Tennessee Local Development Authority

For the Year Ended
June 30, 1999

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Teresa L. Hensley, CPA
Audit Manager

Rew Sloan
In-Charge Auditor

Kathy Gabriel
Amy Mallicote
Erick Rosa
Michael Wilbanks
Staff Auditors

Erica V. Smith, CPA
Technical Analyst

Amy Brack
Editor

March 30, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John G. Morgan
Comptroller of the Treasury
Secretary of the Tennessee Local Development Authority
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Local Development Authority for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb
00/017

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee Local Development Authority
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

The objectives of the audit were to consider the authority's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions); to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Local Development Authority
For the Year Ended June 30, 1999

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee Local Development Authority
For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Local Development Authority. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

LEGISLATIVE HISTORY

The Tennessee Local Development Authority was created April 2, 1978, by an act of the General Assembly, codified as Title 4, Chapter 31, *Tennessee Code Annotated.* The authority is delegated the responsibility for issuing its debt obligations to provide funds to make loans to local governments for the State Loan Program and for capital projects; certain small business concerns for pollution control facilities; farmers for certain capital improvements; counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties; airport authorities and municipal airports; and mental health/retardation/alcohol and drug facilities (the Community Provider Pooled Loan Program). To date, the authority has issued debt only to fund the State Loan Program and the Community Provider Pooled Loan Program.

ORGANIZATION

The Tennessee Local Development Authority is composed of the Governor, the Secretary of State, the Comptroller of the Treasury, the State Treasurer, the Commissioner of Finance and Administration, and two other members—one appointed by the Speaker of the Senate from nominations by the Tennessee County Services Association and the other by the Speaker of the House from nominations by the Tennessee Municipal League. The Governor serves as Chairman, and the Comptroller of the Treasury serves as Secretary.

An organization chart for the Tennessee Local Development Authority is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Tennessee Local Development Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered allotment code 307.07—Division of Bond Finance (Fund 34).

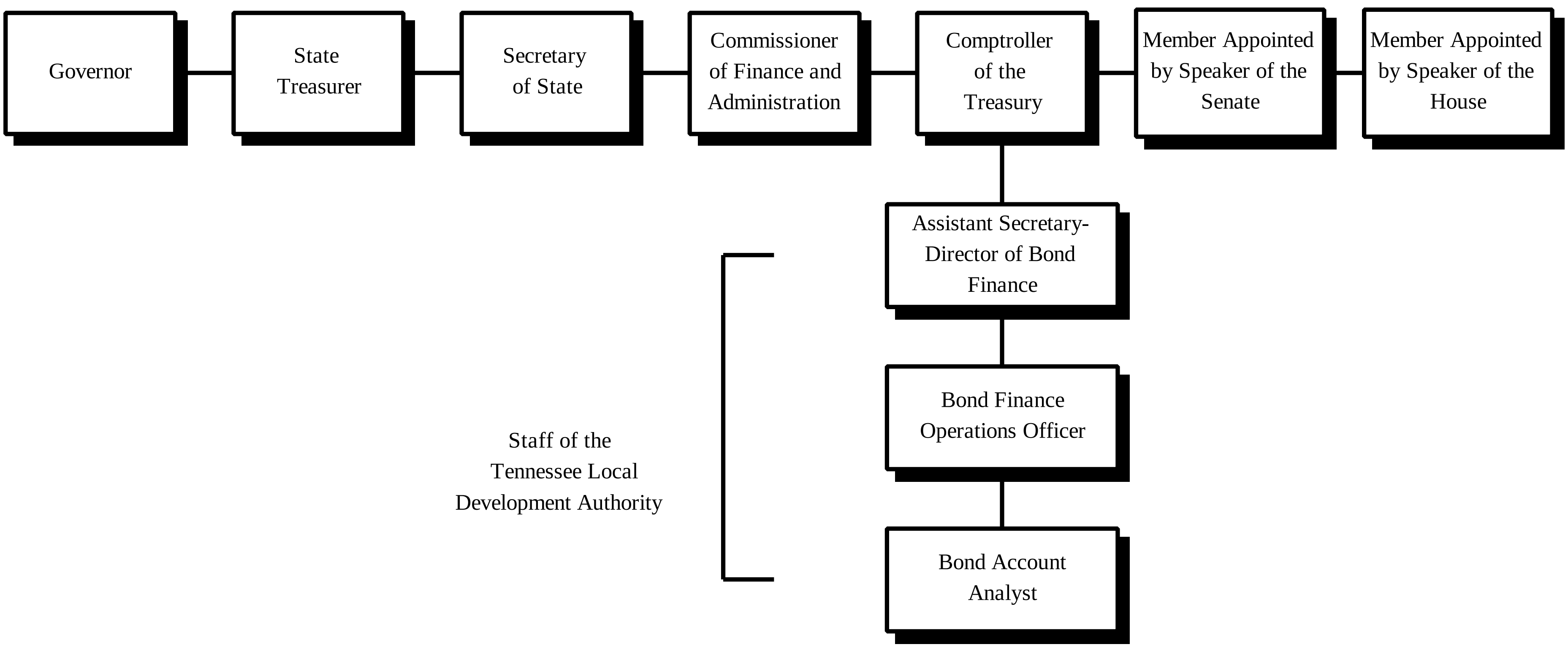
OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the authority's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions);
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* it included tests of compliance with applicable federal laws and regulations and consideration of internal control. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
ORGANIZATION CHART



PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Local Development Authority's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee Local Development Authority's financial statements.

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards

December 9, 1999

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

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 9, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb

Independent Auditor's Report

December 9, 1999

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

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated January 22, 1999, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support the authority's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*. The authority's year 2000 disclosures are now reported as required supplementary information as permitted by GASB Technical Bulletin 99-1, *Disclosures* *about Year 2000 Issues—an amendment of Technical Bulletin 98-1*. Accordingly, our present opinion on the 1998 statements, as expressed herein, is different from our prior report on the 1998 financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Local Development Authority as of June 30, 1999, and June 30, 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 Disclosures on pages 17 and 18 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the authority is or will become year 2000 compliant, that the authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the authority does business are or will become year 2000 compliant.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements, taken as a whole. The accompanying financial information on pages 19 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 1999, on our consideration of the authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts (including bond resolutions).

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/mb

Exhibit A

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	June 30, 1999	June 30, 1998
ASSETS		
Current assets:		
Cash (Note 2)	$ 29,575	$ 28,789
Loans receivable	5,599	5,470
Interest receivable on loans	20	24
Interest receivable on investments	53	58
Total current assets	35,247	34,341
Restricted assets (Notes 2 and 3):		
Cash	6,635	7,362
Investments	1,396	3,153
Total restricted assets	8,031	10,515
Other assets:		
Loans receivable	81,689	85,467
Deferred charges	400	425
Total other assets	82,089	85,892
Total assets	$ 125,367	$ 130,748
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Warrants payable	$ 223	$ 3
Accrued interest payable	1,325	1,652
Payable to borrowers (Note 4)	853	1,093
Notes payable (Note 5)	49,100	26,059
Revenue bonds payable (Note 5)	4,680	5,470
Total current liabilities	56,181	34,277
Noncurrent liabilities:		
Revenue bonds payable, net (Note 5)	58,133	85,233
Total liabilities	114,314	119,510
Equity:		
Retained earnings - reserved for statutory fund	6,000	6,000
Retained earnings - unreserved	5,053	5,238
Total equity	11,053	11,238
Total liabilities and equity	$ 125,367	$ 130,748

The Notes to the Financial Statements are an integral part of this statement.

Exhibit B

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	Year Ended June 30, 1999	Year Ended June 30, 1998
OPERATING REVENUES		
Revenue from loans	$ 6,181	$ 5,422
Investment income		
Interest	1,608	1,692
Net increase (decrease) in the fair value of investments	(10)	33
Total operating revenues	7,779	7,147
OPERATING EXPENSES		
Interest expense	5,813	5,307
Bond issuance cost	25	22
Administrative expense	139	34
Total operating expenses	5,977	5,363
Operating income before operating transfer	1,802	1,784
Operating transfer from primary government	25	25
Income before loss on extraordinary item	1,827	1,809
Loss on refunding (Note 6)	(2,012)	-
Net income (loss)	(185)	1,809
Retained earnings, July 1	11,238	9,436
Cumulative effect of a change in accounting principle (Note 7)	-	(7)
Retained earnings, July 1, as restated	11,238	9,429
Retained earnings, June 30	$ 11,053	$ 11,238

