AUDIT REPORT

Tennessee Local Development Authority

For the Year Ended
June 30, 2013

STATE OF TENNESSEE

COMPTROLLER OF THE TREASURY

Department of Audit

Division of State Audit

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Comptroller
of the Treasury

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March 31, 2014

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Local Development Authority for the year ended June 30, 2013. You will note from the independent auditor's report that an unmodified 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,

Deborah V. Loveless

Deborah V. Loveless, CPA
Director

14/010

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Tennessee Local Development Authority
For the Year Ended June 30, 2013

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Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of and for the years ended June 30, 2013, and June 30, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of 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.

Opinion

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, 2013, and June 30, 2012, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Authority early implemented the Governmental Accounting Standards Board's Statement Number 65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year ended June 30, 2013. The statement requires that deferred amounts on refunding should be recognized as a deferred outflow/inflow on the statements of net position. Previously, bonds payable were reported net of the deferred amount of refunding. The statement also requires that cost of issuance be expensed instead of amortized over the life of the bonds. The cumulative effect on net position has been reported on the statement of revenues, expenses, and changes in net position. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position have been restated for comparative purposes for the fiscal year ended June 30, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014, on our consideration of the Tennessee Local Development Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts (including the bond resolutions), and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
January 30, 2014

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Management's Discussion and Analysis

As management of the Tennessee Local Development Authority, we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2013, and June 30, 2012, with comparative data for the year ended June 30, 2011. 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 State Infrastructure Program, 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;
>
> 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; and
>
> 3) the State Infrastructure Program providing assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

	Local Government Units			**Community Providers**			**State Infrastructure Program**		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Number of borrowers with outstanding loans	25	25	28	4	4	6	1	1	0
Total number of outstanding loans	31	33	35	5	5	7	1	1	0
Total amount of outstanding loans (in thousands)	$5,348	$6,429	$7,527	$706	$830	$1,432	$56	$27	$0
Number of outstanding loans approved is fiscal year	0	0	1	0	0	0	0	0	1
Amount of loans approved in fiscal year (in thousands)	$0	$0	$1,194	$0	$0	$0	$0	$0	$1,725

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 funded through 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 charges 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 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 debt range from a low of 3.50% 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, AA+, 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 is an additional strength 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. This loan was fully repaid during fiscal year 2009.

Overview of the Financial Statements

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting and the flow of economic resources measurement focus. This basis recognizes revenues when earned and expenses at the time liabilities are incurred. Using the economic resources measurement focus, a reader is presented information that allows him 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 financial statements and 2) notes to the financial statements. The financial statements consist of the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. The statement of net position depicts the Authority's overall financial position at June 30, the end of each fiscal year presented. The statement of revenues, expenses and changes in net position 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 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. There have been no incidents which required the Authority to draw from the debt service reserve fund or refuse a loan application due to the inability to obtain capital funding.

The following is a discussion highlighting certain elements of the Authority's financial statements.

Statements of Net Position Summary
(in thousands)

	2013	2012	2011
Current assets	$16,265	$16,316	$16,066
Restricted assets	1,357	1,373	1,611
Other assets	4,951	5,993	7,492
Total assets	22,573	23,682	25,169
Deferred Outflows	352	426	499
Current liabilities	1,212	1,198	1,404
Noncurrent liabilities	5,703	6,797	7,860
Total liabilities	6,915	7,995	9,264
Net position (unrestricted)	$16,010	$16,113	$16,404

Note: The Authority owns no capital assets.

For the years ended June 30, 2013; June 30, 2012; and June 30, 2011, the largest component of the total asset balance is the cash balance. Loans receivable (both current and noncurrent) totaled $6,110,929 at June 30, 2013; $7,286,648 at June 30, 2012; and $8,958,662 at June 30, 2011. Restricted assets represent the debt service reserve fund. Noncurrent assets will continue to decrease unless new loans are made. The Authority's noncurrent liabilities consist of the outstanding portion of its bonds payable. No bonds have been issued since 2006. No Revenue Bond Anticipation Notes were issued during any of the three years presented. The Authority has no plans to issue debt in the immediate future. In the current market, communities who have previously utilized the program have identified other funding opportunities that better suit their needs at this time.

