

AUDIT REPORT

Tennessee Local Development Authority

**For the Year Ended
June 30, 2009**



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
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June 29, 2010

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
Members 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, 2009. 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

AAH/ddm
09/072

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Local Development Authority
For the Year Ended June 30, 2009

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 Report
Tennessee Local Development Authority
For the Year Ended June 30, 2009

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Tennessee Local Development Authority For the Year Ended June 30, 2009

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.

BACKGROUND

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 Programs 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 Programs 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, 2008, through June 30, 2009, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 2009, and for comparative purposes, the year ended June 30, 2008. The Tennessee Local Development Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

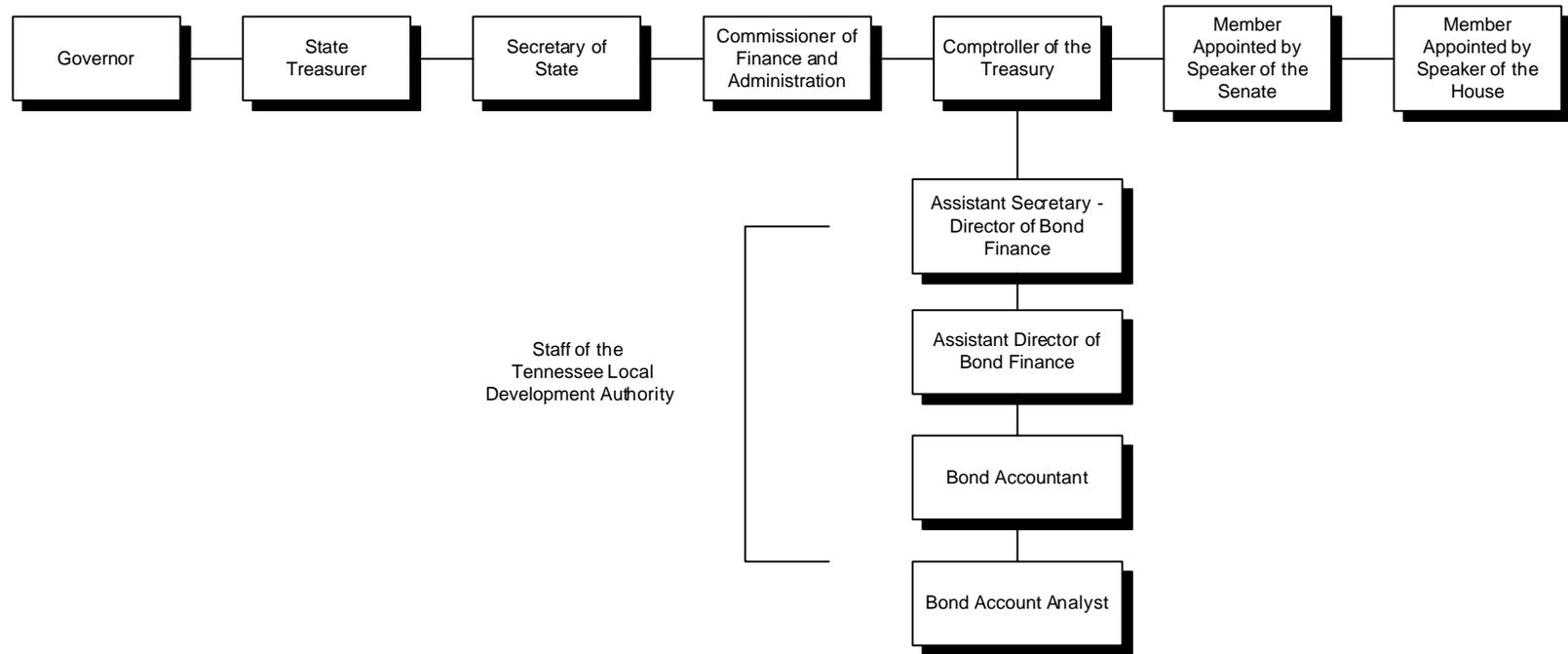
The objectives of the audit were

1. to consider the Authority's internal control over financial reporting as a basis for designing 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.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY ORGANIZATION CHART



OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*, promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.

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, 2009, we considered internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance and Other Matters

The results of our audit tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted 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.



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

April 27, 2010

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

Members of the Tennessee Local Development Authority
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

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, 2009, and have issued our report thereon dated April 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 the bond resolutions), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under generally accepted government auditing standards.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, management, and others within the entity 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

AAH/ddm



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Independent Auditor's Report

April 27, 2010

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

Members of the Tennessee Local Development Authority
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of net assets of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of June 30, 2009, and June 30, 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. 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 Local Development Authority. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Local Development Authority.

