix the interest rate for the term of the projects by issuing long-term debt. The range of RCA interest rates are shown below for the fiscal year ended June 30, 2018, as compared to fiscal years 2017 and 2016.

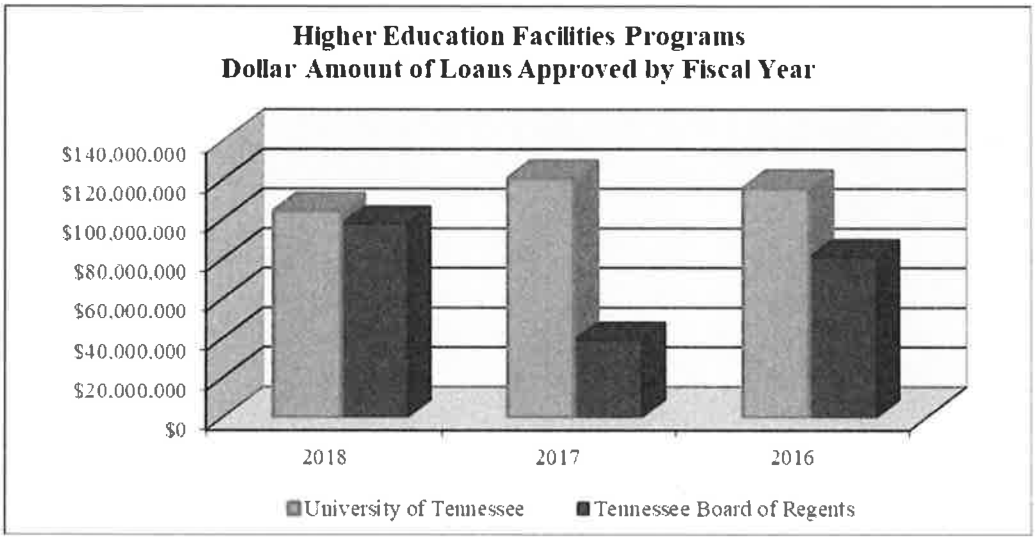
Higher Education Facilities Programs
Revolving Credit Facility Interest Rates Ranges

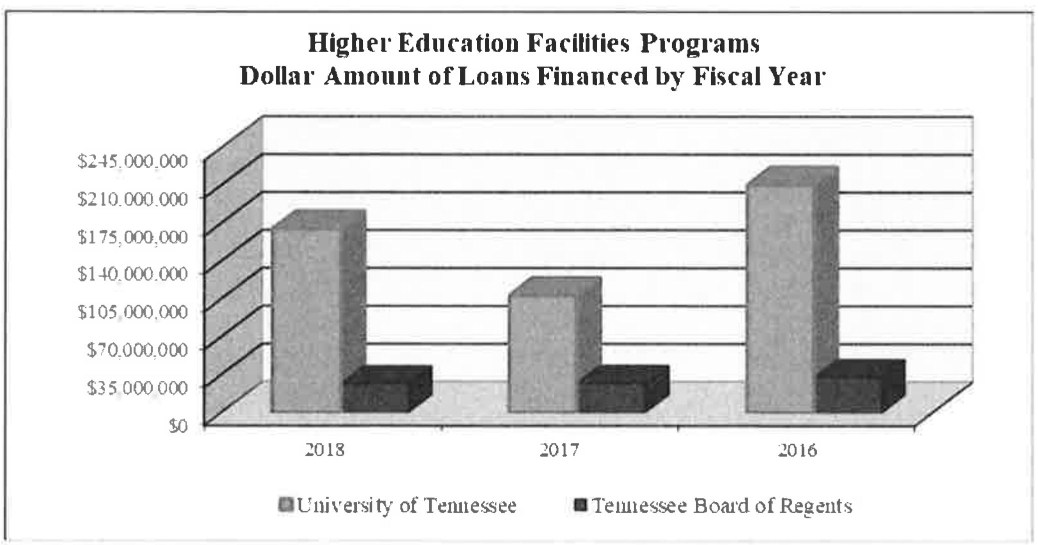
	Tax-Exempt		Federally Taxable	
Fiscal Year	**Low**	**High**	**Low**	**High**
2018	1.244%	2.006%	1.757%	2.512%
2017	0.697%	1.120%	0.967%	1.581%
2016	0.501%	0.690%	0.687%	0.957%

For the fiscal year ended June 30, 2018, interest rates on the higher education facilities long-term, fixed-rate, tax-exempt bonds ranged from a low of 2.50% to a high of 5.00%, and the interest rates on the higher education facilities long-term fixed-rate federally taxable bonds ranged from a low of 1.324% to a high of 4.207%. By pooling the financing of the capital needs for all public higher education facilities, management believes that economic efficiency is achieved through a single large borrowing administered by one agency. The creditworthiness of both large and small institutions is blended into one credit resulting in a lower cost of borrowing and providing a more equitable cost to students and other users who repay the debt through various user fees and charges and student debt service fees.

Higher Education Facilities Programs Debt Ratings. As of the fiscal year ended June 30, 2018, the Authority's higher education facilities program is rated AA+, and AA+ by Fitch and S&P Global Ratings, respectively. Moody's Investors Service has assigned the Authority's bonds an enhanced rating of Aa1 and a programmatic rating of Aa1. As of the fiscal year ended June 30, 2017, the Authority's higher education facilities program was rated AA+, and AA+ by Fitch and S&P Global Ratings, respectively. Moody's Investors Service had assigned the Authority's bonds an enhanced rating of Aa1 and a programmatic rating of Aa1. On July 27, 2016, S&P Global Ratings upgraded the Authority's higher education facilities program rating to AA+ from AA.


Higher Education Facilities Programs
Balance of Outstanding Loans by Fiscal Year
$1,200,000,000
$1,000,000,000
$800,000,000
$600,000,000
$400,000,000
$200,000,000
$0
2018
2017
2016
University of Tennessee
Tennessee Board of Regents

