

AGENDA

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
AUDIT COMMITTEE
JULY 22, 2024, 3:15 PM
CORDELL HULL BUILDING, VOLUNTEER CONFERENCE CENTER, 2ND FLOOR

1. Call Meeting to Order
2. Approval of the AC Meeting Minutes May 31, 2023 *
3. Review Audit Reports Issued by Comptroller's Office
 - a. Discuss TLDA Audit Report
 - b. Discuss Clean Water State Revolving Fund Audit Report
4. Review Financial Statements including Significant Accounting & Reporting Standards
5. SRF Summary of PERS Reports from EPA
 - a. 2022 EPA TN PERS Report Cover Letter
 - b. 2022 TN_SRF Drinking Water PERS Report
 - c. 2022 TN_SRF Clean Water PERS Report
6. Risk Assessments Memo
 - a. 2023 SLF Risk Assessment
 - b. 2023 TDEC Water Resource Risk Assessment
7. Discuss Management's Responsibility to Prevent, Detect & Report Fraud, Waste & Abuse
8. Discuss Comptroller Hotline
9. Audit Committee Responsibilities Calendar
10. Opportunity for Public Comment
11. Other Business
12. Adjournment

* Items with an asterisk denote action required by the Audit Committee

Agenda Item #2

TENNESSEE LOCAL DEVELOPMENT AUTHORITY AUDIT COMMITTEE MEETING MINUTES May 31, 2023

The Tennessee Local Development Authority (TLDA) Audit Committee met on Wednesday, May 31, 2023. The meeting began at 2:19 p.m. in the Volunteer Conference room of the Cordell Hull Building.

The following members were present:

- David H. Lillard, Jr., State Treasurer
- Mayor Rollen Bradshaw, Loudon County, TN
- Mayor Paige Brown, Gallatin, TN.
- Tre Hargett, Tennessee Secretary of State
- Jim Bryson, F&A Commissioner

Others present were:

- Sandra Thompson, Director, Office of State and Local Finance
- Alicia West, Program Accountant, Office of State and Local Finance
- Earle Pierce, Director of Internal Audit, TN Department of Treasury
- Vena Jones, Manager SRF & Water Infrastructure Grants, TN Department of Environment and Conservation (TDEC)

Call Meeting to Order

Chairman Lillard called the meeting to order and asked for a roll call to determine a quorum. The results of the roll call confirmed a quorum was present for the meeting.

Roll Call: Chairman Lillard-Present, Secretary Hargett-Present, Mayor Bradshaw-Present, Mayor Brown-Present, Commissioner Bryson-Present

Approval of Meeting Minutes

Chairman Lillard presented the minutes from the June 15, 2022, TLDA Audit Committee meeting for approval. There were no other recommended changes. Secretary Hargett motioned to accept the minutes as presented and Commissioner Bryson seconded the motion. The motion passed unanimously.

Review Audit Reports Issued by Comptroller's Office

Chairman Lillard recognized Michael Campbell from State Audit to review the audit reports for the Tennessee Local Development Authority (TLDA) and the Clean Water State Revolving Fund (CWSRF). Mr. Campbell informed the Committee the TLDA and CWSRF received unmodified opinions on their June 30, 2022, financial statements. No findings were noted on the audits. Mr. Campbell noted his appreciation for the cooperation he received from Ms. Thompson and her staff during the audit.

Agenda Item #2

Review Financial Statements Including Significant Accounting and Reporting Standards

Chairman Lillard recognized Alicia West to review the financial statements for the TLDA and the SRF programs. Ms. West presented an overview of the financial statements noting no changes in any significant accounting or reporting standards.

Program Evaluation Review (PERs) Reports from the EPA

Chairman Lillard recognized Vena Jones, TDEC Manager of SRF & Water Infrastructure grants to discuss the results of the FY2021 & FY2022 PERS reviews from the EPA. Ms. Jones informed the Committee the PERS reviews resulted in no findings with some recommendations for program improvements. Ms. Jones discussed the EPA recommendations and the actions taken to address them. Chairman Lillard and Ms. Jones discussed the issue of response rates to previous solicitations due to staffing issues. Ms. Jones noted TDEC's efforts to improve their processes so they can loan money faster and meet the EPA's recommendation including a grant and loan companion process. Chairman Lillard finished by noting the need to improve in this area.

State and Local Finance 2022 Risk Assessments

Chairman Lillard recognized Sandi Thompson to discuss the Office of State and Local Finance (SLF) and Division of Water Resources 2022 Risk Assessments. Ms. Thompson stated the risk assessments cover risks and controls as required by the Financial Integrity Act. A memo regarding the act was included in the materials. Ms. Thompson discussed some of the testing performed to ensure controls documented in the risk assessments worked as intended.

Discuss Management's Responsibility to Prevent, Detect and Report Fraud, Waste and Abuse

Chairman Lillard recognized Sandi Thompson to speak about management's responsibility to prevent, detect, and report fraud, waste, and abuse. Ms. Thompson stated the tone at the top is the first line of defense for preventing fraud, waste, and abuse. Ms. Thompson noted she was not aware of any instances of reported fraud, waste, or abuse within the Office of State and Local Finance. Department personnel are aware risk exists with performing their duties. Those risks are monitored and mitigated daily by SRF leadership.

Discuss Comptroller Hotline

Chairman Lillard recognized Sandi Thompson to discuss the Comptroller's Fraud, Waste, and Abuse (FWA) Hotline. Employees and members of the community are encouraged to call the Comptroller's toll-free hot line to report any instances of suspected waste and abuse of government funds. Citizens are referred to the hotline when they have complaints.

Responsibilities Calendar

Agenda Item #2

Chairman Lillard recognized Earle Pierce to discuss the TLDA Audit Committee Responsibilities Calendar. Mr. Pierce reviewed a listing of audit committee responsibilities as outlined in the TLDA Audit Committee charter. He noted the purpose of the calendar was to keep the Committee members apprised of how the Committee met their responsibilities or how others met those responsibilities on behalf of the audit committee over the past year.

Discuss Current Internal Audit Article

Chairman Lillard recognized Earle Pierce to present a current article from the Institute of Internal Auditors entitled, "Tone at the Top". Mr. Pierce summarized the article for the committee with a brief discussion on adjusting risk appetites for non-financial measures.

Other Business

Chairman Lillard opened the floor for any other business to be brought before the Committee. No new business was presented.

Adjournment

Secretary Hargett motioned to adjourn. Chairman Lillard seconded the motion. The motion passed unanimously.

Chairman Lillard adjourned the meeting at 2:38 p.m.

Approved:

David H. Lillard, Jr.
TLDA Audit Committee Chairman



FINANCIAL AND COMPLIANCE AUDIT REPORT

Tennessee Local Development Authority

For the Year Ended June 30, 2023

Jason E. Mumpower
Comptroller of the Treasury



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comptroller.tn.gov/office-functions/state-audit.html

Mission Statement
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JASON E. MUMPOWER
Comptroller

January 4, 2024

The Honorable Bill Lee, 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, 2023. 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,

A handwritten signature in cursive script that reads "Katherine J. Stickel".

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

24/009

Audit Report
Tennessee Local Development Authority
For the Year Ended June 30, 2023

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TENNESSEE LOCAL DEVELOPMENT AUTHORITY

AUDIT HIGHLIGHTS

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Findings

There were no findings in the prior audit report.



JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

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, 2023, and June 30, 2022, and the related notes to the financial statements, which collectively comprise the Tennessee Local Development Authority's basic financial statements as listed in the table of contents.

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, 2023, and June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the Tennessee Local Development Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Tennessee Local Development Authority.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tennessee Local Development Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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 Tennessee Local Development Authority's internal control; accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Tennessee Local Development Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information

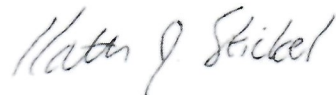
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 be presented to supplement the basic financial statements. Such information is the responsibility of management, and, although not a part of the basic financial 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tennessee Local Development Authority's basic financial statements. The accompanying financial information on pages 21 through 23 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 December 12, 2023, 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, contracts, and grant agreements 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 Tennessee Local Development Authority's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2023

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Management's Discussion and Analysis

As management of the Tennessee Local Development Authority (the 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, 2023, and June 30, 2022, with comparative data for the year ended June 30, 2021. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Program Activity Highlights

The Authority's purpose is to provide loans to local government units under the State Loan Programs and State Infrastructure Program. 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 Programs providing assistance to local government units in the construction of waterworks, sewage treatment, and energy and/or solid waste recovery facilities; and
- 2) the State Infrastructure Program providing assistance to local government units in the construction of transportation infrastructure projects that provide public benefits by enhancing mobility or safety, promoting economic development, or increasing the quality of life and general welfare of the public.

	Local			State		
	Government Units			Infrastructure Program		
	2023	2022	2021	2023	2022	2021
Number of borrowers with outstanding loans	3	3	4	1	1	1
Total number of outstanding loans	3	3	4	1	1	1
Total amount of outstanding loans (in thousands)	\$ 546	\$ 778	\$ 1,023	\$ 1,241	\$ 1,306	\$ 1,371
Number of outstanding loans approved in fiscal year	0	0	0	0	0	0
Amount of loans approved in fiscal year (in thousands)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 Programs. To date, the State Loan Programs have only been utilized to make loans for the construction of water and sewer projects. A financial analysis is conducted of each loan applicant to be funded through the State Loan Programs 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 a set-aside amount 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 Programs.