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, 2009, and June 30, 2008, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supplementary schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 generally accepted government auditing standards, we have also issued our report dated April 27, 2010, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions) and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", written in a cursive style.

Arthur A. Hayes, Jr., CPA
Director

AAH/ddm

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

As management of the Tennessee Local Development Authority, we offer readers of the Authority’s financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2009 and June 30, 2008, with comparative data for the year ended June 30, 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the Independent Auditor’s Report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Program Activity Highlights

The Authority’s purpose is to provide loans to Local Government Units under the State Loan Programs, and to qualified borrowers under the Community Provider Loan program. The table below summarizes this business activity.

Pursuant to Title 4, Chapter 31, *Tennessee Code Annotated*, the General Assembly of the state created the Tennessee Local Development Authority to issue bonds and notes to fund capital projects for a variety of purposes. Currently, the active programs of the Authority include:

- 1) the State Loan Programs providing assistance to Local Government Units in the construction of waterworks, sewage treatment, and energy and/or solid waste recovery facilities; and
- 2) the Community Provider Program providing facility construction assistance to licensed, nonprofit, 501(c)(3) corporations under grant contracts with the state to deliver mental health, mental retardation, or alcohol and drug services.

	Local Government Units			Community Providers		
	2009	2008	2007	2009	2008	2007
Number of borrowers with outstanding loans	37	37	37	6	7	9
Total number of outstanding loans	62	64	64	7	9	10
Total amount of outstanding loans (in thousands)	\$93,799	\$101,384	\$90,024	\$2,116	\$2,686	\$3,025
Number of loans approved in fiscal year	0	0	0	0	0	0
Amount of loans approved in fiscal year (in thousands)	\$0	\$0	\$0	\$0	\$0	\$0

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

Debt Administration

A financial analysis of each loan in the State Loan Programs is undertaken before it is approved by the Authority. Each Local Government Unit must demonstrate that it has enacted rates and fees sufficient to repay the debt, as well as to fund operations, maintenance, and depreciation. The Authority is authorized to intercept the local community’s state-shared taxes, should the

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

government unit fail to repay timely its loan. Similarly, Community Providers must also charge fees sufficient to repay the debt and fund operations, maintenance, and depreciation. The Authority is also authorized by statute to intercept the state appropriation to the Community Provider should the borrower fail to make timely debt service payments to the Authority.

Under the financing program for the State Loan Programs, during the construction phase of a project, the project generally is funded through the issuance of Bond Anticipation Notes. When sufficient projects are completed to assure an appropriate economy of scale to sell bonds, the Authority fixes the interest rate for the term of the projects by issuing long-term debt. Interest rates on the State Loan Programs facilities long-term fixed-rate loans range from a low of 3.30% to a high of 5.00%. By pooling the financing of their capital needs, management believes that economic efficiencies of a single large borrowing administered by one agency are achieved. The creditworthiness of both large and small Local Government Units is homogenized into one credit resulting in a lower cost of borrowing to all participants.

The Authority's State Loan Programs are rated Aa3, AAA, and AA- by Moody's Investors Service, Inc., Standard & Poor's Rating Group, and Fitch Ratings respectively. Fitch Ratings comments that the rating reflects the ongoing commitment to conservative practices of the program. Fitch also cites the structure of the Authority's board with its composition including the state's highest elected officials as an asset of the program. Standard & Poor's Rating Group notes that the ample debt service reserve fund and the underlying credit quality of the local governments receiving loans are strengths of the credit. Moody's Investors Service comments that the responsibility of the localities to repay loans, the sound legal provisions, and state oversight were factors in the rating process. All rating agencies commented that the fact that there had been no recourse to the state intercept of state-shared taxes nor to the statutory reserve fund as additional strengths of the credit.

The Community Provider program was originally authorized in 1990 by the General Assembly to provide construction financing for eligible borrowers at interest rates lower than would otherwise be obtainable in the capital market. The program was initially funded through the issuance of the 1992 and the 1994 Community Provider bonds. In 1999, the State Funding Board loaned \$16,000,000 to the Authority to defease the 1992 and 1994 bonds. The interest rate on the loan from the State Funding Board varies according to market conditions for the State of Tennessee's general obligation commercial paper, while the loans to the Community Provider remain at a fixed rate of interest. This taxable rate ranged from 2.58% to 2.78% from July to October 2008, the period during fiscal year 2009 in which the loan was outstanding. During 2008 this rate ranged from 2.81% to 5.46%, and from 5.24% to 5.34% during 2007. The amount outstanding on the loan from the State Funding Board was \$800,000 as of June 30, 2007, and \$150,000 as of June 30, 2008. On October 9, 2008, the remaining balance of the loan was repaid.