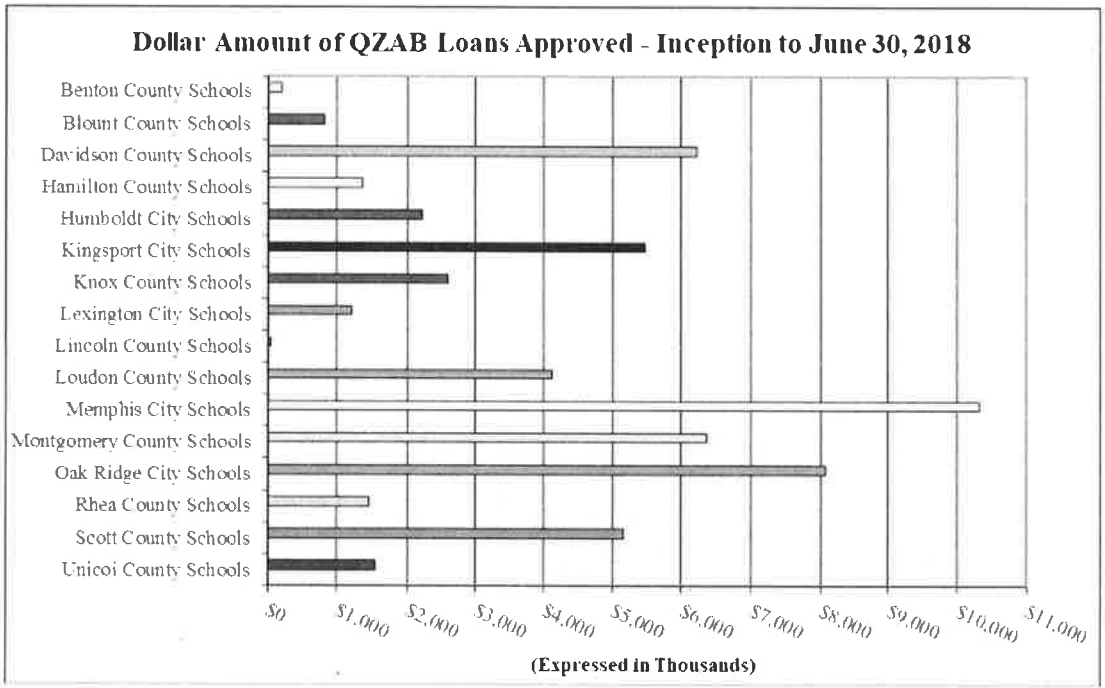

Higher Education Facilities Programs
Dollar Amount of Loans Approved by Fiscal Year
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
2018
2017
2016
University of Tennessee
Tennessee Board of Regents


Higher Education Facilities Programs
Dollar Amount of Loans Financed by Fiscal Year
$245,000,000
$210,000,000
$175,000,000
$140,000,000
$105,000,000
$70,000,000
$35,000,000
$0
2018
2017
2016
University of Tennessee
Tennessee Board of Regents

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

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

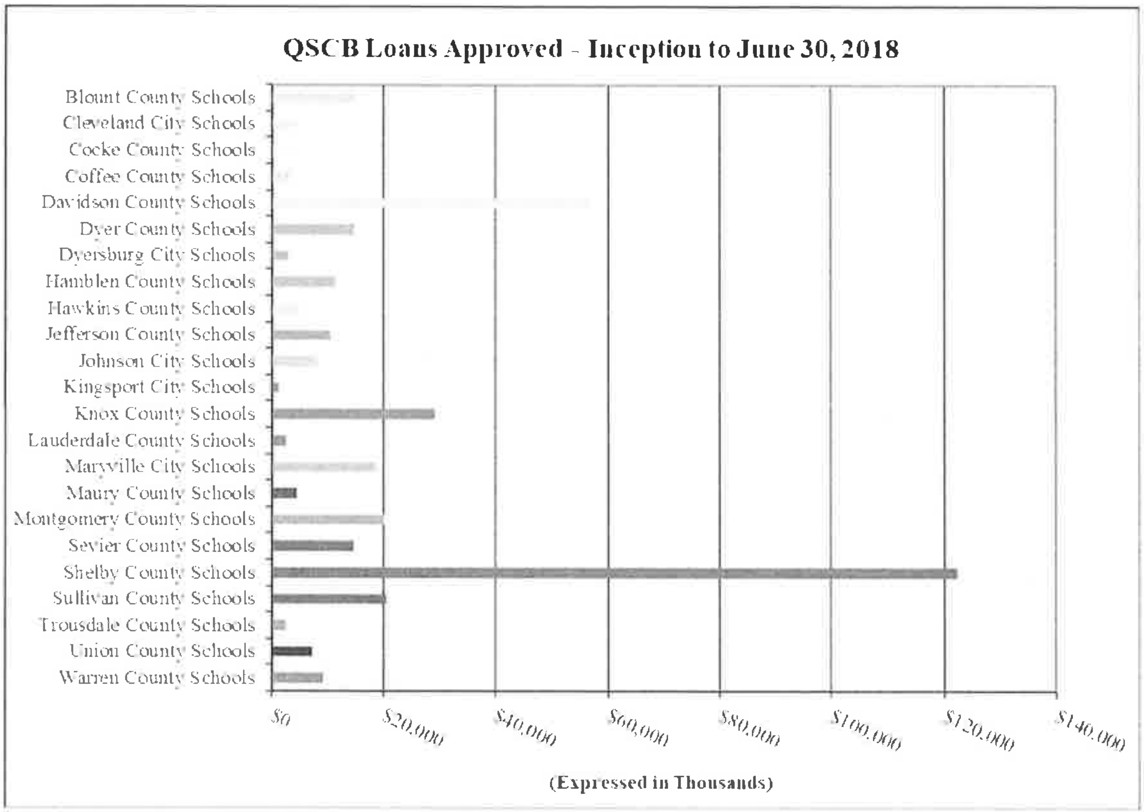
As of June 30, 2018, the QZAB program has no unused allocations. The State has up to two years after the yearly allocations are made by the federal government to issue bonds or the allocations will be forfeited. The Authority last issued bonds for the QZAB program on December 28, 2005. The implementation of the 2017 Tax Cuts and Jobs Act on State and Local Bonds eliminated all tax credit bonds including QZAB bonds.



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

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

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



Qualified School Construction Bonds Program Debt Ratings. As of the fiscal year ended June 30, 2018, the Authority's QSCB program is rated Aa2, AA+, and AA by Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Ratings, respectively.

Overview of the Financial Statements

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

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

The Statements of Net Position on **page 15** present the Authority's financial position at June 30, 2018, and June 30, 2017. The Statements of Revenues, Expenses and Changes in Net Position on **page 16** portray the results of operations and the change in net position for the years presented. The Statements of Cash Flows on **pages 17 - 18** summarize the sources and uses of cash for the fiscal years presented. These statements are accompanied by notes to the financial statements that provide information that is essential to the reader's understanding of the financial statements. The Authority's basic financial statements are followed by supplementary information containing the financial statement information at the program level.

Financial Analysis of the Authority

Standard indicators of financial success are not applicable to the Authority. The financial goals of the Authority are to provide timely access to the capital markets for public higher educational institutions and local governments on behalf of LEAs at the lowest possible cost, to repay debt timely and to achieve the highest possible rating for its debt. During the fiscal year ended June 30, 2018, the Authority issued 3 series of bonds. At no time did the Authority deny approval of a loan application due to its inability to access the capital market. For long-term debt, the Authority made all debt service payments timely without having to withdraw funds from the debt service reserve fund or intercept the state appropriations for the higher education institutions. For short-term debt, No Event of Default, as defined in the RCA, has occurred. The Authority maintained both its long and short-term credit ratings with all rating agencies.

Statements of Net Position Summary
(in thousands of dollars)

	2018	2017	2016
Current assets	$ 193,530	$ 175,358	$ 195,321
Noncurrent assets	2,098,896	2,043,307	1,962,600
Total assets	2,292,426	2,218,665	2,157,921
Deferred outflows of resources	37,433	39,973	42,771
Current liabilities	93,497	124,480	85,808
Noncurrent liabilities	2,230,222	2,122,290	2,095,123
Total liabilities	2,323,719	2,246,770	2,180,931
Deferred inflows of resources	917	756	1,791
Net position (unrestricted)	$ 5,223	$ 11,112	$ 17,970

Note: The Authority owns no capital assets.