During its construction phase, a project in the State Loan Programs is typically funded with the proceeds from the issuance of Bond Anticipation Notes. As projects reach completion, and the amount of dollars expended is evaluated 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 Programs facilities long-term fixed-rate debt range from a low of 4.125% to a high of 4.375%. By pooling the financing of the capital projects, 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.

At June 30, 2023, the Authority's State Loan Programs were rated AA by S&P Global (S&P) and AA by Fitch Ratings. In general, 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 note 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.

The State Infrastructure Fund was created in 2009 with the transfer of the existing state infrastructure bank, which had existed 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 generate 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 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 when cash is received or paid. Using the economic resources measurement focus, a reader is presented with 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 are comprised 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 borrowers with timely access to the capital markets at the lowest possible cost and to make creditworthy loans. There have been no incidents that 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 to pay debt service.

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

Statement of Net Position Summary
(in thousands of dollars)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 18,473	\$ 17,164	\$ 16,507
Restricted assets	273	273	272
Other assets	1,479	1,787	2,101
Total assets	20,225	19,224	18,880
Current liabilities	386	366	358
Noncurrent liabilities	555	794	1,023
Total liabilities	941	1,160	1,381
Net position (unrestricted)	\$ 19,284	\$ 18,064	\$ 17,499

Note: The Authority owns no capital assets.

For the years ended June 30, 2023; June 30, 2022; and June 30, 2021, the largest component of the total asset balance is the cash balance. Loans receivable (both current and noncurrent) totaled \$1,786,814 at June 30, 2023; \$2,083,768 at June 30, 2022; and \$2,394,055 at June 30, 2021. While loans receivable will continue to decline unless new loans are made, administrative fees collected from the SRF loan program have contributed to an increase in assets along with higher interest income from increasing market interest rates. Restricted assets represent the debt service reserve fund. The Authority's liabilities consist mostly of the outstanding portion of its bonds payable, which will continue to decline as debt service payments are made. Readers can refer to Note 5 in the notes to the financial statements for information on debt 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 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 meet their needs at this time.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating Revenues			
Revenue from loans	\$ 69	\$ 82	\$ 84
Administrative fees collected	729	651	583
Interest income	654	35	13
Total operating revenues	1,452	768	680
Operating Expenses			
Interest expense	41	49	69
Subsidy to borrowers	13	1	1
Administrative expenses	178	153	142
Total operating expenses	232	203	212
Operating income	1,220	565	468
Increase in Net Position	\$ 1,220	\$ 565	\$ 468

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 of and authority to approve 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 from loans decreased from 2022 to 2023 and decreased from 2021 to 2022. Interest income increased during the periods shown as market interest rates increased. Administrative fees related to the SRF loan programs also increased during the periods shown. Revenue from loans of the Authority is declining as the State Loan Programs wind down. All the Authority's loans are structured such that the borrowers make level debt service payments for the life of the loan, meaning that over time as the borrowers' principal portion of the payment increases, the interest portion of the payment decreases. Because 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 2022 to 2023 and decreased from 2021 to 2022. The increase in operating expenses from 2022 to 2023 is attributed to a high interest rate environment that increased the amount of subsidies due to borrowers and to

increased costs of administering the State Revolving Fund loan programs. Unless new loans are made, interest expense related to the State Loan Programs is expected to trend downward.

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 Division of State Government Finance, State of Tennessee, Cordell Hull Building, 425 Rep. John Lewis Way N., Nashville, Tennessee 37243-3400 or visit our website at <http://www.comptroller.tn.gov/sl/>.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Statements of Net Position
June 30, 2023, and June 30, 2022

(Expressed in Thousands)

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Assets		
Current assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 18,165	\$ 16,867
Receivables:		
Loans receivable	308	297
Total current assets	18,473	17,164
Noncurrent assets:		
Restricted cash (Notes 2 and 3)	273	273
Loans receivable	1,479	1,787
Total noncurrent assets	1,752	2,060
Total assets	20,225	19,224
Liabilities		
Current liabilities:		
Accrued interest payable	11	14
Payable to borrowers (Note 4)	135	122
Revenue bonds payable (Note 5)	240	230
Total current liabilities	386	366
Noncurrent liabilities:		
Revenue bonds payable, net (Note 5)	555	794
Total noncurrent liabilities	555	794
Total liabilities	941	1,160
Net position		
Unrestricted (Note 6)	19,284	18,064
Total net position	\$ 19,284	\$ 18,064

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, 2023, and June 30, 2022

(Expressed in Thousands)

	Year Ended June 30, 2023	Year Ended June 30, 2022
Operating revenues		
Revenue from loans	\$ 69	\$ 82
Administrative fees collected	729	651
Interest income	654	35
Total operating revenues	1,452	768
Operating expenses		
Interest expense	41	49
Subsidy to borrowers	13	1
Administrative expenses	178	153
Total operating expenses	232	203
Operating income	1,220	565
Net position		
Net position, July 1	18,064	17,499
Net position, June 30	\$19,284	\$18,064

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, 2023, and June 30, 2022

(Expressed in Thousands)

	Year Ended June 30, 2023	Year Ended June 30, 2022
Cash flows from operating activities		
Payments to service providers	\$ (178)	\$ (153)
Net cash used for operating activities	(178)	(153)
Cash flows from noncapital financing activities		
Principal payments	(230)	(220)
Interest paid	(43)	(52)
Net cash used for noncapital financing activities	(273)	(272)
Cash flows from investing activities		
Collections of loan principal	297	311
Interest received on loans	69	82
Administrative revenue	729	651
Interest received on pooled investment fund	654	35
Net cash provided by investing activities	1,749	1,079
Net increase in cash	1,298	654
Cash and cash equivalents, July 1	17,140	16,486
Cash and cash equivalents, June 30	\$ 18,438	\$ 17,140
Reconciliation of operating income to net cash used for operating activities:		
Operating income	\$ 1,220	\$ 565
Adjustments to reconcile operating income to net cash used for operating activities:		
Revenue from loans	(69)	(82)
Interest income	(654)	(35)
Interest expense	41	49
Subsidy to borrowers	13	1
Administrative revenue from borrowers	(729)	(651)
Total adjustments	(1,398)	(718)
Net cash used for operating activities	\$ (178)	\$ (153)

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

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Notes to the Financial Statements
June 30, 2023, and June 30, 2022

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, intellectual and developmental disability, 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 14, *The Financial Reporting Entity*, as amended, the Authority is discretely presented in Tennessee's *Annual Comprehensive 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 chair, and the Secretary of State serves as vice chair. The Comptroller of the Treasury serves as secretary. The Director of the Division of State Government Finance serves as the assistant secretary, and the finance staff within the Division of State Government 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.

The Authority does not have any employees. The members serve without salary but are entitled to reimbursement for their actual and necessary expenses incurred in the performance of their official duty.

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.

Notes to the Financial Statements (Continued)

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 and Cash Equivalents

This classification includes deposits in demand accounts, as well as short-term investments with a maturity date within three months of the date acquired by the state.

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's cash is invested in the State Pooled Investment Fund (SPIF) administered by the State Treasurer. The Authority had \$18,438,480 in the SPIF at June 30, 2023, and \$17,140,513 at June 30, 2022. 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. The fund is not rated by a nationally recognized statistical rating organization. The fund's investments are measured at amortized cost. The pooled investment fund's investment policy and required risk disclosures are presented in the SPIF financial statements and notes, which are available on the state's website at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

Notes to the Financial Statements (Continued)

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 was \$273,603 at June 30, 2023, and \$273,090 at June 30, 2022.

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, 2023, and June 30, 2022, were as follows (expressed in thousands):

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
2006 Series B at interest rates from 4.125% to 4.375%		
maturing to 2029 (original par-\$37,415)	\$ 800	\$ 1,030
Total par amount of bonds payable	800	1,030
Less unamortized discount	(5)	(6)
Net bonds payable	<u>\$ 795</u>	<u>\$ 1,024</u>

Debt service requirements to maturity of the revenue bonds payable at June 30, 2023, were as follows (expressed in thousands):

Notes to the Financial Statements (Continued)

For the Year(s) Ending June 30	Principal	Interest	Total
2024	\$ 240	\$ 34	\$ 274
2025	245	24	269
2026	260	13	273
2027	15	2	17
2028	20	2	22
2029	20	1	21
Total	\$ 800	\$ 76	\$ 876

Changes in long-term debt payable for the year ended June 30, 2023, were as follows (expressed in thousands):

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
Revenue bonds payable	\$ 1,030	\$ -	\$ 230	\$ 800	\$ 240
Less: unamortized bond discount	(6)	-	(1)	(5)	-
Total bonds payable	\$ 1,024	\$ -	\$ 229	\$ 795	\$ 240

Changes in long-term debt payable for the year ended June 30, 2022, are as follows (expressed in thousands):

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Amounts Due Within One Year
Revenue bonds payable	\$ 1,250	\$ -	\$ 220	\$ 1,030	\$ 230
Less: unamortized bond discount	(7)	-	(1)	(6)	-
Total bonds payable	\$ 1,243	\$ -	\$ 219	\$ 1,024	\$ 230

Events of Default

Debt under the Tennessee Local Development Authority State Loan Programs is secured by monthly payments of principal and interest made by local governments in accordance with the loan agreements. Under these loan agreements, local governments agree to levy fees, rates, or charges for services provided by the project and/or ad valorem taxes sufficient to pay debt service requirements. Additional security includes a pledge of state-shared taxes, a debt service reserve, and a statutory reserve.