Overview of the Financial Statements

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

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 to determine the transactions and events that have increased or decreased the total economic resources for the period.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise two components: 1) the basic financial statements and 2) notes to the financial statements. The basic financial statements consist of the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. The Statement of Net Assets depicts the Authority's overall financial position at June 30th, the end of each fiscal year presented. The Statement of Revenues, Expenses and Changes in Net Assets reports the results of operations for the year. The Statement of Cash Flows summarizes the inflows and outflows of cash throughout the fiscal year. These statements are supplemented by notes to the financial statements, which provide information essential to the reader's understanding of the financial statements. In addition to the basic financial statements and notes, this report also contains supplementary information containing financial statement information at the program level.

Financial Analysis of the Authority

Standard indicators of financial success are not applicable to the Authority. The financial goal of the Authority is to provide timely access to the capital markets at the lowest possible cost and to make creditworthy loans. The Authority successfully achieved this goal. There were no incidents requiring the Authority to draw from the debt service reserve fund or refuse a loan from an applicant due to the inability to obtain capital funding.

During the year ended June 30, 2009, the Authority issued \$52,845,000 of State Loan Program Revenue Bond Anticipation Notes. Proceeds from this issue were used to retire 2008 Bond Anticipation Notes in the amount of \$56,345,000. In addition, long-term principal in the amount of \$3,595,000 was repaid during the year and the Community Provider Program repaid the remaining \$150,000 of its debt to the State Funding Board with payments made by borrowers.

During the year ended June 30, 2008, the Authority issued \$56,345,000 of State Loan Program Revenue Bond Anticipation Notes. Proceeds from this issue were used to retire 2007 Bond Anticipation Notes in the amount of \$57,000,000. In addition, long-term principal in the amount of \$3,470,000 was repaid during the year and the Community Provider Program repaid \$650,000 of its debt to the State Funding Board with payments made by borrowers.

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

Statements of Net Assets Summary (in thousands)			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 18,632	\$ 18,771	\$ 35,200
Restricted assets	5,910	5,934	5,935
Other assets	<u>92,338</u>	<u>100,437</u>	<u>89,498</u>
Total assets	<u>116,880</u>	<u>125,142</u>	<u>130,633</u>
Current liabilities	57,951	61,678	62,700
Noncurrent liabilities	<u>48,168</u>	<u>51,965</u>	<u>56,136</u>
Total liabilities	<u>106,119</u>	<u>113,643</u>	<u>118,836</u>
Net assets:			
Restricted net assets	205	205	205
Unrestricted net assets	<u>10,556</u>	<u>11,294</u>	<u>11,592</u>
Total net assets	<u>\$ 10,761</u>	<u>\$ 11,499</u>	<u>\$ 11,797</u>
<i>Note: The Authority owns no capital assets.</i>			

The cash balance in current assets includes unexpended note proceeds available to fund loans to State Loan Programs' eligible borrowers of \$4,931,980 at June 30, 2009 and \$4,904,125 at June 30, 2008. The decrease in the current assets for the fiscal year ended June 30, 2008 resulted in part from a decrease in the cash balance, which was heavily impacted by a transfer made from the Community Provider Program to the general fund of the State. A decrease in interest receivable on investments, as a result of falling interest rates in the nation's financial markets also impacted the current receivables number.

The largest component of the total asset balance is the loans receivable balance which represents the principal due from borrowers to the Authority. Loans receivable (both current and noncurrent) totaled \$95,916,157 at June 30, 2009 and \$104,070,245 at June 30, 2008. Restricted assets represent the debt service reserve fund. The Authority's unrestricted net assets are available to fund operations and other expenses necessary to meet the goals of the Authority.

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

Statements of Revenues, Expenses, and Changes in Net Assets Summary (in thousands)			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Revenue from loans	\$ 3,062	\$ 4,220	\$ 3,727
Interest income	<u>404</u>	<u>1,109</u>	<u>1,790</u>
Total operating revenue	<u>3,466</u>	<u>5,329</u>	<u>5,517</u>
Operating Expenses			
Interest expense	3,361	4,581	4,064
Subsidy to borrowers	173	310	308
Other expenses	<u>295</u>	<u>261</u>	<u>346</u>
Total operating expenses	<u>3,829</u>	<u>5,152</u>	<u>4,718</u>
Operating Income (Loss)	<u>(363)</u>	<u>177</u>	<u>799</u>
Nonoperating Revenue (Expense)	<u>(375)</u>	<u>(475)</u>	<u>25</u>
Increase (Decrease) in Net Assets	<u>\$ (738)</u>	<u>\$ (298)</u>	<u>\$ 824</u>

The Authority's operating expenses are supported by revenue received from the borrowers as a one-time cost of issuance expense not to exceed 2% at the time of permanent financing, interest on loans, and income on investments. Operating expenses include interest expense on outstanding debt, administrative expenses, and the amortization of bond costs of issuance. The Authority returns a portion of the investment earnings as a subsidy to its borrowers in the State Loan Programs.