At June 30, 2018, current assets include $42,308,936 of unexpended proceeds from prior debt issued that will fund approved higher education loans as compared to $292,461 at June 30, 2017, and $53,092,376 at June 30, 2016. During the fiscal year ended June 30, 2018, the Authority issued $402,460,000 in Higher Education Facilities Second Program bonds which were used to redeem $128,306,800 of the Authority's revolving credit facility and refund $186,155,000 of the Authority's outstanding long-term debt with the balance of the bond proceeds to be used to fund various project costs and costs of issuance. The Authority did not issue any bonds during the fiscal year ended June 30, 2017 or the fiscal year ended June 30, 2016.

Principal was repaid on the higher education outstanding long-term bonds in the amounts of $66,925,000 in 2018; $66,595,000 in 2017; $60,385,000 in 2016. Deposits to the Sinking Fund for the QZABs were made in the amounts of $2,326,556.75 in 2018; $2,406,957 in 2017; $3,009,053 in 2016. No QZAB Bonds were retired in fiscal year 2018 or fiscal year 2017. QZAB Series 2001 Bonds in the amount of $11,330,000 were retired during the fiscal year 2016. Deposits to the Sinking Fund for the QSCBs were made in the amounts of $23,650,375 in 2018; $26,543,123 in 2017; $22,772,381 in 2016. No QSCB bonds were retired during the fiscal years 2018, 2017, or 2016.

Net position is available to fund ongoing operations and other expenses necessary to meet the goals of the Authority. Assets and liabilities increase and decrease together in correlation to the issuance and repayment of debt and the resulting loans. The change in net position from fiscal year ended June 30, 2017, to fiscal year ended June 30, 2018, was due primarily to the unrealized loss on the QSCB investments. The change in net position from fiscal year ended June 30, 2016, to fiscal year ended June 30, 2017, was due primarily to the unrealized loss on the QSCB investments.

Statements of Revenues, Expenses, and Changes in Net Position Summary (in thousands of dollars)	2018	2017	2016
Operating Revenues			
Revenue from loans	$ 76,516	$ 73,984	$ 75,210
Investment earnings	(1,309)	(6,471)	15,146
Total operating revenues	75,207	67,513	90,356
Operating Expenses			
Interest expense	75,519	72,960	75,579
Subsidy to borrowers	13,168	10,282	13,939
Other expenses	2,054	719	994
Total operating expenses	90,741	83,961	90,512
Operating loss	(15,534)	(16,448)	(156)
Nonoperating Revenues			
Federal subsidy on bonds	9,645	9,590	9,589
Total nonoperating revenues	9,645	9,590	9,589
Increase (decrease) in net position	$ (5,889)	$ (6,858)	$ 9,433
Net Position			
Net position, July 1	11,112	17,970	8,537
Net position, June 30	$ 5,223	$ 11,112	$ 17,970

The Authority's operating revenues include revenue from loans in the form of administrative fees, interest on loans, and income earned on investments. Operating expenses include interest expense on outstanding short-term and long-term debt and administrative expenses. The change in operating revenues and expenses for fiscal year ended June 30, 2018, can be attributed to the QSCB program. The QSCB had an increase in value in the Sinking Fund which resulted in a significant increase in unrealized investment earnings and a decrease in net position. The decrease was partially mitigated by an increase to the subsidy to borrowers.

The change in operating revenues and expenses for fiscal year ended June 30, 2017, can be attributed to the QSCB program. The QSCB had a decrease in value in the Sinking Fund which resulted in a significant decrease in unrealized investment earnings and a decrease in net position. The decrease was partially mitigated by lower bond interest expense in the higher education program and subsidy to borrowers.

For the fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016, the Authority elected to return the investment income that it earned on funds held by the trustee and interest earned on unspent bond proceeds to the borrowers in the higher education facilities program to be applied toward amounts due on debt service from the borrowers.

Pursuant to the bond resolution for the QZABs, Sinking Fund payments are invested in the State Pooled Investment Fund ("SPIF"). SPIF rates for fiscal year ended June 30, 2018, ranged from 0.96% to 1.79%. Investment earnings related to the QZAB program are held by the Authority for the benefit of the LEAs participating in the program and are applied as a subsidy toward each LEA's individual debt service Sinking Fund payment on an annual basis. Pursuant to the supplemental bond resolutions for the 2004 and 2005 Series QZABs, Sinking Fund payments are invested in Forward Delivery Agreements which guarantee a fixed rate of interest of 3.00% and 3.64%, respectively, on investments. The investments are held by the State Treasurer in the Authority's name.

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

Future Financing Activities

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

Qualified Zone Academy Bonds and Qualified School Construction Bonds Programs. The issuance of bonds within the QZAB and QSCB programs is limited to the amounts allocated by the federal government. At this time, the Authority does not anticipate further issuance of debt for the QZAB program due to economic and financial conditions and constraints. The QSCB only received allocations for 2009 and 2010.

Contacting the Authority's Management Team

This discussion and analysis is designed to provide our citizens, education agencies, investors and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of the Office of State and Local Finance, State of Tennessee, Cordell Hull Building, 425 Fifth Avenue North, Nashville, Tennessee 37243-3400, visit our website at www.comptroller.tn.gov/TSSBA/, or call (615) 747-5369.

BASIC FINANCIAL STATEMENTS

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2018, AND JUNE 30, 2017

(Expressed in Thousands)

	June 30, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash (Note 2)	$ 74,014	$ 57,859
Cash with fiscal agent (Note 2)	81	2,236
Fair value of derivatives (Notes 1 and 2)	69	756
Loans receivable (Note 3)	103,965	99,923
Interest receivable (Note 3)	12,414	11,640
Federal subsidy receivable	2,806	2,797
Receivables for administrative fees (Note 3)	181	147
Total current assets	193,530	175,358
Noncurrent assets:		
Restricted cash (Notes 2 and 4)	9,810	10,949
Restricted investments (Notes 2 and 4)	202,380	204,084
Loans receivable (Note 3)	1,886,706	1,828,274
Total noncurrent assets	2,098,896	2,043,307
Total assets	2,292,426	2,218,665
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow - derivatives (Notes 1 and 2)	87	-
Deferred outflow - Deferred amount on refunding	37,346	39,973
Total deferred outflows of resources	37,433	39,973
LIABILITIES		
Current liabilities:		
Accounts payable	32	37,351
Fair value of derivatives (Notes 1 and 2)	87	-
Accrued liabilities	2,810	2,803
Accrued interest payable	15,277	13,799
Unearned revenue (Note 6)	2,212	2,262
Bonds payable (Note 5)	73,079	68,265
Total current liabilities	93,497	124,480
Noncurrent liabilities:		
Unearned revenue (Note 6)	-	16
Revolving credit facility (Note 5)	95,299	188,152
Bonds payable (Note 5)	2,134,923	1,934,122
Total noncurrent liabilities	2,230,222	2,122,290
Total liabilities	2,323,719	2,246,770
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow - derivatives (Notes 1 and 2)	69	-
Deferred inflow - Deferred amount on refunding	848	756
Total deferred inflows of resources	917	756
NET POSITION		
Unrestricted	$ 5,223	$ 11,112