Notes to the Financial Statements (Continued)

In the event of default, the General Bond Resolution empowers the trustee to institute any action or proceedings of law or equity for the collection of all payments due and unpaid under a loan agreement and to require the Authority to withhold state-shared taxes to the extent permitted by law and the terms of the loan agreement. In the event a local government should fail to make a timely and full payment with respect to the loan agreement, the Secretary or Assistant Secretary to the Authority will notify the Commissioner of Finance and Administration (the Commissioner) that the local government has failed to pay loan repayments due and payable with respect to a project and pursuant to the loan agreement and request the Commissioner to notify the local government of the default. The Commissioner shall deliver written notice by certified mail to the local government of such failure within 5 days of such failure. In the event the local government unit fails to remit the required payment or payments within 60 days of receipt of such notice, the Commissioner shall, without further authorization, withhold such sum or part of such sum from the state-shared taxes to make the local government current with respect to the unpaid loan. The balance of any deficit would be secured first by the debt service reserve and then the statutory reserve.

Upon the event of default of principal and interest due on bonds or notes, the Authority shall notify the trustee of such event and the corrective action, if any, the Authority intends to take. Upon the occurrence of an event of default of which the trustee has actual knowledge and at all times thereafter while such default shall continue, the trustee shall become vested with all the estate, property, rights, trusts, duties, and obligations of the trustee and shall take possession or supervision over the funds and account created under the General Bond Resolution and collect and receive all revenues and other monies in the same manner as the Authority and shall act in place of the Authority in the exercise of all rights and duties. The trustee shall give written notice by mail to all the registered holders of the bonds within 60 days after having obtained actual knowledge of default. Upon the occurrence and continuance of an event of default, the trustee (1) for and on behalf of the holders of the bonds, shall have the same rights which are possessed by the bondholders; (2) shall be authorized to proceed, in its own name and as trustee of an express trust; (3) may pursue any available remedy by action at law or suit in equity to enforce the payment of principal and interest and premium, if any, on the bonds; (4) may file such proofs of claim and other papers or documents as may be necessary; and (5) may, and upon written request of the holders of the bonds of not less than a majority in principal amount of the bonds then outstanding shall proceed to protect and enforce all rights of the bondholders and the trustee as permitted by the General Bond Resolution and the laws of the State of Tennessee.

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 has insufficient state-shared taxes available to the Authority to withhold. Per review of the General Bond

Notes to the Financial Statements (Continued)

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, 2023, the statutory reserve balance was \$3,438,047.

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.

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 financial 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 2023 and 2022, no loans were approved.

TENNESSEE LOCAL DEVELOPMENT AUTHORITY
Supplementary Schedules of Net Position - Program Level
June 30, 2023, and June 30, 2022

(Expressed in Thousands)

	June 30, 2023		June 30, 2022			
	State Loan Programs	State Infrastructure Loan Program	Total	State Loan Programs	State Infrastructure Loan Program	Total
Assets						
Current assets:						
Cash	\$ 16,921	\$ 1,244	\$ 18,165	\$ 15,757	\$ 1,110	\$ 16,867
Receivables:						
Loans receivable	241	67	308	232	65	297
Total current assets	17,162	1,311	18,473	15,989	1,175	17,164
Noncurrent assets:						
Restricted cash	273	-	273	273	-	273
Loans receivable	305	1,174	1,479	546	1,241	1,787
Total noncurrent assets	578	1,174	1,752	819	1,241	2,060
Total assets	17,740	2,485	20,225	16,808	2,416	19,224
Liabilities						
Current liabilities:						
Accrued interest payable	11	-	11	14	-	14
Payable to borrowers	135	-	135	122	-	122
Revenue bonds payable	240	-	240	230	-	230
Total current liabilities	386	-	386	366	-	366
Noncurrent liabilities:						
Revenue bonds payable, net	555	-	555	794	-	794
Total noncurrent liabilities	555	-	555	794	-	794
Total liabilities	941	-	941	1,160	-	1,160
Net position						
Unrestricted	16,799	2,485	19,284	15,648	2,416	18,064
Total net position	\$ 16,799	\$ 2,485	\$ 19,284	\$ 15,648	\$ 2,416	\$ 18,064

TENNESSEE LOCAL DEVELOPMENT AUTHORITY

Supplementary Schedules of Revenues, Expenses, and Changes in Net Position - Program Level
For the Years Ended June 30, 2023, and June 30, 2022

(Expressed in Thousands)

	Year Ended June 30, 2023		Year Ended June 30, 2022			
	State Loan Programs	State Infrastructure Loan Program	Total	State Loan Programs	State Infrastructure Loan Program	Total
Operating revenues						
Revenue from loans	\$ 45	\$ 24	\$ 69	\$ 57	\$ 25	\$ 82
Administrative fees collected	727	2	729	649	2	651
Interest income	611	43	654	33	2	35
Total operating revenues	1,383	69	1,452	739	29	768
Operating expenses						
Interest expense	41	-	41	49	-	49
Subsidy to borrowers	13	-	13	1	-	1
Administrative expenses	178	-	178	153	-	153
Total operating expenses	232	-	232	203	-	203
Operating income	1,151	69	1,220	536	29	565
Net position						
Net position, July 1	15,648	2,416	18,064	15,112	2,387	17,499
Net position, June 30	\$ 16,799	\$ 2,485	\$ 19,284	\$ 15,648	\$ 2,416	\$ 18,064



JASON E. MUMPOWER
Comptroller

**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 Lee, 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, 2023, and the related notes to the financial statements, which collectively comprise the Tennessee Local Development Authority's basic financial statements, and have issued our report thereon dated December 12, 2023. 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tennessee Local Development 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 Tennessee Local Development Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tennessee Local Development Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in

internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

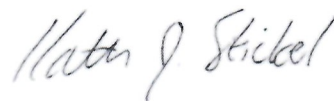
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tennessee Local Development Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts (including 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.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2023



FINANCIAL AND COMPLIANCE AUDIT REPORT

Clean Water State Revolving Fund

For the Year Ended June 30, 2023

Jason E. Mumpower
Comptroller of the Treasury



DIVISION OF STATE AUDIT

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Mission Statement

The mission of the Comptroller's Office is to make government work better.

Comptroller Website
comptroller.tn.gov





JASON E. MUMPOWER
Comptroller

January 4, 2024

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority
The Honorable David Salyers, Commissioner
Department of Environment and Conservation

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Clean Water State Revolving Fund for the year ended June 30, 2023. 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,

A handwritten signature in blue ink that reads "Katherine J. Stickel".

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

24/008

Audit Report
Clean Water State Revolving Fund
For the Year Ended June 30, 2023

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CLEAN WATER STATE REVOLVING FUND

AUDIT HIGHLIGHTS

Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

Prior Audit Findings

There were no findings in the prior audit report.



JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

The Honorable Bill Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority
The Honorable David Salyers, Commissioner
Department of Environment and Conservation

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Clean Water State Revolving Fund, an enterprise fund of the State of Tennessee, as of and for the years ended June 30, 2023, and June 30, 2022, and the related notes to the financial statements, which collectively comprise the fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Clean Water State Revolving Fund as of June 30, 2023, and June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the Clean Water State Revolving Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 Clean Water State Revolving Fund.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clean Water State Revolving Fund's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks; such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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 Clean Water State Revolving Fund's internal control; accordingly, no such opinion is expressed;

- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clean Water State Revolving Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Clean Water State Revolving Fund, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the State of Tennessee, as of June 30, 2023, and June 30, 2022, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2023, on our consideration of the Clean Water State Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 Clean Water State Revolving Fund's internal control over financial reporting and compliance.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2023

CLEAN WATER STATE REVOLVING FUND
Statements of Net Position
June 30, 2023, and June 30, 2022

(Expressed in Thousands)

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Assets		
Current assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 366,555	\$ 370,721
Loans receivable	47,248	40,874
Total current assets	413,803	411,595
Noncurrent assets:		
Loans receivable	829,695	801,411
Total noncurrent assets	829,695	801,411
Total assets	1,243,498	1,213,006
Liabilities		
Current liabilities:		
Payable to borrowers (Note 3)	156	8
Due to general fund	23	33
Total current liabilities	179	41
Noncurrent liabilities:		
Customer deposits payable (Note 2)	4,229	3,915
Total noncurrent liabilities	4,229	3,915
Total liabilities	4,408	3,956
Net position		
Unrestricted	1,239,090	1,209,050
Total net position	\$ 1,239,090	\$ 1,209,050

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

CLEAN WATER STATE REVOLVING FUND
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2023, and June 30, 2022

(Expressed in Thousands)

	Year Ended June 30, 2023	Year Ended June 30, 2022
Operating revenues		
Revenue from loans	\$ 10,505	\$ 9,964
Interest income	13,061	796
Total operating revenues	23,566	10,760
Operating expenses		
Administrative expenses	1,082	1,114
Total operating expenses	1,082	1,114
Operating income	22,484	9,646
Nonoperating revenues		
Capitalization grant	957	19,186
Total nonoperating revenues	957	19,186
Nonoperating expenses		
Principal forgiveness (Note 5)	293	1,114
Total nonoperating expenses	293	1,114
Income before transfers	23,148	27,718
Transfers in (Note 4)	6,892	3,443
Change in net position	30,040	31,161
Net position, July 1	1,209,050	1,177,889
Net position, June 30	\$ 1,239,090	\$ 1,209,050