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	Year Ended June 30, 1999	Year Ended June 30, 1998
Cash flows from operating activities:		
Operating income before operating transfer	$ 1,802	$ 1,784
Adjustments to reconcile operating income to net cash used by operating activities:		
Amortization	25	22
Revenue from loans	(6,181)	(5,422)
Investment income	(1,598)	(1,725)
Interest expense	5,813	5,307
Increase in warrants payable	220	3
Decrease in payable to borrowers	(240)	(37)
Total adjustments	(1,961)	(1,852)
Net cash used by operating activities	(159)	(68)
Cash flows from noncapital financing activities:		
Proceeds from sale of notes	49,114	26,065
Proceeds from sale of bonds	-	37,112
Payments to refunding escrow	(23,891)	(37,852)
Funds received from escrow	-	18,519
Payments for escrow	-	(18,519)
Principal payments	(31,470)	(20,750)
Interest paid	(6,082)	(5,392)
Operating transfer from primary government	25	25
Net cash used by noncapital financing activities	(12,304)	(792)
Cash flows from investing activities:		
Loans issued	(11,252)	(11,687)
Collections of loan principal	15,181	11,248
Interest received on loans	5,230	5,029
Interest received on investments	1,616	1,901
Proceeds from maturity of investments	1,747	16,169
Purchase of investments	-	(1,004)
Net cash provided by investing activities	12,522	21,656
Net increase in cash	59	20,796
Cash, July 1	36,151	15,355
Cash, June 30	$ 36,210	$ 36,151
Noncash financing activities:		
Debt issuance costs	$ -	$ 576

The Notes to the Financial Statements are an integral part of this statement.

Tennessee Local Development Authority
Notes to the Financial Statements
June 30, 1999, and June 30, 1998

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Tennessee Local Development Authority was created to provide financial assistance to local governments through the issuance of revenue bonds or notes. The authority has also issued bonds to assist nonprofit corporations in the construction of mental health, mental retardation, or alcohol and drug facilities. In accordance with the Governmental Accounting Standards Board's Statement 14, the authority is reported as a discretely presented component unit in the *Tennessee Comprehensive Annual Financial Report*. Although the authority is a separate legal entity, its board consists primarily of state officials, and therefore, the state has the ability to affect the day-to-day operations of the authority.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee Local Development Authority follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989.

Measurement Focus and Basis of Accounting

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

Investments

Investments are stated at fair value.

Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized bond discount. Unamortized issuance costs are reported as deferred charges.

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits. Under the general bond resolution of the Tennessee Local Development Authority, the funds of the authority are to be deposited with the State Treasurer and can be invested in any security deemed acceptable to Treasury standards.

The fund had $36,209,734 in the State Treasurer's pooled investment fund at June 30, 1999, and $36,151,052 at June 30, 1998.

The pooled investment fund administered by the State Treasurer is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The pooled investment fund is also authorized to enter into securities lending agreements in which U.S. government securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report.*

Investments. Investments are required to be categorized to indicate the level of custodial risk assumed by the authority. All of the authority's investments are category 1, which consists of investments that are insured or registered or for which the securities are held by the authority or its agent in the authority's name.

Authority investments at June 30, 1999, are categorized below (expressed in thousands):

	Category 1 Fair Value
U.S. Treasury Securities-State and Local Government Series	$ 1,396

Authority investments at June 30, 1998, are categorized below (expressed in thousands):

	Category 1 Fair Value
U.S. Treasury Notes	$ 1,692
U.S. Treasury Securities-State and Local Government Series	1,461
Total investments	$ 3,153

NOTE 3. RESTRICTED ASSETS

The general bond resolutions of the authority require that the principal of each bond issue include an amount equal to one year's debt service requirement and that such amount be placed in special trust accounts with the trustee. The required debt service reserve was $8,030,728 at June 30, 1999, and $10,514,889 at June 30, 1998.

NOTE 4. PAYABLE TO BORROWERS

This account represents interest earnings on restricted assets and loan principal overpayments that will be refunded to borrowers.