In 2013, the deferred amount on refundings is reported as a deferred outflow of resources following guidance issued in GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, which states that amounts representing the difference between the reacquisition price and the net carrying amount of refunded debt should be reported as a deferred inflow or a deferred outflow of resources. In prior years, this amount was netted with the balance of bonds payable. Also, prior to Statement 65, bond costs of issuance were reported as deferred charges and amortized over the life of the bond as an operating expense. However, following this GASB 65 guidance, all unamortized costs were immediately expensed. The cumulative effect on net position has been reported on the statements of revenues, expenses, and changes in net position for the period ending June 30, 2012.

Statements of Revenues, Expenses, and Changes in Net Position Summary (in thousands)			
	2013	2012	2011
Operating Revenues			
Revenue from loans	$251	$350	$1,370
Administrative fees	36	9	-
Interest income	22	21	48
Total operating revenue	309	380	1,418
Operating Expenses			
Interest expense	362	410	791
Subsidy to borrowers	-	-	29
Other expenses	50	140	174
Total operating expenses	412	550	994
Operating income (loss)	(103)	(170)	424
Nonoperating Revenue (Expense)	-	-	1,679
Increase (Decrease) in Net Position	($103)	($170)	$2,103

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. In addition, the Authority has oversight and approval functionalities related to the Clean Water and Drinking Water State Revolving fund loans. In 2010, the Authority was given statutory authority to charge these borrowers a fee for administering the loans. Therefore, new loans are being charged an eight basis point (0.08%) fee on the outstanding balance over the life of the loan. These are recognized by the Authority as operating revenue. Operating expenses include interest expense on outstanding debt and administrative expenses.

Revenue to the Authority decreased from 2012 to 2013 and from 2011 to 2012. Falling market interest rates were responsible for a decrease in interest earned on the Authority's investments from 2011 to 2012. Meanwhile, interest income from loans of the Authority is experiencing a decline. This decrease is a result of a lack of new loans. All of 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 toward principal and less is paid in interest. Loan principal prepayments 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. Therefore, while the Authority's operating expenses decreased from 2012 to 2013 and from 2011 to 2012, the significant decrease in operating revenues resulted in an overall operating loss for years 2013 and 2012.

In 2013 and 2012, there was no nonoperating revenue. The nonoperating revenue in 2011 was due to a gain on the defeasance of debt as a result of the early termination of loans.

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 Office of State and Local Finance, State of Tennessee, Suite 1600, James K. Polk Building, Nashville, Tennessee 37243-0273, or visit our website at http://www.comptroller.tn.gov/sl/.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Statements of Net Position
June 30, 2013, and June 30, 2012

(Expressed in Thousands)

	June 30, 2013	June 30, 2012
ASSETS		
Current assets:		
Cash (Note 2)	$15,106	$15,023
Receivables:		
Loans receivable (Notes 9 and 11)	1,159	1,293
Total current assets	16,265	16,316
Noncurrent assets:		
Restricted cash (Notes 2 and 3)	1,357	1,373
Loans receivable (Notes 9 and 11)	4,951	5,993
Total noncurrent assets	6,308	7,366
Total assets	22,573	23,682
DEFERRED OUTFLOWS		
Deferred amount on bond refunding (Note 1)	352	426
LIABILITIES		
Current liabilities:		
Accrued interest payable	95	111
Payable to borrowers (Note 4)	52	52
Revenue bonds payable (Note 5)	1,065	1,035
Total current liabilities	1,212	1,198
Noncurrent liabilities:		
Revenue bonds payable, net (Note 5)	5,703	6,797
Total noncurrent liabilities	5,703	6,797
Total liabilities	6,915	7,995
NET POSITION		
Unrestricted (Note 6)	16,010	16,113
Total net position	$16,010	$16,113

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 Position
For the Years Ended June 30, 2013, and June 30, 2012

(Expressed in Thousands)

	Year Ended June 30, 2013	Year Ended June 30, 2012
OPERATING REVENUES		
Revenue from loans	$ 251	$ 350
Administrative fees collected	36	9
Interest income	22	21
Total operating revenues	309	380
OPERATING EXPENSES		
Interest expense	362	410
Administrative expense	50	140
Total operating expenses	412	550
Operating loss	(103)	(170)
Change in net position	(103)	(170)
NET POSITION		
Net position, July 1	16,113	16,404
Cumulative effect of change in accounting principle (Note 1)	-	(121)
Net position, July 1, as restated	-	16,283
Net position, June 30	$16,010	$16,113

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, 2013, and June 30, 2012

(Expressed in Thousands)

