

Tennessee Local Development Authority

**For the Year Ended
June 30, 1997**

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February 6, 1998

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

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, 1997. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

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

Very truly yours,

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

AAH/th
97/122

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, 1997

AUDIT OBJECTIVES

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

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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

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

Audit Report
Tennessee Local Development Authority
For the Year Ended June 30, 1997

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Tennessee Local Development Authority For the Year Ended June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

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

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

LEGISLATIVE HISTORY

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

AUDIT SCOPE

The audit was limited to the period July 1, 1996, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 1997, and for comparative purposes, the year ended June 30, 1996. The Tennessee Local Development Authority has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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

OBJECTIVES OF THE AUDIT

The objectives of the audit were

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

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

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Local Development Authority's financial statements for the year ended June 30, 1997, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control disclosed no material weaknesses.

Compliance

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

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.

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

December 16, 1997

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, 1997, and have issued our report thereon dated December 16, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the authority's financial statements are free of material misstatement, we performed tests of the authority's compliance with certain provisions of laws, regulations, and contracts (including 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 that are required to be reported herein under *Government Auditing Standards*.

The Honorable W. R. Snodgrass
December 16, 1997
Page Two

Internal Control Over Financial Reporting

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

This report is intended 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/th

Independent Auditor's Report

December 16, 1997

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, 1997, and June 30, 1996, 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 auditing standards 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 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, 1997, and June 30, 1996, 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 16, 1997
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 *Government Auditing Standards*, we have also issued our report dated December 16, 1997, on our consideration of the authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

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

AAH/th

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

(Expressed in Thousands)

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
<u>ASSETS</u>		
Current assets:		
Cash (Note 2)	\$ 15,355	\$ 33,638
Receivables:		
Principal due from borrowers	4,875	4,600
Interest due from borrowers	42	114
Investments	8,649	246
Interest receivable on investments	<u>235</u>	<u>176</u>
Total current assets	<u>29,156</u>	<u>38,774</u>
Restricted assets (Notes 2 and 3):		
Cash	-	97
Investments	<u>9,642</u>	<u>9,612</u>
Total restricted assets	<u>9,642</u>	<u>9,709</u>
Other assets:		
Principal due from borrowers	85,112	91,772
Deferred charges	<u>229</u>	<u>246</u>
Total other assets	<u>85,341</u>	<u>92,018</u>
Total assets	<u>\$ 124,139</u>	<u>\$ 140,501</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Current liabilities:		
Warrants payable	\$ -	\$ 3
Accounts payable	-	108
Accrued interest payable	1,582	1,728
Payable to borrowers (Note 4)	1,130	903
Notes payable (Note 5)	32,600	45,148
Revenue bonds payable (Note 5)	<u>4,875</u>	<u>4,600</u>
Total current liabilities	<u>40,187</u>	<u>52,490</u>
Noncurrent liabilities:		
Revenue bonds payable, net (Note 5)	<u>74,516</u>	<u>79,343</u>
Total liabilities	<u>114,703</u>	<u>131,833</u>
Equity:		
Retained earnings-reserved for statutory fund	5,817	5,511
Retained earnings-unreserved	<u>3,619</u>	<u>3,157</u>
Total equity	<u>9,436</u>	<u>8,668</u>
Total liabilities and equity	<u>\$ 124,139</u>	<u>\$ 140,501</u>

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

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
 FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

(Expressed in Thousands)

	<u>Year Ended</u> <u>June 30, 1997</u>	<u>Year Ended</u> <u>June 30, 1996</u>
<u>OPERATING REVENUES</u>		
Charges for services	\$ 5,410	\$ 6,178
Interest income	<u>2,144</u>	<u>1,924</u>
Total operating revenues	<u>7,554</u>	<u>8,102</u>
<u>OPERATING EXPENSES</u>		
Interest expense	6,656	6,999
Administrative expense	<u>155</u>	<u>160</u>
Total operating expenses	<u>6,811</u>	<u>7,159</u>
Operating income before operating transfer	743	943
Operating transfer from primary government	<u>25</u>	<u>25</u>
Net income	768	968
Retained earnings, July 1	<u>8,668</u>	<u>7,700</u>
Retained earnings, June 30	\$ <u><u>9,436</u></u>	\$ <u><u>8,668</u></u>

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

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1997, AND JUNE 30, 1996

(Expressed in Thousands)

