

**TENNESSEE LOCAL DEVELOPMENT AUTHORITY**

**FOR THE YEAR ENDED  
JUNE 30, 1996**

**Arthur A. Hayes, Jr., CPA**

Director

**Barbara K. White, CPA**

Assistant Director

**Teresa L. Hensley, CPA**

Audit Manager

**Ortaeine G. Acidera, CPA**

In-Charge Auditor

**Kathy L. Holland**

**Cynthia S. Singleton**

**Marilyn H. Stone**

Staff Auditors

**Dianne Mitchell, CPA**

Technical Manager

**Fawn W. Ellis, CPA**

Technical Reviewer

**Leslie Bethea**

Editor

March 10, 1997

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

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Local Development Authority for the year ended June 30, 1996. 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 the internal control structure and tests of compliance resulted in no audit findings.

Very truly yours,

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

AAH/cr  
97/009

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Tennessee Local Development Authority**  
For the Year Ended June 30, 1996

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the authority's internal control structure; to determine the fairness of the presentation of the financial statements; to determine compliance with laws, regulations, and contracts (including the bond resolutions); 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.

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

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

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AUDIT REPORT  
TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 1996

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TABLE OF CONTENTS

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	<u>Exhibit</u>	<u>Page</u>
<u>INTRODUCTION</u>		1
Post-Audit Authority		1
Objectives of the Audit		1
Scope of the Audit		2
<u>BACKGROUND AND ORGANIZATION</u>		2
Legislative History		2
Organization		2
<u>PRIOR AUDIT FINDINGS</u>		4
<u>RESULTS OF THE AUDIT</u>		4
Audit Conclusions		4
Report on the Internal Control Structure Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
Compliance Report Based on an Audit of the Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		7
<u>FINANCIAL STATEMENTS</u>		
Independent Auditor's Report		9
Balance Sheets	A	11

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TABLE OF CONTENTS (CONT.)

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	<u>Exhibit</u>	<u>Page</u>
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	12
Statements of Cash Flows	C	13
Notes to the Financial Statements		14
<u>SUPPLEMENTARY INFORMATION</u>		
Supplementary Balance Sheets – Program Level	D	19
Supplementary Statements of Revenues, Expenses, and Changes in Retained Earnings – Program Level	E	20
Supplementary Statements of Cash Flows – Program Level	F	21

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
FOR THE YEAR ENDED JUNE 30, 1996

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INTRODUCTION

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**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.

**OBJECTIVES OF THE AUDIT**

The objectives of the audit were

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

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128, “Audits of State and Local Governments,” it included tests of compliance with applicable federal laws and regulations and consideration of the internal control structure. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act of 1984 and OMB Circular A-128.**

## **SCOPE OF THE AUDIT**

The audit was limited to the period July 1, 1995, through June 30, 1996, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1996, and for comparative purposes, the year ended June 30, 1995. The Tennessee Local Development Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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

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## **BACKGROUND AND ORGANIZATION**

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### **LEGISLATIVE HISTORY**

The Tennessee Local Development Authority was created April 2, 1978, by an act of the General Assembly, codified as Title 4, Chapter 31, *Tennessee Code Annotated*. The authority is delegated the responsibility for issuing its debt obligations to provide funds to make loans to (i) local governments for the State Loan Programs and for capital projects; (ii) certain small business concerns for pollution control facilities; (iii) farmers for certain capital improvements; (iv) counties for the acquisition of equipment for use by county or volunteer fire departments serving unincorporated areas of the counties; (v) airport authorities and municipal airports; and (vi) mental health/mental 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 of the authority is on the following page.



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## PRIOR AUDIT FINDINGS

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There were no findings in the prior audit report.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control Structure

As part of the audit of the Tennessee Local Development Authority's financial statements for the year ended June 30, 1996, we considered the internal control structure to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. The report on the internal control structure is on the following pages. Consideration of the internal control structure disclosed no material weaknesses.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the financial statements of the Tennessee Local Development Authority. In our opinion, the statements included in this report present fairly, in all material respects, the financial position of the authority as of June 30, 1996, and the results of its operations and cash flows for the year then ended. The independent auditor's report follows the compliance report.

#### Compliance with Laws and Regulations

The results of our audit tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards. The compliance report follows the report on the internal control structure.

**Report on the Internal Control Structure Based on an  
Audit of the Financial Statements Performed in Accordance With  
*Government Auditing Standards***

December 20, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and have issued our report thereon dated December 20, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The authority's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that

The Honorable W. R. Snodgrass  
December 20, 1996  
Page Two

procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the authority's financial statements for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/cr

**Compliance Report Based on an Audit of the  
Financial Statements Performed in Accordance  
With *Government Auditing Standards***

December 20, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

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, 1996, and have issued our report thereon dated December 20, 1996.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, and contracts (including the bond resolutions) applicable to the Tennessee Local Development Authority is the responsibility of the authority's management. As part of obtaining reasonable assurance about whether the 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). However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

The Honorable W. R. Snodgrass  
December 20, 1996  
Page Two

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

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

AAH/cr

## **Independent Auditor's Report**

December 20, 1996

The Honorable W. R. Snodgrass  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Local Development Authority, a component unit of the State of Tennessee, as of June 30, 1996, and June 30, 1995, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the authority's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

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

In our 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, 1996, and June 30, 1995, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Honorable W. R. Snodgrass  
December 20, 1996  
Page Two

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

In accordance with generally accepted government auditing standards, we have also issued reports dated December 20, 1996, regarding our consideration of the authority's internal control structure and its compliance with laws and regulations.

