STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Financial and Compliance Audit Report

For the Year Ended June 30, 2017

Justin P. Wilson, Comptroller

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TENNESSEE COMPTROLLER OF THE TREASURY

JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

February 20, 2018

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, 2017. 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
Division of State Audit

17/357

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Audit Report

Tennessee Local Development Authority

For the Year Ended June 30, 2017

TABLE OF CONTENTS

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, 2017

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Justin P. Wilson
Comptroller

Jason E. Mumpower
Chief of Staff

Independent Auditor's Report

The Honorable Bill Haslam, Governor
Members of the General Assembly
Members of the Tennessee 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, 2017, and June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of directors of the Tennessee 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 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, 2017, and June 30, 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2018, 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
Division of State Audit
January 11, 2018

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, 2017, and June 30, 2016, with comparative data for the year ended June 30, 2015. 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 Program 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 programs of the Authority which have made loans to borrowers in the past include:

1) the State Loan Program, which provides 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, which provides 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, which 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.

	Local Government Units			State Infrastructure Program		
	2017	2016	2015	2017	2016	2015
Number of borrowers with outstanding loans	10	16	17	1	1	1
Total number of outstanding loans	12	18	20	1	1	1
Total amount of outstanding loans (in thousands)	$2,311	$2,873	$3,591	$211	$117	$116
Number of outstanding 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 Community Provider Program had no outstanding debt for the last three fiscal years, and no loans were outstanding. As no future transactions were anticipated, the unexpended fund balance was transferred to the state's general fund in the fiscal year ended June 30, 2016.

The state is not liable on any debt of the Authority, and the bonds are not a debt of the State of Tennessee. For more specific financial information on long-term debt activity, see Note 5, Debt Payable, in the notes to the financial statements.

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

Debt Administration

The Authority's most long-standing program is its State Loan Program. To date, the State Loan Program has only been utilized to make loans for the construction of water and sewer projects. A financial analysis is conducted for each loan applicant to be funded through the State Loan Program before the application 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 also compares state-shared taxes, which are pledged by the local government unit, in relation to projected debt service. The Authority is authorized to intercept these state-shared taxes, should the government unit fail to timely repay its loan. The balance of any deficit would be secured by the debt service reserve fund and the statutory reserve fund. The statutory reserve fund is an amount set aside in the fund from appropriations of the state's General Assembly from 1985 to 1987, intended to ensure payment of debt service on debt issued for any purpose under the State Loan Program.

During its construction phase, a project in the State Loan Program is typically funded through the issuance of Bond Anticipation Notes. When a sufficient dollar amount of projects are completed to assure an appropriate economy of scale to sell bonds, the Authority may fix the interest rate for the term of the projects by issuing long-term debt. Interest rates on the State Loan Program facilities long-term fixed-rate debt range from a low of 4.25% to a high of 5%. 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 blended into one credit, resulting in a lower cost of borrowing to most participants.

The Authority's State Loan Program is currently rated AA+ by Standard & Poor's Rating Group and AA by Fitch Ratings. The rating reports include comments about the Authority's ongoing commitment to conservative practices, as well as sound legal provisions, strong state oversight, and an ample debt service reserve as strengths of the credit. Rating agencies also noted that added strengths of the credit of the program are the underlying credit quality of the local governments receiving loans, the responsibility of the localities to repay loans, and the Authority's history of never needing to intercept state-shared taxes or tap the statutory reserve fund. On September 18, 2015, Moody's Investors Service, Inc. downgraded the Authority's bond rating from Aa3 to A2. On November 13, 2015, Moody's Investors Service, Inc. withdrew the A2 rating.

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. No new loan applications have been received since the issuance of the 1994 bonds. All of the debt has been repaid, and there are no longer any loans outstanding.

The State Infrastructure Fund was created in 2009 with the transfer of the existing state infrastructure bank, which had been under the administration of the Tennessee Department of Transportation (TDOT). The following sources can be used to provide additional capitalization to the fund: appropriations from the state's General Assembly; federal funds apportioned and available to the state and approved by TDOT; contributions, donations, and grants from the federal government or other governmental units or private entities; and principal and interest repayments from the borrowers. The Authority reviews each loan application to determine the borrower's capability to assure sufficient revenues to operate and maintain the project for its useful life and to repay the loan. The borrower may pledge its state-shared taxes, its full faith and credit and unlimited taxing power, or other security as the Authority deems appropriate. No debt may be issued in order to provide loans to borrowers from the State Infrastructure Fund. The Authority is charged with the responsibilities of approving loan applications and administering the loans. The Authority has received and approved one loan application from the fund.