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

TENNESSEE STATE SCHOOL BOND AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018, AND JUNE 30, 2017

(Expressed in Thousands)

	Year Ended June 30, 2018	Year Ended June 30, 2017
OPERATING REVENUES		
Revenue from loans	$ 76,516	$ 73,984
Investment loss	(1,309)	(6,471)
Total operating revenues	75,207	67,513
OPERATING EXPENSES		
Interest expense-revolving credit facility	1,598	1,137
Interest expense-bonds	73,921	71,823
Subsidy to borrowers	13,168	10,282
Administrative expense	2,054	719
Total operating expenses	90,741	83,961
Operating loss	(15,534)	(16,448)
NONOPERATING REVENUES		
Federal subsidy on bonds	9,645	9,590
Total nonoperating revenues	9,645	9,590
Decrease in net position	(5,889)	(6,858)
NET POSITION		
Net position, July 1	11,112	17,970
Net position, June 30	$ 5,223	$ 11,112

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, 2018, AND JUNE 30, 2017

(Expressed in Thousands)

	Year Ended June 30, 2018	Year Ended June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from borrowers for administrative fees	$ 924	$ 809
Payment to suppliers	(1,112)	(832)
Net cash used in operating activities	(188)	(23)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from sale of bonds	297,841	-
Proceeds from sale of refunding bonds	185,277	-
Proceeds from the sale of revolving credit facility	48,000	117,000
Bond interest subsidy from federal government	9,636	9,594
Bond issuance costs paid	(947)	-
Refunding bond proceeds placed in escrow	(184,856)	-
Debt Service Reserve Fund released in escrow	(15,879)	-
Principal paid - bonds and revolving credit facility	(207,778)	(79,923)
Interest paid - bonds and revolving credit facililty	(80,407)	(78,649)
Subsidy to borrowers	(9,604)	(9,594)
Net cash provided by (used in) noncapital financing activities	41,283	(41,572)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(73,204)	(92,675)
Proceeds from sales and maturities of investments	69,094	64,472
Interest received on investments	5,128	3,448
Loans issued	(196,657)	(135,383)
Collections of loan principal	90,345	105,862
Interest received on loans	77,060	75,648
Net cash provided by (used in) investing activities	(28,234)	21,372
Net decrease in cash	12,861	(20,223)
Cash, July 1	71,044	91,267
Cash, June 30	$ 83,905	$ 71,044
Reconciliation of cash to the Statement of Net Position:		
Cash	$ 74,014	$ 57,859
Cash with fiscal agent	81	2,236
Restricted cash	9,810	10,949
Cash, June 30	$ 83,905	$ 71,044

TENNESSEE STATE SCHOOL BOND AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018, AND JUNE 30, 2017

(Expressed in Thousands)

	Year Ended June 30, 2018		Year Ended June 30, 2017	
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$	(15,534)	$	(16,448)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Investment loss		1,309		6,471
Interest expense		75,519		72,959
Subsidy to borrowers		13,168		10,282
Bond issuance costs		947		-
Interest income from loans		(75,555)		(73,162)
Changes in assets and liabilities:				
(Increase) decrease in receivables for administrative fees		(34)		(11)
Increase (decrease) in payables for administrative fees		(5)		(112)
Increase (decrease) in unearned revenue		(3)		(2)
Total adjustments		15,346		16,425
Net cash used in operating activities	$	(188)	$	(23)
Noncash investing activities:				
Increase (decrease) in fair value of investments	$	(2,737)	$	3,128

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, 2018, and June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Authority is a component unit of the State of Tennessee and a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 14 (as amended), *The Financial Reporting Entity*, the Authority is discretely presented in the *Tennessee Comprehensive Annual Financial Report* because a majority of the Authority's board consists of state officials which include the Governor, the State Treasurer, the Secretary of State, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Chancellor of the Tennessee Board of Regents, and the President of the University of Tennessee. The Governor serves as chairman, and the Comptroller of the Treasury serves as secretary. The Director of the Office of State and Local Finance serves as the assistant secretary; the office provides administrative and financial services to the Authority. Therefore, the State has the ability to affect the day-to-day operations of the Authority.

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

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

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

Investments

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

Amortized Amounts

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

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

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

NOTE 2. DEPOSITS AND INVESTMENTS

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

Deposits

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

The Authority has deposits 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, 2018, the Authority has the following investments:

Investment	Maturity		Fair Value (Level 1)
U.S. Treasury Notes	October 31, 2018	$	1,018,965
	April 30, 2019		2,217,282
	August 15, 2026		42,026,679
	August 15, 2027		38,454,580
U.S. Treasury Securities:			
Agency Zeroes & Strips	August 15, 2026		44,223,365
	August 15, 2027		50,890,234
Total Level 1 Investments		$	178,831,104

Investment	Maturity		Fair Value (Level 2)
U.S. Treasury Bills	November 23, 2018	$	9,973,266
	December 6, 2018		13,575,782
Total Level 2 Investments		$	23,549,048
Total Investments		$	202,380,152

As of June 30, 2017, the Authority had the following investments:

Investment	Maturity	Fair Value (Level 1)
U.S. Treasury Notes	October 31, 2017	$ 2,152,543
	October 31, 2017	749,145
	October 31, 2017	2,896,694
	October 31, 2017	219,749
	April 30, 2018	2,817,633
	April 30, 2018	1,792,134
	April 30, 2018	7,297,968
	April 30, 2018	547,597
	October 31, 2018	1,991,068
	October 31, 2018	1,025,702
	October 31, 2018	4,233,534
	October 31, 2018	311,733
	August 15, 2026	32,877,147
	August 15, 2027	28,385,892
U.S. Treasury Securities:		
Agency Zeroes & Strips	August 15, 2026	44,978,163
	August 15, 2027	50,452,413
Total Level 1 Investments		$ 182,729,115

Investment	Maturity	Fair Value (Level 2)
U.S. Treasury Bills	November 24, 2017	$ 9,096,268
	December 7, 2017	12,258,484
Total Level 2 Investments		$ 21,354,752
Total Investments		$ 204,083,867

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

Interest Rate Risk

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

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2018, and June 30, 2017

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2018, and June 30, 2017, the Authority had cash on deposit in the State Pooled Investment Fund and Local Government Investment Pool administered by the State Treasurer, which are unrated. At June 30, 2018, and June 30, 2017, the Authority also invested in U.S. Government obligations, or obligations of which the principal and interest are guaranteed by the United States.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Authority's investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. At June 30, 2018, and June 30, 2017, 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, 2018, and June 30, 2017, the Authority only invested in U.S. Treasury securities, or obligations of which the principal and interest are guaranteed by the United States.