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

CLEAN WATER STATE REVOLVING FUND
Statements of Cash Flows
For the Years Ended June 30, 2023, and June 30, 2022

(Expressed in Thousands)

	Year Ended June 30, 2023	Year Ended June 30, 2022
Cash flows from operating activities		
Payments for interfund services	\$ (1,093)	\$ (1,112)
Net cash used for operating activities	(1,093)	(1,112)
Cash flows from noncapital financing activities		
Operating grants received	957	19,186
Transfers in	6,892	3,443
Net cash provided by noncapital financing activities	7,849	22,629
Cash flows from investing activities		
Loans issued and other disbursements to borrowers	(78,516)	(117,703)
Collections of loan principal	43,566	59,474
Security deposits from borrowers	324	55
Interest received on loans	10,505	9,964
Interest received on investments	13,217	805
Amounts repaid to borrowers	(18)	(8)
Net cash used by investing activities	(10,922)	(47,413)
Net decrease in cash	(4,166)	(25,896)
Cash and cash equivalents, July 1	370,721	396,617
Cash and cash equivalents, June 30	\$ 366,555	\$ 370,721
Reconciliation of operating income to net cash used by operating activities:		
Operating income	\$ 22,484	\$ 9,646
Adjustments to reconcile operating income to net cash used by operating activities:		
Revenue from loans	(10,505)	(9,964)
Interest income	(13,061)	(796)
Increase (decrease) due to general fund	(11)	2
Total adjustments	(23,577)	(10,758)
Net cash used by operating activities	\$ (1,093)	\$ (1,112)

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

CLEAN WATER STATE REVOLVING FUND
Notes to the Financial Statements
June 30, 2023, and June 30, 2022

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Clean Water State Revolving Fund was created to provide local governments and utility districts with low-cost financial assistance to improve and protect water quality and public health. The Clean Water State Revolving Fund has been included in Tennessee's *Annual Comprehensive Financial Report* as an enterprise fund (the Sewer Treatment Loan Fund). That report is posted on the state's website at <https://www.tn.gov/finance/rd-doa/fa-accfin-ar.html>.

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 method, revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows.

Operating revenues and expenses are distinguished from nonoperating items in the Clean Water State Revolving Fund. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. The principal operation of the fund is to provide loans to local governments through a revolving loan fund established under Title VI of the Clean Water Act. Therefore, the principal operating revenues of the fund are from interest on loans made to borrowers. The fund also recognizes interest income as operating revenue. The fund's operating expenses are its administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

This classification includes deposits in demand accounts as well as short-term investments with a maturity date within three months of the date acquired by the State.

Notes to the Financial Statements (Continued)

Note 2. Deposits and Investments

The Authority's cash is invested in the State Pooled Investment Fund (SPIF) administered by the State Treasurer. Cash used for operating purposes is invested in the SPIF, and customer security deposits are invested in the Local Government Investment Pool (LGIP), which is part of the SPIF. The Clean Water State Revolving Fund had \$362,325,530 in the SPIF for operating cash purposes and \$4,229,170 in customer security deposits in the LGIP at June 30, 2023, and the fund had \$366,806,102 in the SPIF and \$3,915,367 in the LGIP at June 30, 2022. 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. The fund is not rated by a nationally recognized statistical rating organization. The fund's investments are measured at amortized cost. The pooled investment fund's investment policy and required risk disclosures are presented in the SPIF financial statements and notes, which are available on the state's website at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

Note 3. Payable to Borrowers

This account represents loan principal overpayments that will be refunded to borrowers and interest earned on security deposits, which is due to the borrowers per the loan agreements.

Note 4. Interfund Transfers

Each year since the Clean Water State Revolving Fund Loan Program's inception in 1987, the state has been awarded a capitalization grant from the U.S. Environmental Protection Agency to fund the program. To provide a state match for the federal grant to operate the program, the Clean Water State Revolving Fund received an interfund transfer of \$6,891,600 from the state's general fund during the year ended June 30, 2023, and \$3,443,000 during the year ended June 30, 2022.

Note 5. Principal Forgiveness

In fiscal year 2010, the Clean Water State Revolving Fund received money from the American Recovery and Reinvestment Act (ARRA) of 2009. As part of the conditions stipulated by ARRA for acceptance of this money, the State Revolving Fund program granted principal forgiveness to the borrowers. Each community that received an ARRA loan was granted 40% principal forgiveness; thus,

Notes to the Financial Statements (Continued)

only 60% of the total award was recorded as a repayable loan. Additionally, each community was limited to one ARRA loan in an amount that could not exceed \$12.5 million.

Beginning in fiscal year 2011, and continuing through the present, the capitalization grant that the Clean Water State Revolving Fund received also stipulated that the state must subsidize a portion of the borrower loans. Therefore, for the first time as a part of its normal operations, the fund began granting principal forgiveness as a part of the loans made from the capitalization grant. The communities to receive this subsidy are determined according to standard procedures of priority ranking previously established by the Tennessee Department of Environment and Conservation when making loans. Principal forgiveness is recognized on the statements of cash flows as part of “loans issued and other disbursements to borrowers.”



JASON E. MUMPOWER
Comptroller

**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 Lee, Governor
Members of the General Assembly
Members of the Tennessee Local Development Authority
The Honorable David Salyers, Commissioner
Department of Environment and Conservation

We have audited the financial statements of the Clean Water State Revolving Fund, an enterprise fund of the State of Tennessee, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Clean Water State Revolving Fund's basic financial statements, and have issued our report thereon dated December 12, 2023. 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.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Clean Water State Revolving Fund'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 Clean Water State Revolving Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clean Water State Revolving Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and

corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clean Water State Revolving Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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.



Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 12, 2023



JASON E. MUMPOWER
Comptroller

Fiscal Year Ending June 30, 2023

TLDA Programs

1. State Loan Program Fund (Water/Sewer)
 - 3 borrowers
 - 3 loans outstanding
 - \$800,000 bonds outstanding (Bonds mature 2029)

2. State Infrastructure Fund (Transportation)
 - 1 borrower
 - Collections:
 - \$65,412 loan principal
 - \$24,132 interest

Operating Income: \$1,220,385

Net Position at June 30, 2023: \$19,284,436

No new loans are being issued for these programs.

State Revolving Fund Loan Programs

1. Clean Water Fund
 - Disbursements
 - \$78,516,480
 - Collections
 - \$43,566,143 loan principal
 - \$10,504,885 interest
 - Net position at June 30, 2023: \$1,239,089,669

2. Drinking Water Fund
 - Disbursements
 - \$21,443,596
 - Collections
 - \$7,663,629 loan principal
 - \$1,256,106 interest
 - Net position at June 30, 2023: \$236,417,382

No significant changes to accounting and reporting standards.

SRF Program Summary for TLDA July 22, 2024, Audit Committee Meeting

CLEAN WATER STATE REVOLVING FUND LOAN PROGRAM SUMMARY SFY 2022

1. EPA Region 4 SRF Program Evaluation Report - Clean Water SRF (CWSRF) Program SFY 2022
 - On March 15, 2023, EPA conducted an Annual Review Opening Meeting for the CWSRF Program
 - On April 18, 2023, the review concluded with a Closing Meeting.
 - EPA identified no findings or required actions but made the following recommendations.
 - EPA recommended CWSRF work to reduce the balance of uncommitted funds, which at the time of the review was approximately \$161 million dollars. This was an increase from FY 2021, which was approximately \$143 million dollars.
 - EPA recommended CWSRF work to maintain a fully staffed program and engineering team to mitigate any risk to the program.
 - EPA recommended CWSRF implement an SOP to streamline American Iron and Steel letter review and requirements to ensure borrowers follow EPA guidelines.
 - CWSRF follow up on prior year FY 2021 recommendations.
 - Decrease uncommitted balances through improved marketing, streamlining processes, and increasing staff.
 - CWSRF met with EPA on December 5, 2022, to review potential streamline opportunities. EPA made a series of recommendations for streamlining. SRF is currently working through those recommendations and making changes to our Operating Agreement prior to implementation. SRF has established a new marketing team and has plans to execute quarterly workshops on the loan process and funding opportunities for potential borrowers and existing borrowers
 - Maximize additional subsidy awarded to eligible recipients
 - CWSRF released a series of subsidy options aimed at maximizing awarded forgiveness and had implemented a grants program aimed at expanding the subsidy options for recipients.
 - CWSRF had an increase from 0 subsidy recipients in FY 2021 to 2 recipients in FY 2022.

2. EPA Region 4 SRF Program Evaluation Report – Clean Water SRF Program SFY 2023
 - On May 28, 2024, EPA conducted an Annual Review Opening Meeting for the CWSRF Program.
 - EPA has not conducted CWSRF’s Annual Review Closing Meeting for the CWSRF.
 - We expect to receive the closing meeting soon and final PER reports for SFY 2023 within 60 days following the Closing Meeting.

DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM SUMMARY SFY 2022

3. EPA Region 4 SRF Program Evaluation Report - Drinking Water SRF (DWSRF) Program SFY2022
 - On March 15, 2023, EPA conducted an Annual Review Opening Meeting for the DWSRF Program
 - On April 18, 2023, the review concluded with a Closing Meeting.
 - EPA identified no findings or required actions but made the following recommendations.
 - EPA recommended DWSRF evaluate different approaches and options such as utilization of cash flow modeling and increased marketing to decrease uncommitted balances and increase program pace. DWSRF has reported it continues to be short staffed. DWSRF has made efforts to improve response rates to solicitations for projects with a significant increase in funding requests in FY 2022 of over \$275M.
 - EPA recommended DWSRF work to maintain a fully staffed program and engineering team to mitigate any risk to the program.
 - EPA recommended DWSRF implement an SOP to streamline American Iron and Steel letter review and requirements to ensure borrowers follow EPA guidelines.
4. DWSRF follow up on prior year FY 2021 recommendations.
 - a. Decrease uncommitted balances through improved marketing, streamlining processes, and increasing staff.
 - i. DWSRF acknowledges our program uncommitted balance remains high; however, DWSRF continues community engagement, has improved project solicitation response, and developed a new strategy for small or disadvantaged communities.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 4
ATLANTA FEDERAL CENTER
61 FORSYTH STREET, SW
ATLANTA, GEORGIA 30303-3104

May 17, 2023

Ms. Jennifer Dodd
Environmental Program Manager
Tennessee Department of Environment and Conservation
312 Rosa L. Parks Ave
Nashville, Tennessee 37242

Dear Ms. Dodd:

Enclosed are the annual program evaluation reports for Tennessee's Clean Water State Revolving Fund and Drinking Water State Revolving Fund Programs grant awards. We thank you and your staff for the time and effort to support the reviews and for your collaboration with the EPA on both programs.

Should you have any questions, please have your staff contact Mr. Mark Nuhfer of my staff via email at Nuhfer.mark@epa.gov or by phone at (404) 562-9390.

Sincerely,

DENISSE DIAZ Digitally signed by DENISSE DIAZ
Date: 2023.05.17 08:01:40 -04'00'

Denisse D. Diaz, Acting Director
Water Division

Enclosure(s)



**U. S. ENVIRONMENTAL PROTECTION AGENCY
REGION 4
PROGRAM EVALUATION REPORT
March 15, 2022**

Tennessee Clean Water State Revolving Fund
State Fiscal Year 2022
July 1, 2021 - June 30, 2022

EXECUTIVE SUMMARY

This Program Evaluation Report (PER) reviews the performance of the Tennessee Department of Environment and Conservation's (TDEC) Clean Water State Revolving Fund program (CWSRF) for TDEC fiscal year (FY) 2022, which runs from July 1, 2021, to June 30, 2022. The U.S. Environmental Protection Agency (EPA) is required by 40 CFR § 35.3165 to annually assess the success of TDEC's performance of activities to determine compliance with the terms of the capitalization grant agreement. In part, the EPA utilized TDEC's FY21 CWSRF Intended Use Plan (IUP) and FY22 annual report in its review.

The EPA Federal FY22 capitalization grant provided Tennessee with \$23,082,000 in clean water assistance. This required a 20 percent state match of \$4,616,400. When added to the CWSRF capitalization grant the total is \$27,698,400. During FY22, TDEC made 18 new loans to local governments totaling \$79,978,936.00. One of the metrics the EPA uses in evaluating state programs is "pace" which is defined as the cumulative amount of loans issued as a percentage of all funds available. As of June 30, 2022, the reported pace of TDEC's program was 93 percent, a decrease from TDEC's FY21 program pace of 94 percent.

The Tennessee CWSRF has been administered in accordance with Title VI of the Clean Water Act (CWA) as amended. The program is following all terms, schedules, provisions/assurances of the IUP, the operating agreement between TDEC and the EPA and the conditions of the capitalization grant agreement.

SECTION I: PURPOSE AND SCOPE

The EPA Region 4 began the FY22 annual review of the Tennessee CWSRF with an opening meeting on March 15, 2023. The review concluded with a closing conference on April 19, 2023. The review process was conducted as prescribed in Section 606(e) of the CWA, 40 CFR § 35.3165 and in the Annual Review Guidance issued in October 2022. The review was conducted in a hybrid approach, both virtually and in person.

The purposes of the annual review are to:

1. Evaluate the success of the state's performance in achieving goals and objectives identified in the IUP, and the state's annual report;
2. Evaluate the state's compliance with regulations, operating agreement, and capitalization grant agreement;
3. Assess the financial status and performance of the fund;
4. Review the program in accordance with EPA's SRF Annual Review Guidance;
5. Review the status of resolution of prior year PER findings; and
6. Examine and follow up on any open audit findings and recommendations.

In attendance at the opening conference for TDEC were Paula Mitchell, Felicia Freeman, Randy Anglin, Sushuma Pedireddi, Brenden Barney, Hannah Edmiston, Richard Thomas, John Lawrence, and Benny Romero. Attending from the EPA Region 4 were Johnnie Purify, Martha Douglas, Brooke Pine, and Rose Degner.

During the review period, EPA Region 4 examined project files, loan agreements, any additional supporting documents, tested financial transactions, and met with TDEC staff to better understand issues and exchange information.

At the completion of the review, a virtual exit briefing was held to review the observations made by the EPA and to clarify any outstanding issues. Attending the exit conference for TDEC were Paula Mitchell, Vena Jones, and Felicia Freeman. Attending from the EPA Region 4 were Johnnie Purify, Martha Douglas, Raj Patel, Tracy Williams, and Rose Degner.

SECTION II: COMPLIANCE REQUIREMENTS

TDEC provided the EPA with a financial audit for the year ending June 30, 2022. This audit contained no findings.

TDEC's Disadvantaged Business Enterprises (DBE) goal for FY22 was 7.8 percent. TDEC's DBE participation percentage for FY22 was 7.77 percent. TDEC provides assurances that borrowers follow the six affirmative steps for DBE participation.

TDEC is in compliance with the 16 assurances stated in the grant agreement. These assurances have their basis in 40 CFR § 35.3135.

Based on the review, the following items describe the activities and observations of interest:

1. Assurance that the state will accept capitalization grant funds in accordance with a payment schedule.

Status: TDEC certified this in the FY21 IUP.

2. Assurance that the state will provide an amount at least equal to 20 percent of the capitalization grant (state match) in the fund.

Status: The FY21 capitalization grant was \$23,082,000. The 20 percent state match amount of \$4,616,400, was provided through state appropriation funds.

3. Assurance that the state will make binding commitments in an amount equal to 120 percent of each quarterly grant payment within one year after receipt of each quarterly grant payment.

Status: The state made 18 loans with local governments totaling \$79,978,936.00 million in FY22. TDEC met this requirement.

4. Assurance that the state will commit and expend funds as efficiently as possible and in an expeditious and timely manner.

Status: The overall pace percentage for TDEC is 93 percent; a decrease from TDEC's FY21 program pace of 94 percent. TDEC disbursed a total of \$117,703,045 from the CWSRF in FY22.

5. Assurance that the CWSRF must be utilized solely to provide loans and other authorized forms of assistance: (a) to municipalities, inter-municipal, interstate, or state agencies for the construction of publicly owned treatment works as defined in Section 212 of the Act and that appear on the state's priority list developed pursuant to Section 216 of the Act; and (b) for implementation of a nonpoint source pollution control management program under Section 319 of the Act; and (c) for development and implementation of an estuary conservation and management plan under Section 320 of the Act.

Status: TDEC funded wastewater and stormwater projects to meet this requirement.

6. Assurance that the state will comply with state statutes and regulations and abide by state law.

Status: TDEC certified this in the FY21 IUP.

7. Assurance that the state is required to comply and to require all recipients of funds directly made available by capitalization grants to comply with applicable federal authorities.

Status: In the FY22 annual report, under the provisions of the operating agreement/conditions of their grant, the state certified compliance with other federal authorities.

8. Assurance that the state may draw cash when the SRF receives a request from the loan recipient, based on incurred costs.

Status: Cash draws for the reporting period ending June 30, 2022, were made in accordance with 40 CFR § 35.3160. No improper payments were identified.

9. Assurance that the state is required to establish fiscal control and accounting procedures that are sufficient to assure proper accounting for payments received by the CWSRF, disbursements made by the CWSRF, and CWSRF balances at the beginning and end of the accounting period. The state must also agree to utilize accounting, audit and fiscal procedures conforming to generally accepted government accounting standards as these are promulgated by the Governmental Accounting Standard Board.

Status: In the FY22 annual report, the state certified adherence to state auditing and accounting procedures, which comply with the Single Audit Act of 1984 and OMB circular A-128 by reference to the Operating Agreement.

10. Assurance that the state must agree to require recipients of CWSRF assistance to maintain project accounts in accordance with generally accepted government accounting standards as these are promulgated by the Government Accounting Standards Board.

Status: TDEC has complied with this requirement via a condition in the loan agreement for borrowers.

11. Assurance that the state will provide an annual report to the Regional Administrator on the actual use of the funds, in accordance with Section 606(d) of the CWA.

Status: The FY22 annual report for TDEC's CWSRF program was received in February 2023, for the state FY ending June 30, 2022. The report contained adequate and accurate information regarding program implementation.

12. Assurance that the state will conduct reviews of the potential environmental impacts of all

Section 212 construction projects receiving assistance from the CWSRF, including nonpoint source pollution control Section 319 and estuary protection Section 320 projects that are also Section 212 projects. The state may elect to apply the procedures at 40 CFR Part 6, subpart E and related subparts, or apply its NEPA like SERP for conducting environmental reviews.