Overview of the Financial Statements

The Authority is a discretely presented component unit of the State of Tennessee and uses proprietary fund accounting. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting and the flow of economic resources measurement focus. This basis recognizes revenues when earned and expenses at the time liabilities are incurred, regardless of the timing of related cash flows. Using the economic resources measurement focus, readers are presented information that allows them 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 consist of two components: 1) the financial statements and 2) the notes to the financial statements. The financial statements consist of the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The statement of net position reports 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 refuse a loan application due to the inability to obtain capital funding. Also, the Authority has never had to use the intercept of state-shared taxes, nor has it had to draw from the debt service reserve fund or the statutory reserve fund in order to pay debt service.

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

Statements of Net Position Summary
(in thousands of dollars)

	2017	2016	2015
Current assets	$15,655	$15,598	$16,446
Restricted assets	709	936	988
Other assets	2,058	2,445	3,007
Total assets	18,422	18,979	20,441
Deferred outflows of resources	141	179	217
Current liabilities	697	887	903
Noncurrent liabilities	2,545	3,154	3,952
Total liabilities	3,242	4,041	4,855
Net position (unrestricted)	$15,321	$15,117	$15,803

Note: The Authority owns no capital assets.

For the years ended June 30, 2017; June 30, 2016; and June 30, 2015, the largest component of the total asset balance is the cash balance. Loans receivable (both current and noncurrent) totaled $2,522,871 at June 30, 2017; $2,991,280 at June 30, 2016; and $3,707,785 at June 30, 2015. Restricted assets represent the debt service reserve fund. Other assets will continue to decrease unless new loans are made. The Authority's liabilities consist mostly 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 not received any loan applications in the current fiscal year and therefore 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.

Statements of Revenues, Expenses, and Changes in Net Position Summary
(in thousands of dollars)

	2017	2016	2015
Operating Revenues			
Revenue from loans	$130	$135	$162
Administrative fees	264	162	95
Interest income	83	39	14
Total operating revenues	477	336	271
Operating Expenses			
Interest expense	163	200	260
Subsidy to borrowers	-	8	-
Administrative expenses	110	176	110
Total operating expenses	273	384	370
Operating income (loss)	204	(48)	(99)
Transfer to state general fund	-	(638)	-
Increase (Decrease) in Net Position	$204	($686)	($99)

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 duties related to loans made from the Clean Water and Drinking Water State Revolving Fund (SRF) programs. In 2010, the Authority was given statutory authority to charge the SRF borrowers a fee for the administration of the loans. Therefore, subsequent loans approved are charged an eight basis point (0.08%) fee on the outstanding balance of the loan over its life. These administrative fees are recognized by the Authority as operating revenue. Operating expenses include interest expense on outstanding debt and administrative expenses of the program. A portion of investment earnings will be returned to borrowers as a subsidy to borrowers upon bond maturity.

Revenue to the Authority increased from 2016 to 2017 and also from 2015 to 2016. The increase in total operating revenues is mainly attributed to administrative fees collected on SRF program loans. Improved market interest rates were responsible for an increase in interest earned on the Authority's investments. Meanwhile, revenue from loans of the Authority is declining. All of the Authority's loans are structured such that the borrowers pay level debt service payments for the life of the loan, meaning that over time the borrowers' principal payment will increase and the interest payment will decrease. Since no new loans have been made, as the existing loans approach maturity, the interest revenue will trend downward. The Authority's total operating expenses increased from 2015 to 2016 and decreased from 2016 to 2017. An operating loss occurred in 2015 and 2016. The operating income reported in 2017 is attributable to the administrative fees collected on SRF program loans and a decrease in administrative expenses. As revenue from loans continues to decline, subsequent operating losses may occur even if operating expenses decrease.