Sincerely,

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

AAH/cr







TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 1996, AND JUNE 30, 1995

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

**B. Basis of Presentation**

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

**C. 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.

**D. Investments**

Investments are stated at cost or amortized cost.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1996, AND JUNE 30, 1995

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**E. 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 bond discount. Issuance costs are reported as deferred charges.

**NOTE 2. DEPOSITS AND INVESTMENTS**

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

The authority had \$33,735,489 in the State Treasurer's pooled investment fund at June 30, 1996, and \$24,467,265 at June 30, 1995.

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

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

The U.S. Treasury Notes and the Federal National Mortgage Association Securities listed below are controlled by the State Treasurer and are held at the Federal Reserve Bank in the state's name. The State and Local Government Series listed

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
 JUNE 30, 1996, AND JUNE 30, 1995

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below are controlled by the State Treasurer and are held at the U.S. Treasury in the state's name.

Authority investments at June 30, 1996, are categorized below (expressed in thousands):

	Category 1	
	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Treasury Notes	\$7,109	\$7,031
U.S. Treasury Notes - State and Local Government Series	1,461	1,461
Federal National Mortgage Association Securities	<u>1,288</u>	<u>1,300</u>
Total investments	<u>\$9,858</u>	<u>\$9,792</u>

Authority investments at June 30, 1995, are categorized below (expressed in thousands):

	Category 1	
	<u>Carrying Amount</u>	<u>Market Value</u>
U.S. Treasury Notes	\$7,105	\$7,029
U.S. Treasury Notes - State and Local Government Series	1,461	1,461
Federal National Mortgage Association Securities	<u>1,281</u>	<u>1,340</u>
Total investments	<u>\$9,847</u>	<u>\$9,830</u>

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1996, AND JUNE 30, 1995

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**NOTE 3. RESTRICTED ASSETS**

The general bond resolutions of the authority require that the principal of each bond issue include an amount equal to one year's debt service requirements and that such amounts be placed in special trust accounts with the trustee; \$9,820,596 is the sum of such amounts required at June 30, 1996, and June 30, 1995.

**NOTE 4. PAYABLE TO BORROWERS**

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

**NOTE 5. NOTES AND BONDS PAYABLE**

**Notes.** Notes payable at June 30, 1996, and June 30, 1995, are as follows (expressed in thousands):

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Revenue bond anticipation notes 3.645% issued May 29, 1996, maturing May 29, 1997 (includes unamortized premium of \$148)	\$45,148	\$ -
Revenue bond anticipation notes 4.039% issued May 31, 1995, maturing May 31, 1996 (includes unamortized premium of \$261)	<u>-</u>	<u>40,261</u>
Total notes payable	<u>\$45,148</u>	<u>\$40,261</u>

**Revenue bonds.** Bonds payable at June 30, 1996, and June 30, 1995, are as follows (expressed in thousands):

	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Revenue bonds, 5.75% to 9.4%, issued March 1, 1985, principal and interest of \$2.7 million due in 1997	\$ 2,460	\$ 4,928

TENNESSEE LOCAL DEVELOPMENT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS (CONT.)  
JUNE 30, 1996, AND JUNE 30, 1995

Refunding revenue bonds, 4.0% to 7.25%, issued January 14, 1987, due in various amounts of principal and interest from \$.2 million in 1997 to \$.9 million in 2015 (net of unamortized discount of \$898 at June 30, 1996, and \$947 at June 30, 1995)	3,423	3,374
Revenue bonds, 4.65% to 7.0%, issued July 16, 1991, due in decreasing amounts of principal and interest from \$2.0 million in 1997 to \$.1 million in 2021	20,135	20,720
Revenue bonds, 5.4% to 7.0%, issued January 7, 1992, due in decreasing amounts of principal and interest from \$1.3 million in 1997 to \$.7 million in 2022	13,110	13,625
Refunding revenue bonds, 2.5% to 5.75%, issued July 7, 1993, due in various amounts of principal and interest from \$2.2 million in 1997 to \$2.1 million in 2011	32,440	32,955
Revenue bonds, 4.0% to 6.55%, issued June 29, 1994, due in decreasing amounts of principal and interest from \$1.1 million in 1997 to \$.3 million in 2024	<u>12,375</u>	<u>12,700</u>
<b>Total bonds payable</b>	<u><u>\$83,943</u></u>	<u><u>\$88,302</u></u>

Debt service requirements to maturity of the revenue bonds payable at June 30, 1996, are as follows (expressed in thousands):

<u>For the Year(s) Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 4,600	\$ 5,109	\$ 9,709
1998	4,875	4,767	9,642
1999	4,725	4,527	9,252
2000	4,975	4,283	9,258
2001	4,165	4,016	8,181
2002-2024	<u>61,501</u>	<u>34,019</u>	<u>95,520</u>
<b>Total</b>	<u><u>\$84,841</u></u>	<u><u>\$56,721</u></u>	<u><u>\$141,562</u></u>