Status: TDEC has a NEPA-like state environmental review process (SERP) which was approved by the Region 4 Regional Administrator. Two projects were reviewed for compliance with the SERP. Both reviewed projects followed the SERP and were well documented.

13. Assurance that the CWSRF will only provide assistance to projects that are consistent with any plans developed under Sections 205(j), 208, 303(e), 319 and 320 of the CWA.

Status: TDEC is in compliance with this regulation, funding only eligible projects.

14. Assurance that the state shall submit a schedule that reflects, by quarters, the estimated disbursements from the capitalization grant for the year following the grant award date. This schedule must be developed in conformity with the procedures applicable to cash draws in 40 CFR § 35.3160 and must be sufficient to allow the EPA and the state to jointly develop and maintain a forecast of cash draws.

Status: TDEC complied with this regulation in the FY21 IUP.

15. Assurance that the state will prepare a plan identifying the intended uses of the funds in the CWSRF and describing how those uses support the goals of the CWSRF. The IUP must be prepared annually and must be subjected to public comment and review before being submitted to the EPA. The EPA must receive the IUP prior to the award of the capitalization grant. According to Section 606(c) of the CWA, after providing the IUP for public comment and review, each state shall annually prepare a plan identifying the intended uses of the amounts (including repayments) available to its water pollution control revolving fund.

Status: TDEC's FY21 IUP was complete and included repayments and interest earnings in the amounts available for assistance.

16. Assurance that the state will prepare a plan identifying the intended uses of the fund amounts available to its water pollution control revolving fund. Generally, based on an Office of General Counsel opinion in a January 19, 1995, a one-year time frame seems reasonable for committing repayments and other funds to projects. If all available funds are not committed to projects, then the IUP must contain a plan which details how and when the funds will be utilized.

Status: TDEC is complying with this requirement.

SECTION III: PROGRAM GOALS

TDEC has seven long term goals and fourteen short term goals in their IUP. EPA evaluated one long-term and one short-term goal. TDEC is working toward meeting each of the goals evaluated. TDEC's status in meeting these goals is discussed in the CWSRF annual report. The goals and accomplishments reviewed for the FY22 Program Evaluation Report, include:

Long term goal and status:

- Protect and enhance water quality in TN by ensuring the technical integrity of funded projects.

Status: Progress on this goal is achieved through updates the state made to current Standard Operating Procedures (SOPs), development of new SOPs, and exploring new databases for tracking and documenting projects.

Short term goal and status:

- Maximize funds available through cooperation with EPA.

Status: TDEC achieves this goal by working with potential borrowers that have eligible projects, including pursuing pilot projects that will lead the program to achieve the highest capitalization grant utilization rate possible.

SECTION IV: PROJECT FILES REVIEWED

Loan Reviewed	Environmental Review Determination	Loan Amount
Dayton Wastewater Treatment Plant Improvements Loan Agreement Signed: 10/25/2021	Finding of No Significant Impact Issued: 11/08/2021	Loan Amount: \$20,114,550 Loan Term: 20-year Loan Interest Rate: 0.37% Principal Forgiveness: \$500,000
Franklin Water Reclamation Facility Projects Loan Agreement Signed: 10/26/2021	Finding of No Significant Impact issued: 06/23/2017	Loan Amount: \$19,500,000 Loan Term: 30-year Loan Interest Rate: 1.28% Principal Forgiveness: \$0

Both projects were eligible for CWSRF funding and followed the environmental review, Davis Bacon, American Iron and Steel, and procurement requirements.

SECTION V: ENVIRONMENTAL BENEFITS REPORTING

FY22 Loans	Public Benefit	Total Investment
18 New Loans	Assistance to wastewater and nonpoint source projects improving water quality	\$79,978,936.00

TDEC updated the Clean Water Benefits Reporting (CBR) database as required by the grant agreement in a timely fashion. All necessary information about projects funded in FY22 was entered into the CBR system.

SECTION VI: GREEN PROJECT RESERVE

FY22	Public Benefit	Total Investment
0 Projects	Green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities	\$0

The FY21 Capitalization Grant Terms and Conditions require the recipient to make a timely and concerted good faith solicitation for projects that address green infrastructure, water or energy efficiency improvements or other environmentally innovative activities.

Additionally, the state’s FY21 IUP commits to expand the use of GPR funding to include more projects and encourage innovative use of SRF funds following EPA’s guidance. The SRF Program has elected to strive for a goal of up to 18% of grant funds to be used for innovative, green, or resilient projects.

SECTION VII: ADDITIONAL SUBSIDIZATION AND POPULATION SERVED

	Assistance provided to Small Systems (<10,000)	Additional Subsidization Disbursed during FY	Number of Projects that received Additional Subsidization	Minimum requirement of Subsidization per Cap Grant
FY22 Disbursement Totals	\$30,815,291	\$1,000,000	3	10%
FY21 Disbursement Totals	\$1,719,851	\$0	0	10%

The terms and conditions of the grant award allow additional subsidy in the form of principal forgiveness (PF) to borrowers of the CWSRF loan program. In addition to the 30 percent additional subsidy that may be utilized at a state’s discretion as described in the Water Resources Reform and Development Act (WRRDA), the recipient agrees to utilize 10 percent of the funds available in the FY21 capitalization grant to provide additional subsidy to eligible recipients. Tennessee’s FY21 and FY22 Capitalization Grants were open and the FY21 Capitalization Grant was making principal forgiveness disbursements at the time of this review. Region 4 will confirm the state’s additional subsidy requirements were met before closing its grant.

SECTION VIII: CASH DRAWS

Draw ID Number	Draw Date	Draw Amount
DT 22AS1370909	12/21/2021	\$25,900.92
DT 22AS1379607	02/17/2022	\$81,324.00
DT 21AS1323997	09/08/2021	\$661,074.16
DT 22AS1364561	12/08/2021	\$1,503,296.67

Four cash draws that occurred in the state’s FY were reviewed. All invoices reviewed in the selection were found to be properly made for eligible CWSRF expenditures and were appropriately recorded. No improper payments were identified.

SECTION IX: PROGRAM HIGHLIGHTS

TDEC’s Standard Operating Procedures (SOPs)

The state revised current SOPs, developed new SOPs for financial sufficiency review processes. TDEC revised its Operating Agreement and program operating budget. The state is also exploring new database for tracking and documenting projects and streamlining its Environmental Review Approval Process.

TDEC’s provides competitive and affordable loans through the CWSRF

Tennessee’s SRF loan terms are offered at up to 30 years not exceeding the useful life of the project. TDEC has a comprehensive and complex methodology for determining a community’s ability to pay for financing and uses this methodology to set affordable financing rates.

SECTION X: FINANCIAL INDICATORS

Financial Indicators Activity	2021	2022
Return on Federal Investment	265%	274%
Assistance Provided as a % of Funds Available	94%	93%
Disbursements as a % of Assistance Provided	86%	88%
Uncommitted Balances	\$143M	\$161M

On the basis of this financial review, EPA concludes the TDEC CWSRF is in sound financial condition. Note: Financial indicators data provided in NIMS report.

SECTION XI: FOLLOW UP ON PRIOR YEAR PROGRAM EVALUATION REPORT

There were two recommendations in the FY21 CWSRF PER.

EPA requests that the state evaluate different approaches and options such as utilization of cash flow modeling and increased marketing of the SRF to decrease uncommitted balances and increase program pace. The state has reported that it is short staffed but has made efforts to improve response rates to solicitations for projects. In addition, TDEC reports a significant increase in project funding requests in FY22, estimating over \$400M in need. The EPA will continue to provide assistance where needed.

Status: EPA met with TDEC on December 5, 2022, to provide resources on streamlining State processes to free up staff availability for cash flow modeling and marketing. FY22 uncommitted balances increased from FY21 to FY22 due to staffing challenges. EPA will continue to work with TDEC to streamline lengthy processes and market the SRF and recommends TDEC maintains a fully staffed programmatic and engineering team in FY23.

EPA recommends that the state considers maximizing the percentage of additional subsidy allowable for SRF capitalization grant awards. A state may utilize up to 30 percent of the available funds in the cap grant to provide additional subsidy to eligible recipients. The minimum subsidization requirement for each cap grant is 10 percent. 0 percent of TDEC's FY21 disbursement was for additional subsidization.

Status: TDEC made 3 binding commitments in FY22 with additional subsidization which is an increase from 0 projects in FY21.

SECTION XII: RECOMMENDATIONS

1. EPA recommends that TDEC works to reduce the balance of uncommitted funds. TDEC's uncommitted balance increased from \$143M in FY21 to \$161M in FY22.
2. EPA recommends that TDEC maintains a fully staffed programmatic and engineering team to maintain best practices and mitigate risk to the program.
3. EPA recommends that TDEC implements a process or SOP to streamline AIS letter review and ensure AIS letters submitted to borrowers follow EPA guidelines.

SECTION XIII: FINDINGS

There are no findings.

SECTION XIV: STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE

EPA Region 4 has conducted an annual review of Tennessee's Clean Water State Revolving Fund Program for FY22 in accordance with EPA's SRF Annual Review Guidance.



