

# TENNESSEE MUNICIPAL LEAGUE

Financial Statements

For the Years Ended June 30, 2001 and 2000

# TENNESSEE MUNICIPAL LEAGUE

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## Financial Statements

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## Independent Auditors' Report

To the Board of Directors  
Tennessee Municipal League  
Nashville, Tennessee

We have audited the accompanying balance sheets of the Tennessee Municipal League as of June 30, 2001 and 2000 and the related statements of revenues, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Tennessee Municipal League's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Municipal League, as of June 30, 2001 and 2000, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2001 on our consideration of the Tennessee Municipal League's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Tennessee Municipal League taken as a whole. The accompanying supplemental schedules, as listed in the Table of Contents, are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

September 10, 2001

TENNESSEE MUNICIPAL LEAGUE

Balance Sheets

	June 30, <u>2001</u>	<u>2000</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$1,710,478	1,256,480
Accounts receivable	130,509	82,988
Prepaid expenses	<u>6,757</u>	<u>4,498</u>
Total Current Assets	<u>1,847,744</u>	<u>1,343,966</u>
Restricted Assets:		
Interest reserve fund - cash and cash equivalents	51,842	63,132
Tenant security deposits escrow	<u>2,441</u>	<u>2,441</u>
Total Restricted Assets	<u>54,283</u>	<u>65,573</u>
Property and Equipment:		
Less accumulated depreciation	4,514,407	4,431,663
	1,099,789)	(988,010)
Property and Equipment, Net	<u>3,414,618</u>	<u>3,443,653</u>
Total Assets	<u>\$5,316,645</u>	<u>4,853,192</u>
<u>Liabilities and Equity</u>		
Current Liabilities:		
Current maturities of long-term debt	\$50,000	50,000
Accounts payable	200,456	39,119
Accrued expenses and other liabilities	114,161	89,802
Accrued interest	<u>6,422</u>	<u>16,604</u>
Total Current Liabilities	<u>371,039</u>	<u>195,525</u>
Long-Term Debt, less current maturities	<u>3,800,000</u>	<u>3,850,000</u>
Total Liabilities	<u>4,171,039</u>	<u>4,045,525</u>
Equity:		
Retained earnings:		
Unreserved	<u>1,145,606</u>	<u>807,667</u>
Total Equity	<u>1,145,606</u>	<u>807,667</u>
Total Liabilities and Equity	<u>\$5,316,645</u>	<u>4,853,192</u>

The accompanying notes are an integral part of this financial statement.

**TENNESSEE MUNICIPAL LEAGUE**  
**Statements of Revenue, Expenses and Changes**  
**in Retained Earnings**

	<b>For the Years Ended</b>	
	<b>June 30,</b>	
	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>Operating Revenues:</b>		
Membership dues	\$629,853	624,836
Sponsorship fee	719,244	704,337
Conference registration and sponsor fees	331,340	254,064
Rental income	784,246	769,156
Other revenue	<u>40,800</u>	<u>29,473</u>
Total Operating Revenues	<u>2,505,483</u>	<u>2,381,866</u>
<b>Operating Expenses:</b>		
Salaries	533,289	468,050
Employee payroll taxes and benefits	196,753	167,541
Legislative expenses	277,636	242,747
Conference expenses	246,458	130,217
Professional services	18,500	18,745
Newspaper and product service guide expenses	39,063	27,986
Printing and postage	56,499	62,954
Real estate taxes	60,405	60,405
Depreciation	112,194	109,826
Other operating expenses	<u>468,478</u>	<u>468,211</u>
Total Operating Expenses	<u>2,009,275</u>	<u>1,756,682</u>
Operating Income	<u>496,208</u>	<u>625,184</u>
<b>Nonoperating Revenues (Expenses):</b>		
Interest income	78,592	63,678
Interest expense	(240,636)	(232,706)
Nonoperating Expenses, Net	<u>(162,044)</u>	169,028
Net Income Before Capital Contributions	<u>334,164</u>	<u>456,156</u>
Capital Contributions - Tenants	<u>3,775</u>	—
Net Income	337,939	456,156
Retained Earnings, Beginning - As Restated	<u>807,667</u>	<u>351,511</u>
Retained Earnings, Ending	<u>\$1,145,606</u>	<u>807,667</u>

The accompanying notes are an integral part of this financial statement.

TENNESSEE MUNICIPAL LEAGUE

Statements of Cash Flows

	For the Years Ended	
	June 30,	
	<u>2001</u>	<u>2000</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$2,442,213	2,421,603
Cash paid to employees	(588,814)	(515,550)
Cash paid to suppliers	(1,124,534)	<u>(1,203,678)</u>
Net Cash Provided by Operating Activities	<u>728,865</u>	<u>702,375</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of property and equipment	(83,955)	(98,239)
Repayment of debt principal	(50,000)	(50,000)
Interest paid on long-term debt	(250,818)	(233,586)
Capital contributions from tenants	3,775	.
Proceeds from sale of equipment	<u>500</u>	.
Net Cash Used in Financing Activities	<u>(380,498)</u>	<u>(381,825)</u>
Cash Flows from Investing Activities:		
Interest received	<u>94,341</u>	<u>47,929</u>
Net Cash Provided by Investing Activities	<u>94,341</u>	<u>47,929</u>
Net Increase in Cash and Cash Equivalents	442,708	368,479
Cash and Cash Equivalents, Beginning	<u>1,319,612</u>	<u>951,133</u>
Cash and Cash Equivalents, Ending	<u>\$1,762,320</u>	<u>1,319,612</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>		
Operating income	\$496,208	625,184
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	112,194	109,826
Loss on sale of equipment	296	.
(Increase) decrease in:		
Accounts receivable	(63,270)	39,737
Prepaid expenses	(2,259)	(102)
Increase (decrease) in:		
Accounts payable	161,337	(78,177)
Accrued expenses and other liabilities	24,359	8,348
Other	.	2,441
Net Cash Provided by Operating Activities	<u>\$728,865</u>	<u>702,375</u>

The accompanying notes are an integral part of this financial statement.