NOTE 5. NOTES AND BONDS PAYABLE

Notes. Notes payable at June 30, 1999, and June 30, 1998, are as follows (expressed in thousands):

	June 30, 1999	June 30, 1998
Revenue bond anticipation notes 3.152% issued May 13, 1999, maturing May 12, 2000 (includes unamortized premium of $100)	$ 33,100	$ -
Revenue bond anticipation notes 3.690% issued May 20, 1998, maturing May 19, 1999 (includes unamortized premium of $59)	-	26,059
General obligation bond anticipation notes variable rate, issued June 2, 1999, due July 2, 2001	16,000	-
Total notes payable	$ 49,100	$ 26,059

Revenue bonds. Bonds payable at June 30, 1999, and June 30, 1998, are as follows (expressed in thousands):

	June 30, 1999	June 30, 1998
Refunding revenue bonds, 4.0% to 7.25%, issued January 14, 1987, due in various amounts of principal and interest from $.2 million in 2000 to $.9 million in 2015 (net of unamortized discount of $753 at June 30, 1999, and $802 at June 30, 1998)	$ 3,568	$ 3,520
Revenue bonds, 5.4% to 7.0%, issued January 7, 1992 (These bonds were refunded on June 2, 1999. See Note 6.)	-	12,050
Refunding revenue bonds, 2.5% to 5.75%, issued	25,600	28,625

July 7, 1993, due in various amounts of principal and interest from $4.6 million in 2000 to $2.1 million in 2011		
Revenue bonds, 4.0% to 6.55%, issued June 29, 1994 (These bonds were refunded on June 2, 1999. See Note 6.)	-	11,505
Refunding revenue bonds, 4.75% to 5.125%, issued November 1, 1997, due in various amounts of principal and interest from $3.3 million in 2000 to $ .015 million in 2022 (net of unamortized discount of $70 and deferred amount on refunding of $1,710 at June 30, 1999, and unamortized discount of $73 and deferred amount on refunding of $1,789 at June 30, 1998)	33,645	35,003
Total bonds payable	$ 62,813	$ 90,703

Debt service requirements to maturity of the revenue bonds payable at June 30, 1999, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2000	$ 4,680	$ 3,351	$ 8,031
2001	3,835	3,122	6,957
2002	4,025	2,933	6,958
2003	4,225	2,732	6,957
2004	4,115	2,519	6,634
2005-2022	44,466	15,645	60,111
Total	$ 65,346	$ 30,302	$ 95,648

NOTE 6. REFUNDINGS

On November 1, 1997, the Tennessee Local Development Authority issued $37,385,000 of State Loan Program Revenue Bonds, 1997 Series A to refund the 1991 Bonds and a portion of the 1997 Series A Bond Anticipation Notes. Net proceeds of $37.3 million, which includes an original issue discount, combined with other funds available to the authority, were used to purchase escrows to redeem the 1991 bonds on March 1, 2000, and a portion of the 1997 notes on May 28, 1998.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $1.8 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2021 using the straight-line method. The authority completed the refunding to reduce its total debt service payments over the next 23 years by $3.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1.5 million.

On June 2, 1999, the State Funding Board issued $16,000,000 of Taxable General Obligation Notes for the Community Provider program. Note proceeds combined with other funds available to the authority were used to advance refund $11,515,000 of Series 1992 Bonds and $11,035,000 of Series 1994 Bonds. The carrying amount of the bonds was $22,550,000. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,012,000. Proceeds from the refunding were deposited into an irrevocable trust; the bonds were considered to be defeased.

NOTE 7. ACCOUNTING CHANGE

During the year ended June 30, 1998, the authority implemented GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires reporting certain investments at fair value. Changes in the fair value of investments (inclusive of both realized and unrealized gains and losses) are recognized as revenue in the operating statement.

The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of retained earnings as of July 1, 1997. Not all information was available to restate prior periods to conform to this accounting change.

Tennessee Local Development Authority
Required Supplementary Information
Year 2000 Disclosures

The "Year 2000 Issue" ("Y2K") arises because most computer software programs allocate two digits to the data field for "year" on the assumption that the first two digits will be "19." Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc. Absent reprogramming, Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications and other equipment of the authority and its vendors and bond trustees.

The state has assessed the impact of Y2K on its computer applications. The state has completed its assessment and has determined that certain computer applications are mission-critical, certain are critical, and certain are supportive. Mission-critical computer applications are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the state from fulfilling its mission. Critical computer applications are those for which there are manual alternatives, but the state would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required. Supportive computer applications are those for which there are manual alternatives and the state expects to be able to perform such functions manually, if necessary.