**U. S. ENVIRONMENTAL PROTECTION AGENCY
REGION 4
PROGRAM EVALUATION REPORT
April 19, 2023**

Tennessee Drinking Water State Revolving Fund
State Fiscal Year 2022
July 1, 2021 - June 30, 2022

EXECUTIVE SUMMARY

This Program Evaluation Report (PER) reviews the performance of the Tennessee Department of Environment and Conservation's (TDEC) Drinking Water State Revolving Fund program (DWSRF) for TDEC fiscal year (FY) 22, which runs from July 1, 2021, to June 30, 2022. The U.S. Environmental Protection Agency (EPA) is required by 40 CFR § 35.3570 to annually assess the success of TDEC's performance of activities to determine compliance with the terms of the capitalization grant agreement. In part, the EPA utilized TDEC's FY21 DWSRF Intended Use Plan (IUP) and FY22 annual report in its review.

The EPA Federal FY21 capitalization grant provided Tennessee with \$19,284,000 in drinking water assistance. This required a 20 percent state match, \$3,856,800. When added to the DWSRF capitalization grant the total is \$23,140,800. During FY22, TDEC made 12 new loans to local governments totaling \$26,192,400. One of the metrics the EPA utilizes in evaluating state programs is "pace", which is defined as cumulative amount of loans issued as a percentage of all funds available. As of June 30, 2022, the reported pace of TDEC's program was 73 percent, a one percent increase from TDEC's FY21 program pace of 72 percent.

The Tennessee DWSRF has been administered in accordance with Section 1452 of the Safe Drinking Water Act (SDWA) as amended. The program is following all terms, schedules, provisions/assurances of the IUP, the operating agreement between TDEC and the EPA, and the conditions of the capitalization grant agreement.

SECTION I: PURPOSE AND SCOPE

The EPA Region 4 began the FY22 annual review of the Tennessee DWSRF with an opening meeting on March 23, 2023. The review concluded with a closing conference on April 19, 2023. This review process was conducted as prescribed in Section 1452 of the SDWA, 40 CFR § 35.3575 and in the Annual Review Guidance issued October 2022. The review was conducted virtually.

The purposes of the annual review are to:

1. Evaluate the success of the state's performance in achieving goals and objectives identified in the IUP, and the state's annual report;
2. Evaluate the state's compliance with regulations, operating agreement, and capitalization grant agreement;
3. Assess the financial status and performance of the fund;
4. Review the program in accordance with EPA's SRF Annual Review Guidance;
5. Review the status of resolution of prior year PER findings; and
6. Examine and follow up on any open audit findings and recommendations.

In attendance at the opening conference for TDEC were Paula Mitchell, Felicia Freeman, Randy Anglin, Sushuma Pedireddi, Brenden Barney, Hannah Edmiston, Richard Thomas, John Lawrence, and Benny Romero. Attending from the EPA Region 4 were Johnnie Purify, Martha Douglas, Brooke Pine, and Rose Degner.

During the review period, EPA Region 4 examined project files, loan agreements, any additional supporting documents, tested financial transactions, and met with TDEC staff to better understand issues and exchange information.

At the completion of the review, a virtual exit briefing was held to review the observations made by the EPA and to clarify any outstanding issues. Attending the exit conference for TDEC were Paula Mitchell, Vena Jones, and Felicia Freeman. Attending from the EPA Region 4 were Johnnie Purify, Martha Douglas, Raj Patel, Tracy Williams, and Rose Degner.

SECTION II: COMPLIANCE REQUIREMENTS

TDEC provided the EPA with the most recent financial audit for the year ending June 30, 2022. This audit contained no findings.

TDEC's Disadvantaged Business Enterprises (DBE) goal for FY22 was 7.8 percent. TDEC's DBE participation percentage for FY22 was .05 percent. TDEC provides assurances that borrowers follow the six affirmative steps for DBE participation.

TDEC is in compliance with the 13 assurances stated in the grant agreement, including capacity development and operator certification requirements. These assurances have their basis in 40 CFR § 35.3550.

Based on the review, the following items describe the activities and observations of interest:

1. Assurance that the state has the authority to establish a fund and to operate the DWSRF program in accordance with the SDWA.

Status: TDEC provided the required Attorney General certification with the grant application.

2. Assurance that the state will comply with state statutes and regulations and abide by state law.

Status: TDEC certified this in the FY21 IUP.

3. Assurance that the state has the technical capability to operate the program.

Status: TDEC is in compliance with this assurance.

4. Assurance that the state will accept capitalization grant funds in accordance with a payment schedule.

Status: TDEC certified this in the FY21 IUP.

5. Assurance that the state will deposit all capitalization grant funds in the fund or set-aside account.

Status: TDEC has deposited the capitalization grant appropriately.

6. Assurance that the state will provide an amount at least equal to 20 percent of the capitalization grant (state match) in the fund.

Status: The FY21 capitalization grant was \$19,284,000. The 20 percent state match amount of \$3,856,800 was provided through state appropriation funds.

7. Assurance that the state will deposit net bond proceeds, interest earnings and repayments into the fund.

Status: TDEC did not leverage. All repayments and interest earnings are credited to the fund.

8. Assurance that the state will utilize Generally Accepted Accounting Principles.

Status: TDEC has complied with this assurance.

9. Assurance that the state will have the fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

Status: The DWSRF is audited annually. 40 CFR § 35.3570(b) states audits are due within one year after the end of the FY.

10. Assurance that the state will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of a privately-owned system, demonstrate that there is adequate security).

Status: TDEC has complied with this assurance in loan agreements to borrowers.

11. Assurance that the state will commit and expend funds as efficiently as possible and in an expeditious and timely manner.

Status: The overall pace percentage for TDEC is 73 percent, a one percent increase from TDEC's FY21 program pace of 72 percent. TDEC disbursed a total of \$12,793,402 from the DWSRF in FY22.

12. Assurance that funds will be utilized in accordance with the IUP.

Status: The annual report documents that TDEC is in compliance with this assurance.

13. Assurance that the state will provide the EPA with a Biennial Report.

Status: The FY22 annual report for TDEC's DWSRF program was received in February 2023, for the state FY ending June 30, 2022. The report contained adequate and accurate information regarding program implementation.

SECTION III: PROGRAM GOALS

TDEC has thirteen long term goals and eleven short term goals in their IUP. EPA evaluated one long-term and one short-term goal. TDEC is working toward meeting each of the goals evaluated. TDEC's status in meeting these goals is discussed in the DWSRF annual report. The goals and accomplishments

reviewed for the FY22 PER, include:

Long term goal and status:

- Protect and enhance water quality in the state by ensuring the technical integrity of funded projects.

Status: Progress on this goal is ongoing and achieved through TDEC's updates to the project solicitation process including new allocation of principal forgiveness, creating a marketing and outreach campaign that increased the project solicitation response by 60%.

Short term goal and status:

- Maximize funds available through cooperation with EPA.

Status: TDEC is including a pilot project strategy to strengthen and grow different types of SRF projects as well as working with all potential SRF borrowers that have eligible projects.

SECTION IV: PROJECT FILES REVIEWED

Loan Reviewed	Environmental Review Determination	Loan Amount
Arthur-Shawnee Utility District Powell Valley Water Storage Tank Loan Agreement Signed: 08/23/2021	Finding of No Significant Impact Issued: 09/21/2020	Loan Amount: \$275,000 Loan Term: 20-year Loan Interest Rate: 0.66% Principal Forgiveness: \$55,000
Ocoee Utility District Carpenter Springs Water Treatment Plant Clearwell Loan Agreement Signed: 02/23/2022	Categorical Exclusion Issued: 07/02/2021	Loan Amount: \$1,000,000 Loan Term: 20-year Loan Interest Rate: 0.96% Principal Forgiveness: \$0

Both projects were eligible for DWSRF funding and followed the environmental review, Davis Bacon, American Iron and Steel, and procurement requirements.

SECTION V: ENVIRONMENTAL BENEFITS REPORTING

FY22 Loans	Public Benefit	Total Investment
12 New Loans	Improvements to public water systems promoting compliance, ensuring water supply, and protecting public health.	\$25,314,827.73

TDEC updated the Public Water Supply Benefits Reporting (PBR) database in a timely fashion as required by the grant agreement. All necessary information about projects funded in FY22 was entered in the PBR system.

SECTION VI: ADDITIONAL SUBSIDIZATION AND POPULATION SERVED

	Assistance for Small Systems (<10,000)	Additional Subsidization Disbursed	Number of Projects that received Additional Subsidization	Minimum % of Additional Subsidization Required per Capitalization Grant
FY22 Cap Grant Disbursement Totals	\$3,162,400	\$277,000	1	20%
FY21 Disbursement Totals	\$1,400,000	\$470,000	3	20%

The terms and conditions of the grant award allow additional subsidy in the form of principal forgiveness (PF) to borrowers of the DWSRF loan program. In addition to the disadvantaged community additional subsidy assistance that must be provided as described in Section 1452(d) of the SDWA in an amount between 6 percent and 35 percent, an additional 14 percent of the capitalization grant must be provided as additional subsidization under the 2021 Congressional Add-Sub authority. Tennessee's FY21 and FY22 Capitalization Grants were open and making principal forgiveness disbursements at the time of this review. Region 4 will confirm the state's additional subsidy requirements were met before closing its grant.

SECTION VII: CASH DRAWS

Draw ID Number	Draw Date	Draw Amount
DT 22AS1397082	06/13/2022	\$7,000.00
DT 22AS1373173	01/07/2022	\$46,062.85
DT 22AS1390120	04/27/2022	\$718,567.64
DT 22AS1339220	10/01/2021	\$3,711.67

Four cash draws that occurred in the State's FY were reviewed. All invoices reviewed in the selection were found to be properly made for eligible DWSRF expenditures and were appropriately recorded. No improper payments were identified.