Contacting the Authority's 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, Cordell Hull Building, 425 Fifth Avenue North, Nashville, Tennessee 37243 or visit our website at http://www.comptroller.tn.gov/sl/.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Statements of Net Position

June 30, 2017, and June 30, 2016

(Expressed in Thousands)

	June 30, 2017	June 30, 2016
Assets		
Current assets:		
Cash (Note 2)	$15,191	$15,053
Receivables:		
Loans receivable	464	545
Total current assets	15,655	15,598
Noncurrent assets:		
Restricted cash (Notes 2 and 3)	709	936
Loans receivable	2,058	2,445
Total noncurrent assets	2,767	3,381
Total assets	18,422	18,979
Deferred outflows of resources		
Deferred amount on bond refunding	141	179
Liabilities		
Current liabilities:		
Accrued interest payable	41	53
Payable to borrowers (Note 4)	71	59
Revenue bonds payable (Note 5)	585	775
Total current liabilities	697	887
Noncurrent liabilities:		
Revenue bonds payable, net (Note 5)	2,545	3,154
Total noncurrent liabilities	2,545	3,154
Total liabilities	3,242	4,041
Net position		
Unrestricted (Note 6)	15,321	15,117
Total net position	$15,321	$15,117

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, 2017, and June 30, 2016

(Expressed in Thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
Operating revenues		
Revenue from loans	$ 130	$ 135
Administrative fees collected	264	162
Interest income	83	39
Total operating revenues	477	336
Operating expenses		
Interest expense	163	200
Subsidy to borrowers	-	8
Administrative expenses	110	176
Total operating expenses	273	384
Operating income (loss)	204	(48)
Transfer from Community Providers to state general fund (Note 8)	-	(638)
Change in net position	204	(686)
Net position		
Net position, July 1	15,117	15,803
Net position, June 30	$15,321	$15,117

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, 2017, and June 30, 2016

(Expressed in Thousands)

	Year Ended June 30, 2017	Year Ended June 30, 2016
Cash flows from operating activities		
Payments to service providers	$ (110)	$ (175)
Net cash used by operating activities	(110)	(175)
Cash flows from noncapital financing activities		
Principal payments	(775)	(785)
Interest paid	(161)	(198)
Transfer from Community Providers to state general fund	-	(638)
Net cash used by noncapital financing activities	(936)	(1,621)
Cash flows from investing activities		
Loans issued	(94)	(1)
Collections of loan principal	574	717
Interest received on loans	130	135
Administrative revenue	264	161
Interest received on pooled investment fund	83	39
Net cash provided by investing activities	957	1,051
Net decrease in cash	(89)	(745)
Cash, July 1	15,989	16,734
Cash, June 30	$15,900	$15,989
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	$ 204	$ (48)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Revenue from loans	(130)	(135)
Interest income	(83)	(39)
Interest expense	163	200
Subsidy to borrowers	-	8
Administrative revenue from borrowers	(264)	(161)
Total adjustments	(314)	(127)
Net cash used by operating activities	$ (110)	$ (175)

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 and is a separate legal entity. In accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended, 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 accordance 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, regardless of the timing of related cash flows.

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.

Note 2. Deposits

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.

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 $15,899,242 in the pooled investment fund at June 30, 2017, and $15,989,034 at June 30, 2016. The pooled investment fund is authorized by statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The funds are very liquid; there are no minimum amounts or lengths of time for investment with the exception of a 24-hour notice for withdrawals exceeding $5,000,000. The fund is not rated by a nationally recognized statistical rating organization. The fund's investments are measured at amortized cost. 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 $708,890 at June 30, 2017, and $936,290 at June 30, 2016.

Note 4. Payable to Borrowers

This account represents interest earnings on restricted assets and loan principal that is being held until the bonds mature and then will be refunded to borrowers.

Note 5. Debt Payable

Revenue Bonds

Bonds payable at June 30, 2017, and June 30, 2016, are as follows (expressed in thousands):

	June 30, 2017	June 30, 2016
2006 Refunding Series A at interest rates from 4.0% to 5.0% maturing to 2021 (original par–$20,070)	$1,005	$ 1,600
2006 Series B at interest rates from 4.25% to 4.375% maturing to 2029 (original par–$37,415)	2,045	2,225
Total par amount of bonds payable	3,050	3,825
Plus unamortized premium	90	115
Less unamortized discount	(10)	(11)
Net bonds payable	$3,130	$3,929

Debt service requirements to maturity of the revenue bonds payable at June 30, 2017, are as follows (expressed in thousands):