The authority has identified two mission-critical applications. The authority relies principally upon the State of Tennessee Accounting and Reporting System (STARS) administered by the state's Department of Finance and Administration and upon the Cash Management System administered by the Department of the Treasury. The authority's Y2K initiatives had not resulted in the commitment of significant financial resources as of the end of the authority's reporting period.

As of June 30, 1999, STARS and the Treasury Cash Management System had completed the validation and testing stage. In this context, validation and testing refers to the development of test data and test scripts, the running of test scripts, the review of test results, and the correction of any anomalies detected.

The state is continuing testing of its computer applications and expects the cost to be $15.5 million. The state's mainframe system provides the supporting computer system infrastructure upon which the state's application systems reside and are processed. The state's mainframe and all systems' software have completed the validation and testing stage. The state is in the process of assessing and remediating the Y2K effect on other equipment.

The state is not presently aware of any noncompliance by its yet untested mission-critical and critical computer applications and other equipment or of any costs to achieve Y2K compliance that will have a material negative impact on the state's operations or financial status; however, the state can give no assurance that circumstances will not change. The state has developed contingency plans for all mission-critical and critical functions.

Tennessee Local Development Authority
Required Supplementary Information (Cont.)
Year 2000 Disclosures

The state's efforts to ensure Y2K compliance of its computer applications, mainframe and systems' software, desktop applications, and other equipment are not a guarantee that systems and equipment will be Y2K compliant.

The state is soliciting information from other organizations whose Y2K compliance could affect the state regarding the status of their assessment, testing, and remediation of their computer applications and other equipment. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a material negative effect on the state's operations or financial status, although no assurances can be given that circumstances will not change. The state does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a material negative impact on the state's operations or financial status.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SUPPLEMENTARY BALANCE SHEETS - PROGRAM LEVEL
JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	June 30, 1999			June 30, 1998		
	State Loan Program	Community Provider Program	Total	State Loan Program	Community Provider Program	Total
ASSETS						
Current assets:						
Cash	$ 29,049	$ 526	$ 29,575	$ 27,288	$ 1,501	$ 28,789
Loans receivable	4,680	919	5,599	4,465	1,005	5,470
Interest receivable on loans	15	5	20	22	2	24
Interest receivable on investments	53	-	53	58	-	58
Total current assets	33,797	1,450	35,247	31,833	2,508	34,341
Restricted assets:						
Cash	6,635	-	6,635	6,061	1,301	7,362
Investments	1,396	-	1,396	1,966	1,187	3,153
Total restricted assets	8,031	-	8,031	8,027	2,488	10,515
Other assets:						
Loans receivable	67,401	14,288	81,689	66,027	19,440	85,467
Deferred charges	400	-	400	425	-	425
Total other assets	67,801	14,288	82,089	66,452	19,440	85,892
Total assets	$ 109,629	$ 15,738	$ 125,367	$ 106,312	$ 24,436	$ 130,748
LIABILITIES AND EQUITY						
Liabilities:						
Current liabilities:						
Warrants payable	$ 223	$ -	$ 223	$ -	$ 3	$ 3
Accrued interest payable	1,261	64	1,325	1,274	378	1,652
Payable to borrowers	662	191	853	875	218	1,093
Notes payable	33,100	16,000	49,100	26,059	-	26,059
Revenue bonds payable	4,680	-	4,680	4,465	1,005	5,470
Total current liabilities	39,926	16,255	56,181	32,673	1,604	34,277
Noncurrent liabilities:						
Revenue bonds payable, net	58,133	-	58,133	62,683	22,550	85,233
Total liabilities	98,059	16,255	114,314	95,356	24,154	119,510
Equity:						
Retained earnings - reserved for statutory fund	6,000	-	6,000	6,000	-	6,000
Retained earnings - unreserved	5,570	(517)	5,053	4,956	282	5,238
Total equity	11,570	(517)	11,053	10,956	282	11,238
Total liabilities and equity	$ 109,629	$ 15,738	$ 125,367	$ 106,312	$ 24,436	$ 130,748