SECTION VIII: PROGRAM HIGHLIGHTS

TDEC's Standard Operating Procedures (SOPs)

The state revised current SOPs, developed new SOPs for financial sufficiency review processes. TDEC revised its Operating Agreement and program operating budget. The state is also exploring new database for tracking and documenting projects and streamlining its Environmental Review Approval Process.

SECTION IX: FINANCIAL INDICATORS

Financial Indicators Activity	2021	2022
Return on Federal Investment	129.7%	129.4%
Assistance Provided as a % of Funds Available	73%	73%
Disbursements as a % of Assistance Provided	93%	89%
Set-Aside Spending Rate	82.2%	82.3%
Uncommitted Balances	\$115M	\$122.3M

On the basis of our financial review, we conclude TDEC DWSRF is in sound financial condition. Note: Financial indicators data provided by NIMS report.

SECTION X: SET ASIDE PERFORMANCE

Section 1452(g)(2) of the SDWA allows the DWSRF program the option of using up to 31 percent of their capitalization grant for activities that protect sources of drinking water, enhance water systems management and capacity development strategies. TDEC reserved \$3,057,320, or 16 percent of the FY21 capitalization grant, for set-aside activities. TDEC elected to utilize the set-asides in the following manner:

Program Administration – 4 percent

Program Administration is either 4 percent of the capitalization grant, \$400,000, or 1/5 percent of the current valuation of the fund (whichever the state chooses) to cover the reasonable costs of administration of the DWSRF programs. TDEC elected to take 4 percent, or \$764,320, of the capitalization grant in administrative set asides, expending \$651,539 in FY22.

State Program Management – 10 percent

TDEC reserved 10 percent, or \$1,910,800.00 of the capitalization grant in set-aside funds for State Program Management, expending \$1,842,846 in FY22. These funds provide program support for the Public Water Supervision Program which promotes the state's drinking water goals through the Enforcement Tracking Tool, laboratory certification program, and technical services and assistance to address challenges with public water system technical capacity. The funds also support the Operator Certification program which provided training for 144 water treatment and distribution system operators.

Small System Technical Assistance – 2 percent

SDWA allows funds for TA and training to help small systems build the capacity they need to provide safe drinking water. In FY22, the program reserved \$382,200 for this set aside, expending \$142,558 in FY22. The funds supported a TDEC’s partnership with the Tennessee Association of Utility Districts (TAUD) to provide targeted training opportunities and technical assistance to small and distressed water system operators.

SECTION XI: FOLLOW UP ON PRIOR YEAR PROGRAM EVALUATION REPORT

- EPA requests that the state evaluate different approaches and options such as utilization of cash flow modeling and increased marketing of the SRF to decrease uncommitted balances and increase program pace. The state has reported that it is short staffed but has made efforts to improve response rates to solicitations for projects. In addition, TDEC reports a significant increase in project funding requests in FY22, estimating over \$275M in need. The EPA will continue to provide assistance where needed.

Status: While the state’s uncommitted balances have increased this fiscal year, the program has continued to increase community engagement, improve project solicitation, and developed a strategy to reach small and disadvantaged communities.

- EPA recommends that the state considers maximizing the percentage of additional subsidy allowable for SRF capitalization grant awards. A state may utilize up to 49 percent of the available funds in the cap grant to provide additional subsidy to eligible recipients. The minimum subsidization requirement for each cap grant is 20 percent. 7.5 percent of TDEC’s FY22 disbursement was for additional subsidization.

Status: The state has continued to prioritize maximizing available subsidy for the state’s most disadvantaged communities. The state disbursed \$3,162,400 to communities under 10,000 customers and disbursed \$277,000 in subsidy from open grants.

SECTION XII: RECOMMENDATIONS

- EPA requests that the state evaluate different approaches and options such as utilization of cash flow modeling and increased marketing of the SRF to decrease uncommitted balances and increase program pace. The state has reported that it is short staffed but has made efforts to improve response rates to solicitations for projects. In addition, TDEC reports a significant increase in project funding requests.
- EPA recommends the state maintain a fully staffed programmatic and engineering team to maintain best practices and mitigate risk to the program.
- EPA recommends the state review project AIS letters for required elements or implement a

process for ensuring AIS letters submitted to borrowers follow EPA guidelines.

SECTION XIII: FINDINGS

There are no findings.

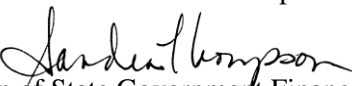
SECTION XIV: STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE

We have conducted an annual review of Tennessee's Drinking Water State Revolving Fund Program for FY22 in accordance with EPA's SRF Annual Review Guidance.



JASON E. MUMPOWER
Comptroller

To: Members of the Tennessee Local Development Authority Audit Committee

From: Sandi Thompson 
Director, Division of State Government Finance (SGF)

Date: June 20, 2024

Subject: Risk Assessments

The management risk assessments for SGF and the Division of Water Resources are attached. These annual reports address agency-wide risk management and internal control requirements of Tenn. Code Ann. § 9-18-102, known as the Tennessee Financial Integrity Act, as amended.

This code requires each agency of state government and institution of higher education to establish and maintain internal controls, to provide reasonable assurance that:

1. Obligations and costs are in compliance with applicable law,
2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation, and
3. Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over the assets.

To document compliance with the requirements set forth above, the code requires that each agency of state government and institution of higher education annually perform a management assessment of risk and that the internal controls discussed above be incorporated into such assessment.

The objectives of the annual risk assessment are to:

1. Provide accountability for meeting program objectives,
2. Promote operational efficiency and effectiveness,
3. Improve reliability of financial statements,
4. Strengthen compliance with laws, regulations, rules, and contracts and grant agreements, and
5. Reduce the risk of financial or other asset losses due to fraud, waste, and abuse.

Please let me know if you need any additional information in this regard.

Agenda Item #9

TLDA Audit Committee						
Responsibilities Calendar						
6/24/2024						
	Responsibilities	Documentation	Presented By	Agenda Reference	Meeting Date	Notes
1	Review significant accounting and reporting standards.	Minutes Discussion	Alicia West	Item #4	5/31/2023	
2	Review financial statements and comprehensive annual financial report.	Minutes Discussion	Michael Campbell, State Audit	Item #3	5/31/2023	
3	Review with management the adequacy of internal controls for compliance with policies, plans, procedures, laws, and regulations.	FY22 SLF & TDEC Risk Assessments	Sandi Thompson	Item #6	5/31/2023	
4	Understand the scope of external auditors' review of internal control.	June 30, 2022 Audit Report	Michael Campbell, State Audit	Item #3	5/31/2023	
5	Review processes in place to assess risk, including fraud risk, which shall include a review of management's risk assessment process, in the agency.	FY22 SLF & TDEC Risk Assessments	Sandi Thompson	Item #6	5/31/2023	
6	Inquire of management and auditors about significant risks and how those risks are managed.	FY22 SLF & TDEC Risk Assessments	Sandi Thompson	Item #6	5/31/2023	
7	Review reports issued by external auditors.	Minutes Discussion	Michael Campbell, State Audit	Item #3	5/31/2023	Comptroller's Audit Reports
8	Ensure management has taken appropriate action on audit recommendations made by the auditors.	Minutes Discussion	N/A	Item #3	5/31/2023	No audit recommendations
9	Discuss the proposed scope and approach of the external audit.	June 30, 2022 Audit Report	Michael Campbell, State Audit	Item #3	5/31/2023	Comptroller's Audit Reports
10	Discuss the results of the audit with representatives of the Comptroller of the Treasury, including any difficulties encountered during the course of the audit.	Minutes Discussion	Michael Campbell, State Audit	Item #3	5/31/2023	
11	Encourage external auditors to discuss any issues of concern with the audit committee.	Minutes Discussion	Michael Campbell, State Audit	Item #3	5/31/2023	No issues or concerns
12	Immediately report any fraud to the Comptroller of the Treasury's office.	Minutes Discussion	Sandi Thompson	Item #7	5/31/2023	
13	Communicate to management their responsibility for preventing, detecting and reporting fraud, waste and abuse, and reporting any instances of fraud, waste, and abuse to the audit committee and the Comptroller of the Treasury.	Minutes Discussion	Sandi Thompson	Item #7	5/31/2023	
14	Ensure procedures exist for the receipt, retention, and treatment of complaints about accounting, internal controls, or auditing matters.	Minutes Discussion	Sandi Thompson	Item #8	5/31/2023	
15	Regularly update the board about committee activities and make appropriate recommendations.	Report given at each board meeting following AC	Treasurer Lillard	N/A	5/31/2023	Delivered by Treasurer at the TLDA Board meeting
16	Periodically review and amend, as necessary, the audit committee charter.	Exhibit- 4/15/2019 audit committee charter	Earle Pierce	Tab 2a	6/27/2019	
17	Review management's assertion that internal controls are effective and adequate.	FY22 SLF & TDEC Risk Assessments	Sandi Thompson	Item #6	5/31/2023	
18	Evaluate whether management is setting the appropriate control culture and 'tone at the top' by communicating the importance of internal controls and risk management.	Minutes Discussion	Sandi Thompson	Item #7	5/31/2023	
19	Provide a mechanism for staff to report any suspected fraud, abuse or other complaints related to operations to the audit committee.	Minutes Discussion	Sandi Thompson	Item #8	5/31/2023	