	Year Ended June 30, 2013	Year Ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to service providers	$ (38)	$ (140)
Payments for administrative services	(12)	-
Net cash used by operating activities	(50)	(140)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Principal payments	(1,035)	(1,225)
Interest paid	(333)	(381)
Net cash used by noncapital financing activities	(1,368)	(1,606)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans issued	(30)	(27)
Collections of loan principal	1,205	1,699
Interest received on loans	252	351
Administrative revenue	36	9
Interest received on pooled investment fund	22	21
Net cash provided by investing activities	1,485	2,053
Net increase in cash	67	307
Cash, July 1	16,396	16,089
Cash, June 30	$16,463	$16,396
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (103)	$ (170)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Revenue from loans	(251)	(350)
Interest income	(22)	(21)
Interest expense	362	410
Administrative revenue from borrowers	(36)	(9)
Total adjustments	53	30
Net cash used by operating activities	$ (50)	$ (140)

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

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.

The Authority is a component unit of the State of Tennessee (the state) and a separate legal entity. In accordance with the Governmental Accounting Standards Board's Statement 14, *The Financial Reporting Entity*, the Authority is discretely presented in the *Tennessee Comprehensive Annual Financial Report* because the Authority's board consists of state officials which include the Governor, the Secretary of State, the Comptroller of the Treasury, the State Treasurer, the Commissioner of Finance and Administration, a State Senate appointee, and a State House appointee. The Governor serves as chairman and the Secretary of State serves as vice chairman. The Comptroller of the Treasury serves as secretary. The Director of the Office of State and Local Finance serves as the assistant secretary; the Office of State and Local Finance provides administrative and financial services to the Authority. 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).

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.

Cash

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

Bond Discounts, Bond Premiums, and Issuance Costs

Bond discounts and premiums 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 discounts and premiums. Bond issuance costs are expensed when incurred.

Change in Accounting Principle

The Authority implemented GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the year ended June 30, 2013. The effect on the fund was the renaming of the residual of all other elements in the statement of financial position to net position, rather than net assets.

Also, the Authority early implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*. It dictates that for periods beginning after December 15, 2012, deferred amounts on refunding should be recognized as a deferred outflow/inflow on the statements of net position. Previously, bonds payable were reported net of the applicable unamortized bond discount or premium and the deferred amount on refunding. Beginning with the statements dated as of June 30, 2013, the unamortized deferred amount on refunding is shown on the statements of net position as a deferred outflow/inflow. Statement 65 also requires that cost of issuance be expensed instead of being amortized over the life of the bonds. Therefore, all unamortized costs were expensed. The cumulative effect on net position has been reported on the statement of revenue, expenses, and changes in net position for the period ending June 30, 2012. Amounts on the statement of net position and statement of revenues, expenses, and changes in net position have been restated for comparative purposes for the period ending June 30, 2012.

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 $16,463,258 in the pooled investment fund at June 30, 2013, and $16,396,042 at June 30, 2012. 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.

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 $1,357,027 at June 30, 2013, and $1,373,003 at June 30, 2012.

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

Revenue Bonds

Bonds payable at June 30, 2013, and June 30, 2012, are as follows (expressed in thousands):

	June 30, 2013	June 30, 2012
2003 Refunding Series A at an interest rate of 4.00% maturing to 2015 (original par–$8,295)	$ 500	$ 845
2006 Refunding Series A at interest rates from 4.0% to 5.00% maturing to 2021 (original par–$20,070)	3,360	3,895
2006 Series B at interest rates from 3.5% to 4.375% maturing to 2029 (original par–$37,415)	2,725	2,880
Total par amount of bonds payable	6,585	7,620

Plus unamortized premium	197	227
Less unamortized discount	(14)	(15)
Net bonds payable	$6,768	$7,832

Debt service requirements to maturity of the revenue bonds payable at June 30, 2013, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2014	$1,065	$ 292	$1,357
2015	910	244	1,154
2016	785	203	988
2017	775	166	941
2018	585	129	714
2019-2023	1,665	364	2,029
2024-2028	780	99	879
2029	20	5	25
Total	$6,585	$1,502	$8,087

Changes in long-term debt payable for the year ended June 30, 2012, are as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	$8,845	$ -	$1,225	$7,620	$1,035
Unamortized amounts:					
Premium	256	-	29	227	-
Discount	(16)	-	(1)	(15)	-
Total bonds payable	$9,085	$ -	$1,253	$7,832	$1,035

Changes in long-term debt payable for the year ended June 30, 2013, are as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Revenue bonds	$7,620	$ -	$1,035	$6,585	$1,065
Unamortized amounts:					
Premium	227	-	30	197	-
Discount	(15)	-	(1)	(14)	-
Total bonds payable	$7,832	$ -	$1,064	$6,768	$1,065

NOTE 6. STATUTORY RESERVE

The intention of the Statutory Reserve Fund was to ensure payment of the required annual debt service (principal and interest) for certain municipalities in the event of a default. As of June 30, 2013, Mount Carmel was the only borrower meeting the requirements for inclusion in the fund. Maximum annual debt service for Mount Carmel is $130,372. Per review of the General Bond Resolution, it was determined that this amount should be classified as unrestricted net position.