Forward Delivery Agreements

On November 24, 2004, the Authority entered into a Forward Delivery Agreement (the "Agreement") with Bank of America, N.A. related to the Series 2004 QZABs. The Agreement guarantees to the Authority a fixed rate of interest of 3%. Cash from borrowers' loan repayments will be used to purchase securities from Bank of America, N.A. in accordance with the Agreement. The accumulated funds will be used to redeem the $12,600,000 Series 2004 QZABs at maturity. As a result of the Agreement, borrowers will repay only $9,984,800 of the $12,600,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2018, $9,973,266 is invested through the Agreement. As of June 30, 2017, $9,096,268 was invested through the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also has the right to optionally terminate the Agreement at any time.

On December 28, 2005, the Authority entered into a Forward Delivery Agreement (the "Agreement") with J.P. Morgan Chase Bank, N.A. related to the Series 2005 QZABs. The Agreement guarantees to the Authority a fixed rate of interest of 3.64%. Cash from borrowers' loan repayments will be used to purchase securities from J.P. Morgan Chase Bank, N.A. in accordance with the Agreement. The accumulated funds will be used to redeem the $17,545,000 Series 2005 QZABs at maturity. As a result of the Agreement, borrowers will repay only $13,438,510 of the $17,545,000 principal. The investments will be held by the State Treasurer in the Authority's name. As of June 30, 2018, $13,575,782 is invested through the Agreement. As of June 30, 2017, $12,258,484 was invested through the Agreement. The Authority negotiated a "one way" termination provision in the event of counterparty default on the Agreement. The Authority also has the right to optionally terminate the Agreement at any time.

Terms of the Forward Delivery Agreements

	QZAB Series 2004	QZAB Series 2005
Trade Date	11/24/2004	12/28/2005
Provider	Bank of America, N.A.	J.P Morgan Chase Bank, N.A.
Notional Amount	$12,600,000	$17,545,000
Guaranteed Interest Rate	3.00%	3.64%
Amount Invested in Agreement at 6/30/18 at fair value[1]	$9,973,266	$13,575,782
Amount Invested in Agreement at 6/30/17 at fair value[1]	$9,096,268	$12,258,484
Date of Deposits	Nov. 24, 2005 through 2020	Dec. 8, 2006 through 2020

[1] The forward delivery agreements are classified as Level 2 of the fair value hierarchy. Debt securities classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

For the fiscal year ended June 30, 2018, the Agreement for the 2004 QZABs has a negative fair value of $87,041, and the Agreement for the 2005 QZABs has a positive fair value of $69,136. For the fiscal year ended June 30, 2017, the Agreement for the 2004 QZABs had a positive fair value of $202,970, and the Agreement for the 2005 QZABs had a positive fair value of $553,197. The negative fair value is reported as a deferred outflow of resources on the statement of net position. The positive fair value is reported as a deferred inflow of resources on the statement of net position. The Agreements were valued by an independent investment advisor using the parameters contained in the Agreements and prevailing market conditions and benchmark yields on June 30, 2018, upon which the fair values depend. Borrowers pay no interest on these bonds. The interest rate credit is established by the federal government. The Agreements are agreed to as one of the terms of purchase to induce the investor to purchase the bond. The Authority has a scheduled amount of qualified securities required to be on deposit on specified delivery dates. These Agreements are forward contracts or commitments to deliver the same qualified securities on the scheduled dates at a pre-determined rate; therefore, these are hedging derivative instruments employed as a fair value hedge of the qualified securities for the required deposits. These forward contracts meet all criteria under GASB 53, Paragraph 39, which addresses the consistent critical terms method for forward contracts. All terms of the required deposits and the Agreements are consistent; therefore, hedge accounting is applied.

Termination Risk

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

If the current market interest rate is higher than the fixed interest rate agreed to in the Agreement, the Agreement has a negative fair value. In the event of termination under this circumstance, the State owes a termination payment to the counterparty. If the fair value is positive, the State is due a termination payment from the counterparty. As of June 30, 2018, the fair value of the State's Agreements is a total negative value of $17,905. As of June 30, 2017, the fair value of the State's Agreements was a total positive value of $756,167.

NOTE 3. LOANS RECEIVABLE

Higher Education Facilities Programs

The Authority has entered into financing agreements with both the Board of Trustees of the University of Tennessee (the Board of Trustees) and the Tennessee Board of Regents of the State University and Community College System of the State of Tennessee (the Tennessee Board of Regents). The Second Financing Agreement (the "Agreement"), is dated November 1, 1997, and was amended and restated on May 9, 2013. Under the Agreement, the Authority agrees to finance construction projects for the Board of Trustees or the Tennessee Board of Regents. Annual financing charges payable under the Agreement must be sufficient to pay the debt obligations of the Authority and the costs of administering the programs.

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

Qualified Zone Academy Bonds Program

The Authority has entered into loan agreements with the local governments on behalf of local education agencies for the 1999 QZABs, dated November 30, 1999; the 2001 QZABs, dated December 18, 2001; the 2003 QZABs, dated December 23, 2003; the 2004 QZABs, dated November 24, 2004; and the 2005 QZABs, dated December 28, 2005. Under the agreements, the Authority agrees to finance renovation projects and equipment for the local education agencies. On the date designated in the agreements, annual financing charges must be paid by the borrower sufficient to pay the annual principal payment, which is deposited into a bond sinking fund held by the State Treasurer that will pay the bonds at maturity, and the costs of administering the program.

Qualified School Construction Bonds Program

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

NOTE 4. RESTRICTED ASSETS

Cash and Investments

The Higher Education Facilities Second Program General Bond Resolution, effective for all bonds issued in 1998 and thereafter, permits the Authority to satisfy the debt service reserve requirement by either placing an amount equal to the maximum semiannual debt service requirement in a debt service reserve account or by maintaining a Reserve Fund Credit Facility. The Authority obtained a surety bond, constituting a Reserve Fund Credit Facility under the Resolution, in lieu of maintaining a debt service reserve fund for the 2005 Series A and B; 2006 Series A; 2007 Series A, B and C; and 2008 Series A Bonds. Due to market conditions at the time of issuance of the 2008 Series B, 2009 Series A, and 2010 Series A and B Bonds, the Authority deposited funds into a debt service reserve account equal to the maximum semiannual debt service for those bonds. The Authority elected to establish a separate debt service reserve fund solely for the 2012 Series A, B, and C, 2013 Series A, 2014 Series A and B, and 2015 Series A and B bonds with no current funding requirement.