For the Year(s) Ending June 30	Principal	Interest	Total
2018	$ 585	$124	$ 709
2019	495	100	595
2020	435	81	516
2021	285	63	348
2022	220	52	272
2023-2027	990	116	1,106
2028-2029	40	3	43
Total	$3,050	$539	$3,589

Changes in long-term debt payable for the year ended June 30, 2017, are as follows (expressed in thousands):

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Revenue bonds payable	$3,825	$ -	$775	$3,050	$585
Less: unamortized bond discount	(11)	-	(1)	(10)	-
Add: unamortized bond premium	115	-	25	90	-
Total bonds payable	$3,929	$ -	$799	$3,130	$585

Changes in long-term debt payable for the year ended June 30, 2016, are as follows (expressed in thousands):

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Amounts Due Within One Year
Revenue bonds payable	$4,610	$ -	$785	$3,825	$775
Less: unamortized bond discount	(12)	-	(1)	(11)	-
Add: unamortized bond premium	139	-	24	115	-
Total bonds payable	$4,737	$ -	$808	$3,929	$775

Note 6. Statutory Reserve

The Statutory Reserve is an amount set aside in the fund intended to ensure payment of the required annual debt service (principal and interest) for municipalities in the event of a default that have insufficient state-shared taxes available to the Authority to withhold. Per review of the General Bond Resolution, it was determined that this amount should be classified as unrestricted net position. The Statutory Reserve was funded at $3 million from appropriations of the state's General Assembly from 1985 to 1987. As of June 30, 2017, the Statutory Reserve balance was $3,141,125.

As a part of the application process, each loan applicant pledges its available state-shared taxes, giving the Authority the authorization to intercept these state-shared taxes, should the local government unit fail to repay timely its loan. An analysis is conducted to compare this state-shared tax amount to projected maximum annual debt service. The balance of any deficit would be secured first by the debt service reserve and then the Statutory Reserve. Of the Authority's current borrowers, Mount Carmel was the only borrower with a deficit. Maximum annual debt service for Mount Carmel is $130,372. This loan, which is a part of the 2006 Refunding Series A bonds, is scheduled to be paid off in February 2020. The bonds have a final maturity of March 2021.

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 years 2017 and 2016, no loans were approved.

Note 8. Transfer From Community Providers Fund

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 services previously provided by the nonprofits have been assumed by the State of Tennessee. The Tennessee Local Development Authority issued Community Provider Pooled Program Revenue Bonds in the early 1990s and used the proceeds from the bonds to make loans under the program. The loans were secured by mortgages on the facilities built by the nonprofits, as well as other real property owned by the nonprofits. In approximately 1998, the State of Tennessee paid off the bonds. At June 30, 2017, and June 30, 2016, there were no program loans outstanding. No future transactions are anticipated. Pursuant to the authorization of Chapter 758, Section 47, Item 4 of the Public Acts of 2016, the unexpended fund balance of $638,880.67 was transferred from the Community Providers Fund to the state's general fund in fiscal year ended June 30, 2016. No transfer was made for the fiscal year ended June 30, 2017.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Net Position - Program Level

June 30, 2017, and June 30, 2016

(Expressed in Thousands)

	June 30, 2017				June 30, 2016			
	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total	State Loan Programs	Community Providers	State Infrastructure Loan Program	Total
Assets								
Current assets:								
Cash	$13,165	$ -	$2,026	$15,191	$12,947	$ -	$2,106	$15,053
Receivables:								
Loans receivable	464	-	-	464	545	-	-	545
Total current assets	13,629	-	2,026	15,655	13,492	-	2,106	15,598
Noncurrent assets:								
Restricted cash	709	-	-	709	936	-	-	936
Loans receivable	1,847	-	211	2,058	2,328	-	117	2,445
Total noncurrent assets	2,556	-	211	2,767	3,264	-	117	3,381
Total assets	16,185	-	2,237	18,422	16,756	-	2,223	18,979
Deferred outflows of resources								
Deferred amount on bond refunding	141	-	-	141	179	-	-	179
Liabilities								
Current liabilities:								
Accrued interest payable	41	-	-	41	53	-	-	53
Payable to borrowers	71	-	-	71	59	-	-	59
Revenue bonds payable	585	-	-	585	775	-	-	775
Total current liabilities	697	-	-	697	887	-	-	887
Noncurrent liabilities:								
Revenue bonds payable, net	2,545	-	-	2,545	3,154	-	-	3,154
Total noncurrent liabilities	2,545	-	-	2,545	3,154	-	-	3,154
Total liabilities	3,242	-	-	3,242	4,041	-	-	4,041
Net position								
Unrestricted	13,084	-	2,237	15,321	12,894	-	2,223	15,117
Total net position	$13,084	$ -	$2,237	$15,321	$12,894	$ -	$2,223	$15,117