NOTE 7. STATE INFRASTRUCTURE FUND

The Tennessee Transportation State Infrastructure Fund was created pursuant to Section 4-31-1201, *Tennessee Code Annotated*. The State Infrastructure Program provides assistance to Local Government Units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety; promoting economic development; or increasing the quality of life and general welfare of the public. In fiscal year 2013, no loans were approved.

NOTE 8. TRANSFER FROM COMMUNITY PROVIDERS TO STATE LOAN PROGRAM

Pursuant to the authorization of Chapter 1029, Section 41, Item 42 of the Public Acts of 2012, $700,000 was transferred from the Community Provider Loans Fund to the State Loan Programs Fund.

NOTE 9. COMMUNITY PROVIDERS LITIGATION

The Community Provider Program provided financial assistance to construct facilities for licensed nonprofit, 501(c)(3) corporations to deliver mental health; mental retardation; and alcohol and drug rehabilitation services under grant contracts with the State of Tennessee. The program has no outstanding debt associated with the loans that are currently outstanding. The services provided by these corporations have been assumed by the State of Tennessee. The loans for the Fayette County Developmental Center, Inc. and the Hardeman County Development Services, Inc. are in default. No payments have been made on either loan since fiscal year 2009. Both matters have been referred to the Office of the Tennessee Attorney General. The Fayette County Development Center loan is outstanding in the amount of $177,406. The Hardeman County Development Services, Inc. loan is outstanding in the amount of $498,488 (net of the debt service reserve balance). The Hardeman County Development Services, Inc. loan is subject to a preliminary settlement agreement, and it is anticipated that the property secured by such loan will be transferred to TLDA by way of a quitclaim deed.

NOTE 10. BOND RATING

On August 31, 2012, Standard and Poor's Rating Group downgraded the Authority's bond rating from AAA to AA+.

NOTE 11. SUBSEQUENT EVENT

On October 11, 2013, the property secured by the Fayette County Development Center loan was sold at foreclosure for $179,417.41 (the outstanding principal amount plus foreclosure costs). Thus, the balance on the Fayette County Development Center loan is now zero.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Supplementary Schedules of Net Position - Program Level
June 30, 2013, and June 30, 2012

(Expressed in Thousands)

	June 30, 2013				June 30, 2012			
	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total	State Loan Programs	Community Providers	Infrastructure Loan Program	Total
ASSETS								
Current assets:								
Cash	$12,329	$ 625	$2,152	$15,106	$11,653	$1,192	$2,178	$15,023
Receivables:								
Loans receivable	951	208	-	1,159	1,136	157	-	1,293
Total current assets	13,280	833	2,152	16,265	12,789	1,349	2,178	16,316
Noncurrent assets:								
Restricted cash	1,357	-	-	1,357	1,373	-	-	1,373
Loans receivable	4,397	498	56	4,951	5,293	673	27	5,993
Total noncurrent assets	5,754	498	56	6,308	6,666	673	27	7,366
Total assets	19,034	1,331	2,208	22,573	19,455	2,022	2,205	23,682
DEFERRED OUTFLOWS								
Deferred amount on bond refunding	352	-	-	352	426	-	-	426
LIABILITIES								
Current liabilities:								
Accrued interest payable	95	-	-	95	111	-	-	111
Payable to borrowers	52	-	-	52	52	-	-	52
Revenue bonds payable	1,065	-	-	1,065	1,035	-	-	1,035
Total current liabilities	1,212	-	-	1,212	1,198	-	-	1,198
Noncurrent liabilities:								
Revenue bonds payable, net	5,703	-	-	5,703	6,797	-	-	6,797
Total noncurrent liabilities	5,703	-	-	5,703	6,797	-	-	6,797
Total liabilities	6,915	-	-	6,915	7,995	-	-	7,995
NET POSITION								
Unrestricted	12,471	1,331	2,208	16,010	11,886	2,022	2,205	16,113
Total net position	$12,471	$1,331	$2,208	$16,010	$11,886	$2,022	$2,205	$16,113