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

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

NOTE 5. DEBT PAYABLE

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

Higher Education Facilities Programs

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

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

Qualified Zone Academy Bonds Program

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

Qualified School Construction Bonds Program

On November 5, 2009, the Authority adopted a Qualified School Construction Bond Resolution authorizing the issuance of QSCBs to make loans to local governments on behalf of local education agencies for the purpose of financing eligible costs of certain projects. The Tennessee Advisory Commission on Intergovernmental Relations recommended the projects to be funded by the Authority under the QSCB program. The American Recovery and Reinvestment Act of 2009 provided this financial tool whereby interest on QSCBs, Series 2009, is paid by the federal government in the form of a quarterly tax credit to the financial institutions that hold the QSCBs. Market conditions at the time of issuance demanded the borrowers pay an additional quarterly interest payment to supplement the tax credit to the investors. The 2010 QSCBs were issued as direct subsidy payment bonds, a financial tool whereby the interest on the QSCBs is intended to be fully subsidized by the federal government. The bonds are secured solely by the payments made by the borrowers under the Loan Agreements, including amounts collected from unobligated state-shared taxes in the event of non-payment by the local governments and by certain funds held under the Qualified School Construction Bond Resolution. The September 15, 2017, federal interest subsidy payment for the 2010 QSCBs was reduced by 6.9%, or $355,318.65, as a part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year, September 30, 2018. On June 21, 2018, the Internal Revenue Service announced that federal subsidy payments will be cut by 6.2% during the 2019 federal fiscal year.

Changes in debt payable for the years ended June 30, 2018, and June 30, 2017, are as follows (expressed in thousands):

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
Revolving Credit Facility	$ 188,152	$ 48,000	$ 140,853	$ 95,299	$ -
Bonds payable	$ 1,841,530	$ 402,460	$ 253,080	$ 1,990,910	$ 73,079
Less: unamortized bond discount	(49)	-	(3)	(46)	-
Add: unamortized bond premium	160,906	80,658	24,425	217,139	-
Total bonds payable	$ 2,002,387	$ 483,118	$ 277,502	$ 2,208,003	$ 73,079

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Revolving Credit Facility	$ 84,480	$ 117,000	$ 13,328	$ 188,152	$ -
Bonds payable	$ 1,908,125	$ -	$ 66,595	$ 1,841,530	$ 68,265
Less: unamortized bond discount	(52)	-	(3)	(49)	-
Add: unamortized bond premium	169,147	-	8,241	160,906	-
Total bonds payable	$ 2,077,220	$ -	$ 74,833	$ 2,002,387	$ 68,265

Bonds and revolving credit facility at June 30, 2018, and June 30, 2017, are as follows (expressed in thousands):

	June 30, 2018	June 30, 2017
Bonds Payable:		
2007 Series A at interest rates of 4.25% maturing to 2036 (original par - $33,730)	-	2,185
2007 Series C at interest rates of 5.00% maturing to 2032 (original par - $89,940)	-	41,640
2008 Series B at interest rates of 5.00% maturing to 2018 (original par - $166,990)	-	7,315
2009 Series A at interest rates from 4.00% to 5.00% maturing to 2019 (original par - $109,905)	3,390	7,075
2010 Series A at interest rates from 3.125% to 4.250% maturing to 2040 (original par - $213,920)	-	69,240
2010 Series B at interest rates from 3.00% to 5.20% maturing to 2040 (original par - $18,015)	-	14,845
2012 Series A at interest rates from 2.50% to 5.00% maturing to 2042 (original par - $208,295)	137,005	189,810
2012 Series B (Federally Taxable) at interest rates from 1.772% to 3.845% maturing to 2042 (original par - $103,790)	80,950	86,765
2012 Refunding Series C at interest rates from 3.00% to 5.00% maturing to 2034 (original par - $125,635)	77,825	86,295
2013 Series A at interest rates from 4.00% to 5.00% maturing to 2044 (original par - $149,130)	117,250	136,270
2014 Series A (Federally Taxable) at interest rates from 1.250% to 4.207% maturing to 2045 (original par - $132,450)	103,910	111,130
2014 Refunding Series B at interest rates from 4.00% to 5.000% maturing to 2038 (original par - $212,200)	204,145	208,940
2015 Series A (Federally Taxable) at interest rates from 1.020% to 3.950% maturing to 2046 (original par - $75,550)	71,315	73,440
2015 Series B at interest rates of 5.00% maturing to 2046 (original par - $388,615)	380,295	384,550
2017 Series A at interest rates of 5.00% maturing to 2047 (original par - $247,570)	247,570	-
2017 Series B at interest rates from 2.00% to 5.00% maturing to 2039 (original par - $139,740)	130,860	-
2017 Series C at interest rates from 1.287% to 3.424% maturing to 2039 (original par - $15,150)	14,365	-

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2018, and June 30, 2017

2003 Qualified Zone Academy Bonds non-interest bearing maturing in 2019 (original par - $2,445)	2,445	2,445
2004 Qualified Zone Academy Bonds non-interest bearing maturing in 2021 (original par - $12,600)	12,600	12,600
2005 Qualified Zone Academy Bonds non-interest bearing maturing in 2021 (original par - $17,545)	17,545	17,545
2009 Qualified School Construction Bonds at an interest rate of 1.515% and a federal tax credit rate of 5.86% maturing in 2027 (original par - $177,000)	177,000	177,000
2010 Qualified School Construction Bonds at an interest rate of 4.848% maturing in 2028 (original par - $212,440)	212,440	212,440
Total Par Amount of Bonds Payable	1,990,910	1,841,530
Plus: Unamortized Premium/Less Unamortized Discount	217,093	160,857
Net Bonds Payable	$ 2,208,003	$ 2,002,387
Revolving Credit Facility, at interest rates from 1.2440% to 2.512%	$ 95,299	$ 188,152

Debt service requirements to maturity of the bonds payable at June 30, 2018, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2019	$ 73,080	$ 70,544	$ 143,624
2020	73,980	67,475	141,455
2021	101,280	64,432	165,712
2022	71,730	61,423	133,153
2023	72,955	58,254	131,209
2024-2028	737,160	243,882	981,042
2029-2033	295,015	168,297	463,312
2034-2038	258,360	104,174	362,534
2039-2043	214,365	47,268	261,633
2044-2048	92,985	8,741	101,726
	$ 1,990,910	$ 894,490	$ 2,885,400

The Authority may issue taxable and/or tax-exempt bonds. Proceeds for the tax-exempt bonds issued after September 1, 1986, are subject to the 1986 Tax Reform Act. The Authority invests, records, and reports these proceeds in the manner set forth by the U.S. Treasury and Internal Revenue Service to maintain the tax-exempt status of the bonds. Arbitrage liabilities, when applicable, are reported as a current accrued liability. For the year ended June 30, 2018, and June 30, 2017, the Authority did not have a liability for arbitrage.