While the Authority's operating expenses decreased from 2008 to 2009, a sharper decrease in the operating revenues resulted in an overall operating loss. Falling market interest rates were responsible for a decrease in interest earned on the Authority's investments. Meanwhile, interest income from loans of the Authority also experienced a decrease. This comes as a result of a decline in the frequency of requests for new loans in recent years. All the Authority's loans are structured such that the borrowers pay level debt service payments for the life of the loan. Therefore as the loans approach maturity, more of the payments received are applied to principal, resulting in less interest income. Loan principal prepayments of loans in both the State Loan Program and the Community Provider Program were also partially responsible for the decrease in the interest revenue generated from the Authority's loans.

The change in operating income from fiscal year 2007 to 2008 is due in large part to an increase in interest expense for the year, resulting from a greater amount of revenue bond anticipation notes maturing during 2008. At the same time, interest income fell from 2007 to 2008, because market interest rates were on average lower during fiscal year 2008. The combination of the

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)**

decrease in operating revenues and the increase in operating expenses resulted in a lower operating income for fiscal year 2008.

The net nonoperating expense in fiscal year 2009 resulted from a nonrecurring transfer of \$400,000 from the Community Provider Program to the general fund at the close of the fiscal year. Due to the combined operating loss and nonoperating expense, the program experienced an overall decrease in net assets of the fund.

Contacting the Authority's Financial Management Team

This discussion and analysis is designed to provide our citizens, local government units, community providers, investors, and creditors with a general overview of the Authority's finances and to demonstrate its accountability for the monies it receives. If you have questions about this report or need additional financial information, contact the Director of Bond Finance, State of Tennessee, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273 or visit our website at <http://tn.gov/comptroller/bf/>.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
STATEMENTS OF NET ASSETS
JUNE 30, 2009, AND JUNE 30, 2008

(Expressed in Thousands)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS		
Current assets:		
Cash (Note 2)	\$ 14,600	\$ 14,656
Receivables:		
Loans receivable	4,003	4,095
Investments (Note 2)	22	-
Interest receivable on investments	<u>7</u>	<u>20</u>
Total current assets	<u>18,632</u>	<u>18,771</u>
Noncurrent assets:		
Restricted assets (Notes 2 and 3)		
Cash	5,744	5,395
Investments	166	539
Loans receivable	91,913	99,975
Deferred charges	<u>425</u>	<u>462</u>
Total noncurrent assets	<u>98,248</u>	<u>106,371</u>
Total assets	<u>116,880</u>	<u>125,142</u>
LIABILITIES		
Current liabilities:		
Accounts payable	25	51
Accrued interest payable	751	796
Payable to borrowers (Note 4)	167	238
Notes payable (Note 5)	53,288	56,998
Revenue bonds payable (Note 5)	<u>3,720</u>	<u>3,595</u>
Total current liabilities	<u>57,951</u>	<u>61,678</u>
Noncurrent liabilities:		
Loan from the State of Tennessee (Note 5)	-	150
Revenue bonds payable, net (Note 5)	<u>48,168</u>	<u>51,815</u>
Total noncurrent liabilities	<u>48,168</u>	<u>51,965</u>
Total liabilities	<u>106,119</u>	<u>113,643</u>
NET ASSETS		
Restricted	205	205
Unrestricted	<u>10,556</u>	<u>11,294</u>
Total net assets	<u>\$ 10,761</u>	<u>\$ 11,499</u>

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

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

(Expressed in Thousands)

	<u>Year Ended</u> <u>June 30, 2009</u>	<u>Year Ended</u> <u>June 30, 2008</u>
OPERATING REVENUES		
Revenue from loans	\$ 3,062	\$ 4,220
Interest income	<u>404</u>	<u>1,109</u>
Total operating revenues	<u>3,466</u>	<u>5,329</u>
OPERATING EXPENSES		
Interest expense	3,361	4,581
Subsidy to borrowers	173	310
Note issuance cost	78	36
Administrative expense	<u>217</u>	<u>225</u>
Total operating expenses	<u>3,829</u>	<u>5,152</u>
Operating income (loss)	<u>(363)</u>	<u>177</u>
NONOPERATING REVENUES AND EXPENSES		
Payment from the State of Tennessee	25	25
Payment to the State of Tennessee	<u>(400)</u>	<u>(500)</u>
Total nonoperating revenue (expense)	<u>(375)</u>	<u>(475)</u>
Change in net assets	(738)	(298)
Net assets, July 1	<u>11,499</u>	<u>11,797</u>
Net assets, June 30	<u>\$ 10,761</u>	<u>\$ 11,499</u>