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Revenues, Expenses, and Changes in Net Position - Program Level

For the Years Ended June 30, 2017, and June 30, 2016

(Expressed in Thousands)

	Year Ended June 30, 2017				Year Ended June 30, 2016			
	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	$ 127	$ -	$ 3	$ 130	$ 133	$ -	$ 2	$ 135
Administrative fees collected	264	-	-	264	162	-	-	162
Interest income	72	-	11	83	33	1	5	39
Total operating revenues	463	-	14	477	328	1	7	336
Operating expenses								
Interest expense	163	-	-	163	200	-	-	200
Subsidy to borrowers	-	-	-	-	8	-	-	8
Administrative expenses	110	-	-	110	176	-	-	176
Total operating expenses	273	-	-	273	384	-	-	384
Operating income (loss)	190	-	14	204	(56)	1	7	(48)
Transfer from Community Providers to state general fund	-	-	-	-	-	(638)	-	(638)
Change in net position	190	-	14	204	(56)	(637)	7	(686)
Net position								
Net position, July 1	12,894	-	2,223	15,117	12,950	637	2,216	15,803
Net position, June 30	$13,084	$ -	$2,237	$15,321	$12,894	$ -	$2,223	$15,117

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Cash Flows - Program Level

For the Years Ended June 30, 2017, and June 30, 2016

(Expressed in Thousands)

	Year Ended June 30, 2017				Year Ended June 30, 2016			
	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	$ (110)	$ -	$ -	$ (110)	$ (175)	$ -	$ -	$ (175)
Net cash used by operating activities	(110)	-	-	(110)	(175)	-	-	(175)
Cash flows from noncapital financing activities								
Principal payments	(775)	-	-	(775)	(785)	-	-	(785)
Interest paid	(161)	-	-	(161)	(198)	-	-	(198)
Transfer from Community Providers to state general fund	-	-	-	-	-	(638)	-	(638)
Net cash used by noncapital financing activities	(936)	-	-	(936)	(983)	(638)	-	(1,621)
Cash flows from investing activities								
Loans issued	-	-	(94)	(94)	-	-	(1)	(1)
Collections of loan principal	574	-	-	574	717	-	-	717
Interest received on loans	127	-	3	130	133	-	2	135
Administrative revenue	264	-	-	264	161	-	-	161
Interest received on pooled investment fund	72	-	11	83	33	1	5	39
Net cash provided by (used by) investing activities	1,037	-	(80)	957	1,044	1	6	1,051
Net increase (decrease) in cash	(9)	-	(80)	(89)	(114)	(637)	6	(745)
Cash, July 1	13,883	-	2,106	15,989	13,997	637	2,100	16,734
Cash, June 30	$13,874	$ -	$2,026	$15,900	$13,883	$ -	$2,106	$15,989
Reconciliation of operating income (loss) to net cash used by operating activities:								
Operating income (loss)	$ 190	$ -	$ 14	$ 204	$ (56)	$ 1	$ 7	$ (48)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:								
Revenue from loans	(127)	-	(3)	(130)	(133)	-	(2)	(135)
Interest income	(72)	-	(11)	(83)	(33)	(1)	(5)	(39)
Interest expense	163	-	-	163	200	-	-	200
Subsidy to borrowers	-	-	-	-	8	-	-	8
Administrative revenue from borrowers	(264)	-	-	(264)	(161)	-	-	(161)
Total adjustments	(300)	-	(14)	(314)	(119)	(1)	(7)	(127)
Net cash used by operating activities	$ (110)	$ -	$ -	$ (110)	$ (175)	$ -	$ -	$ (175)

Justin P. Wilson
Comptroller

Jason E. Mumpower
Chief of Staff

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, 2017, 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 11, 2018. 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

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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
Division of State Audit
January 11, 2018