On September 21, 2017, the Authority issued three new series of bonds, 2017 Series A, B and C. The 2017 Series A tax-exempt bond proceeds in the amount of $247,570,000 were issued to redeem

$128,306,796 of the Authority's tax-exempt revolving credit facility. The 2017 Series B tax-exempt bond proceeds in the amount of $139,740,000 were issued to current refund $2,185,000 of the 2007 Series A bonds and $37,705,000 of the 2007 Series C bond and to advance refund 69,240,000 of the 2010 Series A bonds, $47,930,000 of the 2012 Series A bonds, and $14,250,000 of the 2013 Series A bonds. The 2017 Series C taxable bond proceeds in the amount of $15,150,000 were issued to advance refund $14,845,000 of the 2010 Series B bonds. The balance of the proceeds of the 2017 Series A, B and C were used to pay for new construction projects and various costs of issuance. The 2017 Series B refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $731,838.23. This amount is reported as a deferred inflow of resources and is being charged to operations through the year 2040. The 2017 Series B refunding resulted in a reduction of total debt service payments of $43,571,471.36 over the next 23 years and an economic gain (difference between the present values of the old and new debt service payments) of $38,803,368.89. The 2017 Series C refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1,421,652.14. This amount is reported as a deferred outflow of resources and is being charged to operations through the year 2040. The 2017 Series C refunding resulted in a reduction of total debt service payments of $3,250,351.46 over the next 23 years and an economic gain (difference between the present values of the old and new debt service payments) of $2,585,925.42. The funds provided for the advance refundings were placed in irrevocable refunding trust funds to pay the interest on the refunded bonds on each interest payment date to and including the respective redemption date and on the respective redemption price then due on the refunded bonds.

Revolving Credit Facility

The Authority issues short-term debt to finance certain capital projects for the State's higher education institutions. On March 20, 2014, the Authority entered into a Revolving Credit Agreement (RCA) with Wells Fargo Bank, National Association, and U.S. Bank, National Association. The Revolving Credit Agreement permits loans (the Revolving Credit Facility) to be made from time to time (and prepayments and reborrowings) in an aggregate principal amount outstanding at any time not to exceed $300,000,000. The Revolving Credit Agreement was amended on March 20, 2017, with an expiration date of March 20, 2020. The Revolving Credit Agreement was further amended on April 25, 2018, with an expiration date of March 18, 2021.The revolving credit facility may be issued as tax-exempt or as taxable loans. At the program's inception, the revolving credit facility refinanced certain outstanding commercial paper proceeds that the Authority had previously issued to finance capital projects. At June 30, 2018, $60,569,132 of tax-exempt revolving credit facility and $34,730,169 of taxable revolving credit facility loans were outstanding. At June 30, 2017, $180,165,320 of tax-exempt revolving credit facility and $7,986,746 of taxable revolving credit facility loans were outstanding.

Tennessee State School Bond Authority
Notes to the Financial Statements (Cont.)
June 30, 2018, and June 30, 2017

NOTE 6. UNEARNED REVENUE

Changes in unearned revenue for the years ended June 30, 2018, and June 30, 2017, are as follows (expressed in thousands):

	Balance July 1, 2017	Additions	Deletions	Balance July 1, 2018
Prepaid Interest	$ 2,260	$ 2,212	$ 2,260	$ 2,212
Other unearned revenue	18	-	18	-
Total unearned revenue	$ 2,278	$ 2,212	$ 2,278	$ 2,212

	Balance July 1, 2016	Additions	Deletions	Balance July 1, 2017
Prepaid Interest	$ 2,233	$ 2,260	$ 2,233	$ 2,260
Other unearned revenue	20	-	2	18
Total unearned revenue	$ 2,253	$ 2,260	$ 2,235	$ 2,278

NOTE 7. SUBSEQUENT EVENTS

The September 15, 2018, federal interest subsidy payment for the 2010 QSCBs was reduced by 6.6%, or $339,870.01, as a part of the Budget Control Act of 2011. The sequestration reduction rate was applicable until the end of the federal fiscal year, September 30, 2018. On June 21, 2018, the Internal Revenue Service announced that federal subsidy payments will be cut by 6.2% during the 2019 federal fiscal year.

As of December 11, 2018, the Authority has $105,404,744 outstanding in tax-exempt revolving credit facility and $34,534,520 in taxable revolving credit facility. Between June 30, 2018, and December 11, 2018, the Authority has drawn $45,000,000 in revolving credit facility to pay construction expenditures.

SUPPLEMENTARY SCHEDULES

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF NET POSITION - PROGRAM LEVEL
JUNE 30, 2018, AND JUNE 30, 2017
(Expressed in Thousands)

	June 30, 2018			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
ASSETS				
Current assets:				
Cash	$ 71,538	$ 188	$ 2,288	$ 74,014
Cash with fiscal agent	61	-	20	81
Fair value of derivatives	-	69	-	69
Loans receivable	77,544	2,121	24,300	103,965
Interest receivable	11,235	-	1,179	12,414
Federal subsidy receivable	-	-	2,806	2,806
Receivables for administrative fees	176	5	-	181
Total current assets	160,554	2,383	30,593	193,530
Noncurrent assets:				
Restricted cash	-	3,965	5,845	9,810
Restricted investments	3,236	23,549	175,595	202,380
Loans receivable	1,696,069	3,078	187,559	1,886,706
Total noncurrent assets	1,699,305	30,592	368,999	2,098,896
Total assets	1,859,859	32,975	399,592	2,292,426
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflow - derivatives	-	87	-	87
Deferred outflow - deferred amount on refunding	37,346	-	-	37,346
Total deferred outflows of resources	37,346	87	-	37,433
LIABILITIES				
Current liabilities:				
Accounts payable	-	-	32	32
Fai value of derivatives	-	87	-	87
Accrued liabilities	4	-	2,806	2,810
Accrued interest payable	12,125	-	3,152	15,277
Unearned revenue	-	2	2,210	2,212
Bonds payable	70,635	2,444	-	73,079
Total current liabilities	82,764	2,533	8,200	93,497
Noncurrent liabilities:				
Unearned revenue	-	-	-	-
Revolving credit facility	95,299	-	-	95,299
Bonds payable	1,715,338	30,145	389,440	2,134,923
Total noncurrent liabilities	1,810,637	30,145	389,440	2,230,222
Total liabilities	1,893,401	32,678	397,640	2,323,719
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - derivatives	-	69	-	69
Deferred inflow - deferred amount on refunding	848	-	-	848
Total deferred inflows of resources	848	69	-	917
NET POSITION				
Unrestricted	$ 2,956	$ 315	$ 1,952	$ 5,223

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF NET POSITION - PROGRAM LEVEL
JUNE 30, 2018, AND JUNE 30, 2017
(Expressed in Thousands)

June 30, 2017			
Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
$ 55,714	$ 188	$ 1,957	$ 57,859
2,202	-	34	2,236
-	756	-	756
73,502	2,120	24,301	99,923
10,642	-	998	11,640
-	-	2,797	2,797
142	5	-	147
142,202	3,069	30,087	175,358
-	3,919	7,030	10,949
26,035	21,355	156,694	204,084
1,612,156	5,386	210,732	1,828,274
1,638,191	30,660	374,456	2,043,307
1,780,393	33,729	404,543	2,218,665
-	-	-	-
39,973	-	-	39,973
39,973	-	-	39,973
37,351	-	-	37,351
-	-	-	-
6	-	2,797	2,803
10,647	-	3,152	13,799
-	1	2,261	2,262
68,265	-	-	68,265
116,269	1	8,210	124,480
15	1	-	16
188,152	-	-	188,152
1,512,094	32,588	389,440	1,934,122
1,700,261	32,589	389,440	2,122,290
1,816,530	32,590	397,650	2,246,770
-	756	-	756
-	-	-	-
-	756	-	756
$ 3,836	$ 383	$ 6,893	$ 11,112