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, 2009, AND JUNE 30, 2008

(Expressed in Thousands)

	<u>Year Ended</u> <u>June 30, 2009</u>	<u>Year Ended</u> <u>June 30, 2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to service providers	\$ (285)	\$ (174)
Net cash used by operating activities	<u>(285)</u>	<u>(174)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from the issuance of notes	53,303	57,007
Principal payments	(60,090)	(61,120)
Interest paid	(4,002)	(5,682)
Subsidy to borrowers	(237)	(267)
Payment from the State of Tennessee	25	25
Payment to the State of Tennessee	<u>(400)</u>	<u>(500)</u>
Net cash used by noncapital financing activities	<u>(11,401)</u>	<u>(10,537)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans issued	(159)	(18,967)
Collections of loan principal	8,302	7,689
Interest received on loans	3,068	4,406
Proceeds from sales and maturity of investments	351	325
Interest received on investments	<u>417</u>	<u>1,122</u>
Net cash provided (used) by investing activities	<u>11,979</u>	<u>(5,425)</u>
Net increase (decrease) in cash	293	(16,136)
Cash, July 1	<u>20,051</u>	<u>36,187</u>
Cash, June 30	<u>\$ 20,344</u>	<u>\$ 20,051</u>
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	\$ (363)	\$ 177
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Revenue from loans	(3,063)	(4,220)
Interest income	(404)	(1,109)
Interest expense	3,361	4,581
Administrative expense	(25)	51
Subsidy to borrowers	173	310
Amortization	<u>36</u>	<u>36</u>
Total adjustments	<u>78</u>	<u>(351)</u>
Net cash used by operating activities	<u>\$ (285)</u>	<u>\$ (174)</u>

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

Tennessee Local Development Authority
Notes to the Financial Statements
June 30, 2009, and June 30, 2008

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 No. 14, *The Financial Reporting Entity*, 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 accounting principles generally accepted in the United States of America 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. The Authority has chosen not to follow subsequent private-sector guidance.

Measurement Focus and Basis of Accounting

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

The Tennessee Local Development Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The Authority's principal operation is to provide loans to local governments through the issuance of revenue bonds or notes. Therefore, the principal operating revenues of the Authority are from interest on loans made to borrowers. 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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008**

Cash

This classification includes cash on hand and deposits in the pooled investment fund administered by the State Treasurer.

Investments

Investments are stated at fair value. Securities are recorded on trade-date basis.

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

Under the general bond resolution of the Tennessee Local Development Authority, the funds of the Authority are to be held and invested by the State Treasurer.

Deposits

The Authority does not utilize its own bank accounts but has cash on deposit for its operating cash purposes in the State Pooled Investment Fund administered by the State Treasurer. The Authority had \$20,344,401 in the pooled investment fund at June 30, 2009, and \$20,050,926 at June 30, 2008. The pooled investment fund is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The fund is not rated by a nationally recognized statistical rating organization. Its investment policy and required risk disclosures are presented in the *State of Tennessee's Treasurer's Report*. The report is posted on the State's website at <http://www.tn.gov/treasury> or by calling (615) 741-2956.

Investments

As of June 30, 2009, the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
U. S. Treasury Note	February 10, 2010	\$ 21,793
U. S. Treasury Securities:		
State and Local Government Series		166,000
Total Investments		\$ <u>187,793</u>

**Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008**

As of June 30, 2008, the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
U. S. Treasury Note	February 10, 2010	\$ 22,345
U. S. Treasury Securities:		
State and Local Government Series		516,900
Total Investments		\$ <u>539,245</u>

Interest Rate Risk. Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. The general bond resolution does state that funds shall be invested by the Authority in investment securities maturing no later than the final maturity of all outstanding bonds.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The general bond resolution limits the Authority to investments in the State Pooled Investment Fund, certificates of deposit of banks located in Tennessee and collateralized according to state law, United States Treasury and Agency obligations, and in obligations of the United States Treasury or Agencies under a repurchase agreement for a shorter time than the maturity date of the security itself. At June 30, 2009, and June 30, 2008, the Authority's investments were in United States Treasury obligations which are not considered to have credit risk.