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	June 30, 1999			June 30, 1998		
	State Loan Program	Community Provider Program	Total	State Loan Program	Community Provider Program	Total
OPERATING REVENUES						
Revenue from loans	$ 3,950	$ 2,231	$ 6,181	$ 4,095	$ 1,327	$ 5,422
Investment income						
Interest	1,445	163	1,608	1,456	236	1,692
Net increase (decrease) in the fair value of investments	-	(10)	(10)	31	2	33
Total operating revenues	5,395	2,384	7,779	5,582	1,565	7,147
OPERATING EXPENSES						
Interest expense	4,644	1,169	5,813	3,785	1,522	5,307
Bond issuance cost	25	-	25	22	-	22
Administrative expense	137	2	139	34	-	34
Total operating expenses	4,806	1,171	5,977	3,841	1,522	5,363
Operating income before operating transfer	589	1,213	1,802	1,741	43	1,784
Operating transfer from primary government	25	-	25	25	-	25
Income before loss on extraordinary item	614	1,213	1,827	1,766	43	1,809
Loss on refunding	-	(2,012)	(2,012)	-	-	-
Net income (loss)	614	(799)	(185)	1,766	43	1,809
Retained earnings, July 1	10,956	282	11,238	9,217	219	9,436
Cumulative effect of a change in accounting principle	-	-	-	(27)	20	(7)
Retained earnings, July 1, as restated	10,956	282	11,238	9,190	239	9,429
Retained earnings, June 30	$ 11,570	$ (517)	$ 11,053	$ 10,956	$ 282	$ 11,238

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SUPPLEMENTARY STATEMENTS OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	June 30, 1999			June 30, 1998		
	State Loan Program	Community Provider Program	Total	State Loan Program	Community Provider Program	Total
Cash flows from operating activities:						
Operating income before operating transfer	$ 589	$ 1,213	$ 1,802	$ 1,741	$ 43	$ 1,784
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Amortization	25	-	25	22	-	22
Revenue from loans	(3,950)	(2,231)	(6,181)	(4,095)	(1,327)	(5,422)
Investment income	(1,445)	(153)	(1,598)	(1,487)	(238)	(1,725)
Interest expense	4,644	1,169	5,813	3,785	1,522	5,307
Increase in warrants payable	223	(3)	220	-	3	3
Decrease in payable to borrowers	(214)	(26)	(240)	233	(270)	(37)
Total adjustments	(717)	(1,244)	(1,961)	(1,542)	(310)	(1,852)
Net cash provided (used) by operating activities	(128)	(31)	(159)	199	(267)	(68)
Cash flows from noncapital financing activities:						
Proceeds from sale of notes	33,114	16,000	49,114	26,065	-	26,065
Proceeds from sale of bonds	-	-	-	37,112	-	37,112
Payments to refunding escrow	-	(23,891)	(23,891)	(37,852)	-	(37,852)
Funds received from escrow	-	-	-	18,519	-	18,519
Payments for escrow	-	-	-	(18,519)	-	(18,519)
Principal payments	(30,465)	(1,005)	(31,470)	(19,790)	(960)	(20,750)
Interest paid	(4,600)	(1,482)	(6,082)	(3,857)	(1,535)	(5,392)
Operating transfer from primary government	25	-	25	25	-	25
Net cash provided (used) by noncapital financing activities	(1,926)	(10,378)	(12,304)	1,703	(2,495)	(792)
Cash flows from investing activities:						
Loans issued	(11,241)	(11)	(11,252)	(11,637)	(50)	(11,687)
Collections of loan principal	9,637	5,544	15,181	10,268	980	11,248
Interest received on loans	3,970	1,260	5,230	3,697	1,332	5,029
Interest received on investments	1,452	164	1,616	1,617	284	1,901
Proceeds from maturity of investments	571	1,176	1,747	14,765	1,404	16,169
Purchase of investments	-	-	-	(1,004)	-	(1,004)
Net cash provided by investing activities	4,389	8,133	12,522	17,706	3,950	21,656
Net increase (decrease) in cash	2,335	(2,276)	59	19,608	1,188	20,796
Cash, July 1	33,349	2,802	36,151	13,741	1,614	15,355
Cash, June 30	$ 35,684	$ 526	$ 36,210	$ 33,349	$ 2,802	$ 36,151
Noncash financing activities:						
Debt issuance costs	$ -	$ -	$ -	$ 576	$ -	$ 576