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Supplementary Schedules of Revenues, Expenses, and Changes in Net Position - Program Level
For the Years Ended June 30, 2013, and June 30, 2012

(Expressed in Thousands)

	Year Ended June 30, 2013				Year Ended June 30, 2012			
	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total
OPERATING REVENUES								
Revenue from loans	$ 232	$ 19	$ -	$ 251	$ 273	$ 77	$ -	$ 350
Administrative fees collected	36	-	-	36	9	-	-	9
Interest income	17	2	3	22	16	2	3	21
Total operating revenues	285	21	3	309	298	79	3	380
OPERATING EXPENSES								
Interest expense	362	-	-	362	410	-	-	410
Administrative expense	38	12	-	50	140	-	-	140
Total operating expenses	400	12	-	412	550	-	-	550
Operating income (loss)	(115)	9	3	(103)	(252)	79	3	(170)
NONOPERATING REVENUES AND EXPENSES								
Transfer from Community Providers to State Loan Program	700	(700)	-	-	700	(700)	-	-
Total nonoperating revenue (expenses)	700	(700)	-	-	700	(700)	-	-
Change in net position	585	(691)	3	(103)	448	(621)	3	(170)
NET POSITION								
Net position, July 1	11,886	2,022	2,205	16,113	11,559	2,643	2,202	16,404
Cumulative effect of change in accounting principle	-	-	-	-	(121)	-	-	(121)
Net position, July 1, as restated	-	-	-	-	11,438	2,643	2,202	16,283
Net position, June 30	$12,471	$1,331	$2,208	$16,010	$11,886	$2,022	$2,205	$16,113

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Supplementary Schedules of Cash Flows - Program Level
For the Years Ended June 30, 2013, and June 30, 2012

(Expressed in Thousands)

	Year Ended June 30, 2013				Year Ended June 30, 2012			
	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Payments to service providers	$ (38)	$ -	$ -	$ (38)	$ (140)	$ -	$ -	$ (140)
Payments for administrative services	-	(12)	-	(12)	-	-	-	-
Net cash used by operating activities	(38)	(12)	-	(50)	(140)	-	-	(140)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Principal payments	(1,035)	-	-	(1,035)	(1,225)	-	-	(1,225)
Interest paid	(333)	-	-	(333)	(381)	-	-	(381)
Transfer from Community Providers to State Loan Program	700	(700)	-	-	700	(700)	-	-
Net cash used by noncapital financing activities	(668)	(700)	-	(1,368)	(906)	(700)	-	(1,606)
CASH FLOWS FROM INVESTING ACTIVITIES								
Loans issued	-	-	(30)	(30)	-	-	(27)	(27)
Collections of loan principal	1,081	124	-	1,205	1,098	601	-	1,699
Interest received on loans	232	19	1	252	273	78	-	351
Administrative revenue	36	-	-	36	9	-	-	9
Interest received on pooled investment fund	17	2	3	22	16	2	3	21
Net cash provided by (used by) investing activities	1,366	145	(26)	1,485	1,396	681	(24)	2,053
Net increase (decrease) in cash	660	(567)	(26)	67	350	(19)	(24)	307
Cash, July 1	13,026	1,192	2,178	16,396	12,676	1,211	2,202	16,089
Cash, June 30	$13,686	$ 625	$2,152	$16,463	$13,026	$1,192	$2,178	$16,396
Reconciliation of operating income (loss) to net cash used by operating activities:								
Operating income (loss)	$ (115)	$ 9	$ 3	$ (103)	$ (252)	$ 79	$ 3	$ (170)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:								
Revenue from loans	(232)	(19)	-	(251)	(273)	(77)	-	(350)
Interest income	(17)	(2)	(3)	(22)	(16)	(2)	(3)	(21)
Interest expense	362	-	-	362	410	-	-	410
Administrative revenue from borrowers	(36)	-	-	(36)	(9)	-	-	(9)
Total adjustments	77	(21)	(3)	53	112	(79)	(3)	30
Net cash used by operating activities	$ (38)	$ (12)	$ -	$ (50)	$ (140)	$ -	$ -	$ (140)

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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Independent Auditor's 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*

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 30, 2014. 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 *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its 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 *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah V. Loveless

Deborah V. Loveless, CPA
Director
January 30, 2014