Custodial Credit Risk. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. At June 30, 2009, and June 30, 2008, 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, 2009, and June 30, 2008, the Authority's investments were in U. S. Treasury securities.

Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

NOTE 3. RESTRICTED ASSETS

The general bond resolution of the Authority requires 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 is \$5,905,526 at June 30, 2009, and \$5,908,414 at June 30, 2008.

The general bond resolution also requires that the debt service requirement in any year of the refunding bonds must not exceed the debt service requirement in any year of the refunded bonds. Two of the largest borrowers in the 2003 refunding issue chose to shorten the term of their loans by one year, causing the new debt service requirement in the year 2011 to exceed the prior debt service requirement by \$26,148.75. This amount has been yield restricted and placed in a special trust account with the trustee to be held until March 1, 2011. The deposit in effect, reduced the new debt service requirement not to exceed the prior debt service requirement.

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. DEBT PAYABLE

Notes. Revenue bond anticipation notes in the amount of \$52,845,000 were issued in June 2009 to retire at maturity the \$56,345,000 notes issued in 2008 and provide additional loan funds to local government units for water and sewer construction projects.

Notes payable at June 30, 2009, and June 30, 2008, are as follows (expressed in thousands):

Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
2009 Series A at an interest rate of 1.25% maturing June 16, 2010	\$ 52,845	\$ -
2008 Series A at an interest rate of 3.00% maturing June 24, 2009	-	56,345
Total par amount of notes payable	52,845	56,345
Plus unamortized premium	443	653
Net notes payable	<u>\$ 53,288</u>	<u>\$ 56,998</u>

Short-term debt activity for the year ended June 30, 2009, net of unamortized premium (expressed in thousands):

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$56,998	\$53,288	\$56,998	\$53,288

Short-term debt activity for the year ended June 30, 2008, net of unamortized premium (expressed in thousands):

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
\$57,773	\$56,998	\$57,773	\$56,998

Revenue bonds. Bonds payable at June 30, 2009, and June 30, 2008, are as follows (expressed in thousands):

	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
2003 Refunding Series A at interest rates from 3.45% to 4.00% maturing to 2015 (original par-\$8,295)	\$ 2,965	\$ 3,840
2006 Refunding Series A at interest rates from 3.5% to 5.00% maturing to 2021 (original par-\$20,070)	15,240	16,935
2006 Series B at interest rates from 3.3% to 4.375% maturing to 2034 (original par-\$37,415)	34,455	35,480
Total par amount of bonds payable	<u>52,660</u>	<u>56,255</u>

**Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008**

Plus unamortized premium	783	853
Less unamortized discount	(180)	(187)
Bonds payable net of unamortized premium/discount	53,263	56,921
Less deferred amount on refunding	(1,375)	(1,511)
Net bonds payable	\$ 51,888	\$ 55,410

Debt service requirements to maturity of the revenue bonds payable at June 30, 2009, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2010	\$ 3,782	\$ 2,123	\$ 5,905
2011	3,592	1,988	5,580
2012	3,367	1,865	5,232
2013	3,247	1,740	4,987
2014	3,377	1,602	4,979
2015-2019	13,686	5,921	19,607
2020-2024	8,692	3,908	12,600
2025-2029	9,354	2,165	11,519
2030-2034	4,166	319	4,485
Total	\$ 53,263	\$ 21,631	\$ 74,894

The above principal for bonds does not reflect a \$1,375,461 deduction from bonds payable for the deferred amount on refunding.

Loan from the State of Tennessee. On June 2, 1999, the State Funding Board loaned \$16,000,000 to the Authority for the Community Provider Program. The loan is to be repaid from amounts received from the borrowers. As of June 30, 2008, the Authority had repaid \$15,850,000. On October 9, 2008, the Authority paid \$150,000, so as of June 30, 2009, the entire balance of the loan has been repaid. The interest rate on the loan varies according to market conditions for the State of Tennessee's general obligation commercial paper. The rate ranged from 2.81% to 5.46% during 2008. In fiscal year 2009, during the portion of the year from July to October when the loan was outstanding, the rates ranged from 2.58% to 2.78%.

Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 2009, and June 30, 2008

Changes in long-term debt payable for the year ended June 30, 2009, are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds payable	\$ 56,255	\$ -	\$ 3,595	\$ 52,660	\$ 3,720
Unamortized amounts:					
Premium	853	-	70	783	-
Discount	(187)	-	(7)	(180)	-
Deferred amount on refundings	<u>(1,511)</u>	<u>-</u>	<u>(136)</u>	<u>(1,375)</u>	<u>-</u>
Total bonds payable	<u>\$ 55,410</u>	<u>\$ -</u>	<u>\$ 3,522</u>	<u>\$ 51,888</u>	<u>\$ 3,720</u>
Loans	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ 150</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in long-term debt payable for the year ended June 30, 2008, are as follows (expressed in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds payable	\$ 59,725	\$ -	\$ 3,470	\$ 56,255	\$ 3,595
Unamortized amounts:					
Premium	922	-	69	853	-
Discount	(194)	-	(7)	(187)	-
Deferred amount on refundings	<u>(1,647)</u>	<u>-</u>	<u>(136)</u>	<u>(1,511)</u>	<u>-</u>
Total bonds payable	<u>\$ 58,806</u>	<u>\$ -</u>	<u>\$ 3,396</u>	<u>\$ 55,410</u>	<u>\$ 3,595</u>
Loans	<u>\$ 800</u>	<u>\$ -</u>	<u>\$ 650</u>	<u>\$ 150</u>	<u>\$ -</u>

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SUPPLEMENTARY SCHEDULES OF NET ASSETS - PROGRAM LEVEL
JUNE 30, 2009, AND JUNE 30, 2008

(Expressed in Thousands)

	June 30, 2009			June 30, 2008		
	State Loan Programs	Community Providers	Total	State Loan Programs	Community Providers	Total
ASSETS						
Current assets:						
Cash	\$ 14,295	\$ 305	\$ 14,600	\$ 14,545	\$ 111	\$ 14,656
Receivables:						
Loans receivable	3,720	283	4,003	3,738	357	4,095
Investments	22	-	22			
Interest receivable on investments	7	-	7	20	-	20
Total current assets	<u>18,044</u>	<u>588</u>	<u>18,632</u>	<u>18,303</u>	<u>468</u>	<u>18,771</u>
Noncurrent assets:						
Restricted assets						
Cash	5,744	-	5,744	5,395	-	5,395
Investments	166	-	166	539	-	539
Loans receivable	90,079	1,834	91,913	97,646	2,329	99,975
Deferred charges	425	-	425	462	-	462
Total noncurrent assets	<u>96,414</u>	<u>1,834</u>	<u>98,248</u>	<u>104,042</u>	<u>2,329</u>	<u>106,371</u>
Total assets	<u>114,458</u>	<u>2,422</u>	<u>116,880</u>	<u>122,345</u>	<u>2,797</u>	<u>125,142</u>
LIABILITIES						
Current liabilities:						
Accounts payable	25	-	25	51	-	51
Accrued interest payable	751	-	751	794	2	796
Payable to borrowers	165	2	167	231	7	238
Notes payable	53,288	-	53,288	56,998	-	56,998
Revenue bonds payable	3,720	-	3,720	3,595	-	3,595
Total current liabilities	<u>57,949</u>	<u>2</u>	<u>57,951</u>	<u>61,669</u>	<u>9</u>	<u>61,678</u>
Noncurrent liabilities:						
Loan from the State of Tennessee	-	-	-	-	150	150
Revenue bonds payable, net	48,168	-	48,168	51,815	-	51,815
Total noncurrent liabilities	<u>48,168</u>	<u>-</u>	<u>48,168</u>	<u>51,815</u>	<u>150</u>	<u>51,965</u>
Total liabilities	<u>106,117</u>	<u>2</u>	<u>106,119</u>	<u>113,484</u>	<u>159</u>	<u>113,643</u>
NET ASSETS						
Restricted	205	-	205	205	-	205
Unrestricted	8,136	2,420	10,556	8,656	2,638	11,294
Total net assets	<u>\$ 8,341</u>	<u>\$ 2,420</u>	<u>\$ 10,761</u>	<u>\$ 8,861</u>	<u>\$ 2,638</u>	<u>\$ 11,499</u>

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SUPPLEMENTARY SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008

(Expressed in Thousands)