	Year Ended <u>June 30, 1997</u>	Year Ended <u>June 30, 1996</u>
Cash flows from operating activities:		
Operating income before operating transfer	\$ <u>743</u>	\$ <u>943</u>
Adjustments to reconcile operating income to net cash used by operating activities:		
Amortization	16	16
Charges for services	(5,410)	(6,178)
Investment income	(2,519)	(2,031)
Interest expense	6,656	6,999
Increase (decrease) in accounts payable	(108)	97
Increase in payable to borrowers	<u>227</u>	<u>71</u>
Total adjustments	<u>(1,138)</u>	<u>(1,026)</u>
Net cash used by operating activities	<u>(395)</u>	<u>(83)</u>
Cash flows from noncapital financing activities:		
Proceeds from sale of notes	32,609	45,161
Principal payments	(49,600)	(44,407)
Interest paid	(6,909)	(7,337)
Operating transfer from primary government	<u>25</u>	<u>25</u>
Net cash used by noncapital financing activities	<u>(23,875)</u>	<u>(6,558)</u>
Cash flows from investing activities:		
Loans issued	(4,569)	(2,180)
Collections of loan principal	10,974	10,056
Interest received on loans	5,458	6,053
Interest received on investments	2,421	1,980
Purchase of investments	<u>(8,394)</u>	<u>-</u>
Net cash provided by investing activities	<u>5,890</u>	<u>15,909</u>
Net increase (decrease) in cash	<u>(18,380)</u>	<u>9,268</u>
Cash, July 1	<u>33,735</u>	<u>24,467</u>
Cash, June 30	\$ <u><u>15,355</u></u>	\$ <u><u>33,735</u></u>

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

Tennessee Local Development Authority
Notes to the Financial Statements
June 30, 1997, and June 30, 1996

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Investments

Investments are stated at cost or amortized cost.

Bond Discounts and Issuance Costs

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

Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

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 \$15,355,047 in the State Treasurer's pooled investment fund at June 30, 1997, and \$33,735,489 at June 30, 1996.

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.

Authority investments at June 30, 1997, are categorized below (expressed in thousands):

	Category 1	
	Carrying Amount	Market Value
U.S. Treasury Notes	\$ 7,187	\$ 7,177
U.S. Treasury Securities - State and Local Government Series	1,461	1,461

**Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

Federal National Mortgage Association Securities	1,323	1,327
Municipal Notes	<u>8,320</u>	<u>8,320</u>
Total investments	<u>\$18,291</u>	<u>\$18,285</u>

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

	Category 1	
	Carrying Amount	Market Value
U.S. Treasury Notes	\$7,109	\$7,031
U.S. Treasury Securities - 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>

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 \$9,641,943 at June 30, 1997, and \$9,709,055 at June 30, 1996.

NOTE 4. PAYABLE TO BORROWERS

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

Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

NOTE 5. NOTES AND BONDS PAYABLE

Notes. Notes payable at June 30, 1997, and June 30, 1996, are as follows (expressed in thousands):

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
Revenue bond anticipation notes 3.860% issued May 29, 1997, maturing May 29, 1998 (includes unamortized premium of \$100)	\$32,600	\$ -
Revenue bond anticipation notes 3.645% issued May 29, 1996, maturing May 29, 1997 (includes unamortized premium of \$148)	<u>-</u>	<u>45,148</u>
Total notes payable	<u>\$32,600</u>	<u>\$45,148</u>

Revenue bonds. Bonds payable at June 30, 1997, and June 30, 1996, are as follows (expressed in thousands):

	<u>June 30, 1997</u>	<u>June 30, 1996</u>
Revenue bonds, 5.75% to 9.4%, issued March 1, 1985, principal and interest of \$2.7 million due in 1997	\$ -	\$ 2,460
Refunding revenue bonds, 4.0% to 7.25%, issued January 14, 1987, due in various amounts of principal and interest from \$.2 million in 1998 to \$.9 million in 2015 (net of unamortized discount of \$850 at June 30, 1997, and \$898 at June 30, 1996)	3,471	3,423
Revenue bonds, 4.65% to 7.0%, issued July 16, 1991, due in decreasing amounts of principal and interest from \$2.0 million in 1998 to \$.1 million in 2021	19,515	20,135
Revenue bonds, 5.4% to 7.0%, issued January 7, 1992, due in decreasing amounts of principal and interest from \$1.3 million in 1998 to \$.7 million in 2022	12,565	13,110

Tennessee Local Development Authority
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996

Refunding revenue bonds, 2.5% to 5.75%, issued July 7, 1993, due in various amounts of principal and interest from \$4.9 million in 1998 to \$2.1 million in 2011	31,890	32,440
Revenue bonds, 4.0% to 6.55%, issued June 29, 1994, due in decreasing amounts of principal and interest from \$1.1 million in 1998 to \$.3 million in 2024	<u>11,950</u>	<u>12,375</u>
Total bonds payable	<u>\$79,391</u>	<u>\$83,943</u>

Debt service requirements to maturity of the revenue bonds payable at June 30, 1997, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	4,400	3,784	8,184
2003-2024	<u>57,101</u>	<u>30,235</u>	<u>87,336</u>
Total	<u>\$80,241</u>	<u>\$51,612</u>	<u>\$131,853</u>

NOTE 6. SUBSEQUENT EVENT

In November 1997, the Tennessee Local Development Authority issued \$37,385,000 of State Loan Program Revenue Bonds, 1997 Series A, to refund the 1991 Bonds and a portion of the 1997 Series A Bond Anticipation Notes.