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2018, AND JUNE 30, 2017
(Expressed in Thousands)

	Year ended June 30, 2018			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
OPERATING REVENUES				
Revenue from loans	$ 63,177	$ 11	$ 13,328	$ 76,516
Investment earnings (loss)	1,502	(67)	(2,744)	(1,309)
Total operating revenues	64,679	(56)	10,584	75,207
OPERATING EXPENSES				
Interest expense-revolving credit facility	1,598	-	-	1,598
Interest expense-bonds	60,939	1	12,981	73,921
Subsidy to borrowers	1,075	-	12,093	13,168
Administrative expense	1,947	11	96	2,054
Total operating expenses	65,559	12	25,170	90,741
Operating income (loss)	(880)	(68)	(14,586)	(15,534)
NONOPERATING REVENUES				
Federal subsidy on bonds	-	-	9,645	9,645
Total nonoperating revenues	-	-	9,645	9,645
Increase (decrease) in net position	(880)	(68)	(4,941)	(5,889)
NET POSITION				
Net position, July 1	3,836	383	6,893	11,112
Net position, June 30	$ 2,956	$ 315	$ 1,952	$ 5,223

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2018, AND JUNE 30, 2017
(Expressed in Thousands)

Year ended June 30, 2017			
Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
$ 60,644	$ 13	$ 13,327	$ 73,984
286	(37)	(6,720)	(6,471)
60,930	(24)	6,607	67,513
1,137	-	-	1,137
58,840	2	12,981	71,823
257	-	10,025	10,282
612	11	96	719
60,846	13	23,102	83,961
84	(37)	(16,495)	(16,448)
-	-	9,590	9,590
-	-	9,590	9,590
84	(37)	(6,905)	(6,858)
3,752	420	13,798	17,970
$ 3,836	$ 383	$ 6,893	$ 11,112

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2018, AND JUNE 30, 2017
(Expressed in Thousands)

	Year ended June 30, 2018			
	Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from borrowers for administrative fees	$ 568	$ 10	$ 346	$ 924
Payment to suppliers	(1,005)	(11)	(96)	(1,112)
Net cash provided by (used in) operating activities	(437)	(1)	250	(188)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from sale of bonds	297,841	-	-	297,841
Proceeds from the sale of refunding bonds	185,277	-	-	185,277
Proceeds from sale of revolving credit facility	48,000	-	-	48,000
Bond interest subsidy from federal government	-	-	9,636	9,636
Bond issuance costs paid	(947)	-	-	(947)
Refunding bond proceeds placed in escrow	(184,856)	-	-	(184,856)
Debt service reserve fund release to escrow	(15,879)	-	-	(15,879)
Principal paid - bonds and revolving credit facility	(207,778)	-	-	(207,778)
Interest paid - bonds and revolving credit facility	(67,426)	-	(12,981)	(80,407)
Subsidy to borrowers	-	-	(9,604)	(9,604)
Net cash provided by (used in) noncapital financing activities	54,232	-	(12,949)	41,283
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	(2,216)	(46,326)	(24,662)	(73,204)
Proceeds from sales and maturities of investments	25,030	44,064	-	69,094
Interest received on investments	1,487	804	2,837	5,128
Loans issued	(196,657)	-	-	(196,657)
Collections of loan principal	68,062	1,504	20,779	90,345
Interest received on loans	64,183	-	12,877	77,060
Net cash provided by (used in) investing activities	(40,111)	46	11,831	(28,234)
Net increase (decrease) in cash	13,684	45	(868)	12,861
Cash, July 1	57,916	4,107	9,021	71,044
Cash, June 30	$ 71,600	$ 4,152	$ 8,153	$ 83,905
Reconciliation of cash to the Statement of Net Position:				
Cash	$ 71,538	$ 188	$ 2,288	$ 74,014
Cash with fiscal agent	61	-	20	81
Restricted cash	-	3,965	5,845	9,810
Cash, June 30	$ 71,599	$ 4,153	$ 8,153	$ 83,905
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	$ (880)	$ (68)	$ (14,586)	$ (15,534)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Investment earnings	(1,502)	67	2,744	1,309
Interest expense	62,536	2	12,981	75,519
Subsidy to borrowers	1,076	-	12,092	13,168
Bond issuance costs	947	-	-	947
Interest income (loss) from loans	(62,575)	-	(12,980)	(75,555)
Changes in assets and liabilities:				
(Increase) decrease in receivables for administrative fees	(34)	-	-	(34)
Increase (decrease) in payables for administrative fees	(5)	-	-	(5)
Increase (decrease) in unearned revenue	-	(2)	(1)	(3)
Total adjustments	443	67	14,836	15,346
Net cash provided by (used in) operating activities	$ (437)	$ (1)	$ 250	$ (188)
Noncash investing activities:				
Increase (decrease) in fair value of investments	$ 12	$ -	$ (2,749)	$ (2,737)

TENNESSEE STATE SCHOOL BOND AUTHORITY
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2018, AND JUNE 30, 2017
(Expressed in Thousands)

Year ended June 30, 2017			
Higher Education Facilities Programs	Qualified Zone Academy Bonds Program	Qualified School Construction Bonds Program	Total
$ 450	$ 10	$ 349	$ 809
(724)	(12)	(96)	(832)
(274)	(2)	253	(23)
-	-	-	-
-	-	-	-
117,000	-	-	117,000
-	-	9,594	9,594
-	-	-	-
-	-	-	-
-	-	-	-
(79,923)	-	-	(79,923)
(65,668)	-	(12,981)	(78,649)
-	-	(9,594)	(9,594)
(28,591)	-	(12,981)	(41,572)
(24,669)	(41,842)	(26,164)	(92,675)
24,818	39,654	-	64,472
427	689	2,332	3,448
(135,383)	-	-	(135,383)
79,923	1,788	24,151	105,862
62,670	(7)	12,985	75,648
7,786	282	13,304	21,372
(21,079)	280	576	(20,223)
78,995	3,827	8,445	91,267
$ 57,916	$ 4,107	$ 9,021	$ 71,044
$ 55,714	$ 188	$ 1,957	$ 57,859
2,202	-	34	2,236
-	3,919	7,030	10,949
$ 57,916	$ 4,107	$ 9,021	$ 71,044
$ 84	$ (37)	$ (16,495)	$ (16,448)
(286)	36	6,721	6,471
59,977	1	12,981	72,959
257	-	10,025	10,282
-	-	-	-
(60,181)	-	(12,981)	(73,162)
(13)	-	2	(11)
(112)	-	-	(112)
-	(2)	-	(2)
(358)	35	16,748	16,425
$ (274)	$ (2)	$ 253	$ (23)
$ (110)	$ -	$ 3,238	$ 3,128