	Year Ended June 30, 2009			Year Ended June 30, 2008		
	State Loan Programs	Community Providers	Total	State Loan Programs	Community Providers	Total
OPERATING REVENUES						
Revenue from loans	\$ 2,881	\$ 181	\$ 3,062	\$ 3,988	\$ 232	\$ 4,220
Interest income	400	4	404	1,098	11	1,109
Total operating revenues	<u>3,281</u>	<u>185</u>	<u>3,466</u>	<u>5,086</u>	<u>243</u>	<u>5,329</u>
OPERATING EXPENSES						
Interest expense	3,360	1	3,361	4,554	27	4,581
Subsidy to borrowers	171	2	173	303	7	310
Note issuance cost	78	-	78	36	-	36
Administrative expense	217	-	217	225	-	225
Total operating expenses	<u>3,826</u>	<u>3</u>	<u>3,829</u>	<u>5,118</u>	<u>34</u>	<u>5,152</u>
Operating income (loss)	<u>(545)</u>	<u>182</u>	<u>(363)</u>	<u>(32)</u>	<u>209</u>	<u>177</u>
NONOPERATING REVENUES AND EXPENSES						
Payment from the State of Tennessee	25	-	25	25	-	25
Payment to the State of Tennessee	-	(400)	(400)	(500)	-	(500)
Total nonoperating revenue (expense)	<u>25</u>	<u>(400)</u>	<u>(375)</u>	<u>(475)</u>	<u>-</u>	<u>(475)</u>
Change in net assets	<u>(520)</u>	<u>(218)</u>	<u>(738)</u>	<u>(507)</u>	<u>209</u>	<u>(298)</u>
Net assets, July 1	<u>8,861</u>	<u>2,638</u>	<u>11,499</u>	<u>9,368</u>	<u>2,429</u>	<u>11,797</u>
Net assets, June 30	<u>\$ 8,341</u>	<u>\$ 2,420</u>	<u>\$ 10,761</u>	<u>\$ 8,861</u>	<u>\$ 2,638</u>	<u>\$ 11,499</u>

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY
SUPPLEMENTARY SCHEDULES OF CASH FLOWS - PROGRAM LEVEL
FOR THE YEARS ENDED JUNE 30, 2009, AND JUNE 30, 2008**

(Expressed in Thousands)

	Year Ended June 30, 2009			Year Ended June 30, 2008		
	State Loan Programs	Community Providers	Total	State Loan Programs	Community Providers	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments to service providers	\$ (284)	\$ (1)	\$ (285)	\$ (174)	\$ -	\$ (174)
Net cash used by operating activities	<u>(284)</u>	<u>(1)</u>	<u>(285)</u>	<u>(174)</u>	<u>-</u>	<u>(174)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from the issuance of notes	53,303	-	53,303	57,007	-	57,007
Principal payments	(59,940)	(150)	(60,090)	(60,470)	(650)	(61,120)
Interest paid	(3,999)	(3)	(4,002)	(5,645)	(37)	(5,682)
Subsidy to borrowers	(230)	(7)	(237)	(258)	(9)	(267)
Payment from the State of Tennessee	25	-	25	25	-	25
Payment to the State of Tennessee	-	(400)	(400)	(500)	-	(500)
Net cash used by noncapital financing activities	<u>(10,841)</u>	<u>(560)</u>	<u>(11,401)</u>	<u>(9,841)</u>	<u>(696)</u>	<u>(10,537)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Loans issued	(159)	-	(159)	(18,967)	-	(18,967)
Collections of loan principal	7,738	564	8,302	7,351	338	7,689
Interest received on loans	2,881	187	3,068	4,174	232	4,406
Proceeds from sales and maturity of investments	351	-	351	325	-	325
Interest received on investments	413	4	417	1,111	11	1,122
Net cash provided (used) by investing activities	<u>11,224</u>	<u>755</u>	<u>11,979</u>	<u>(6,006)</u>	<u>581</u>	<u>(5,425)</u>
Net increase (decrease) in cash	99	194	293	(16,021)	(115)	(16,136)
Cash, July 1	<u>19,940</u>	<u>111</u>	<u>20,051</u>	<u>35,961</u>	<u>226</u>	<u>36,187</u>
Cash, June 30	<u>\$ 20,039</u>	<u>\$ 305</u>	<u>\$ 20,344</u>	<u>\$ 19,940</u>	<u>\$ 111</u>	<u>\$ 20,051</u>
Reconciliation of operating income (loss) to net cash used by operating activities:						
Operating income (loss)	\$ (545)	\$ 182	\$ (363)	\$ (32)	\$ 209	\$ 177
Adjustments to reconcile operating income (loss) to net cash used by operating activities:						
Revenue from loans	(2,881)	(182)	(3,063)	(3,988)	(232)	(4,220)
Interest income	(400)	(4)	(404)	(1,098)	(11)	(1,109)
Interest expense	3,360	1	3,361	4,554	27	4,581
Administrative expense	(25)	-	(25)	51	-	51
Subsidy to borrowers	171	2	173	303	7	310
Amortization	36	-	36	36	-	36
Total adjustments	<u>261</u>	<u>(183)</u>	<u>78</u>	<u>(142)</u>	<u>(209)</u>	<u>(351)</u>
Net cash used by operating activities	<u>\$ (284)</u>	<u>\$ (1)</u>	<u>\$ (285)</u>	<u>\$ (174)</u>	<u>\$ -</u>	<u>\$ (174)</u>