# TENNESSEE MUNICIPAL LEAGUE

## Notes to Financial Statements

June 30, 2001 and 2000

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization and Nature of Activities

The Tennessee Municipal League (the "League") was originally formed as a voluntary association of cities and towns in Tennessee and was later incorporated in 1992 as a Tennessee nonprofit corporation. The League's purpose is to act as an agency for the cooperation of municipalities and other units of local government for the general improvement and advancement of every branch of municipal administration in Tennessee.

#### Basis of Presentation

The financial statements of the League have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The League is considered a governmental entity for purposes of applying accounting and financial reporting standards since its officers and board of directors are elected annually by officials of municipalities and other units of local government in Tennessee. The League has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting". Accordingly, the League applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The League, however, has elected not to apply FASB pronouncements issued subsequent to that date.

#### Cash and Cash Equivalents

The League considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents for purposes of the statement of cash flows.

#### Property and Equipment

Property and equipment are recorded at cost. An office building and equipment are depreciated over estimated useful lives ranging from 5 to 50 years using a straight-line method, with one-half year's depreciation recognized in the year of acquisition and disposal. Leasehold improvements are amortized over the lesser of the lease terms or estimated useful lives.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## TENNESSEE MUNICIPAL LEAGUE

### Notes to Financial Statements

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

##### Income Taxes

The League's income is exempt from Federal income taxes under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is provided in the League's financial statements.

#### CASH AND) CASH EQUIVALENTS

The League has funds on deposit in interest-bearing accounts with certain financial institutions. State statutes require such deposits to be collateralized by the financial institutions and the collateral to meet certain requirements. More specifically, the statutes require funds to be deposited in an escrow account with another financial institution or with the State of Tennessee Bank Collateral Pool for the benefit of the League in an amount equal to at least 105% of the value of the deposits that exceed FDJC coverage.

	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>
Cash Deposits:		
Insured by FDJC	\$ 254,106	265,043
Collateral held by the League's agent in the League's name or in the State Bank Collateral Pool	<u>1,508,164</u> 1,762,270	<u>1,549,911</u> <u>1,814,954</u>
Cash on hand	<u>50</u>	
Total Cash and Cash Equivalents	<u>\$ 1,762,320</u>	

#### (3) ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2001 and 2000 consisted of the following:

	<u>2001</u>	<u>2000</u>
TML Risk Management Pool, an affiliated organization	\$ 69,331	40,342
Tennessee Municipal Bond Fund, an affiliated organization	20,807	
Conference sponsorships, exhibit fees and reimbursements	27,532	26,173
Advertising	5,167	-
Associate membership dues	2,500	-
Tenant rents	2,466	-
Vendor reimbursements	2,706	-
Accrued interest receivable	-	15,749
Employees		<u>724</u>
Total	<u>\$130,509</u>	<u>89,988</u>

**TENNESSEE MUNICIPAL LEAGUE**

**Notes to Financial Statements**

**(4) PROPERTY AND EQUIPMENT**

A summary of changes in property and equipment by asset type for the years ended June 30, 2001 and 2000, are as follows:

	Balance <u>6-30-99</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6-30-00</u>
Land	\$ 404,000	-	-	404,000
Building and leasehold improvements	3,567,541	82,295	-	3,649,836
Operating equipment	329,297	15,944	-	345,241
Other equipment	<u>32,586</u>	<u>-</u>	<u>-</u>	<u>32,586</u>
Total	4,333,424	<u>98,239</u>	<u>-</u>	<u>4,431,663</u>
Less: Accumulated Depreciation	<u>(878,184)</u>			<u>(988,010)</u>
Property and Equipment, Net	<u>\$3,455,240</u>			<u>3,443,653</u>
	Balance <u>6-30-00</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>6-30-01</u>
Land	\$ 404,000	-	-	404,000
Building and leasehold improvements	3,649,836	45,151	-	3,694,987
Operating equipment	345,241	31,624	(1,211)	375,654
Other equipment	32,586	<u>7,180</u>	--	<u>39,766</u>
Total	4,431,663	<u>83,955</u>	<u>(1,211)</u>	4,514,407
Less: Accumulated Depreciation	<u>(988,010)</u>			<u>(1,099,789)</u>
Property and Equipment, Net	<u>\$3,443,653</u>			<u>3,414,618</u>

**TENNESSEE MUNICIPAL LEAGUE**

**Notes to Financial Statements**

**(5) LONG-TERM DEBT**

The League issued a taxable, variable-rate note in the original aggregate amount of \$4,100,000 in 1992 to finance the purchase of an office building in Nashville, Tennessee. The note is comprised of individual revolving loans maturing between 1-45 days. A financial institution acts as “note agent” and “placement agent” in restructuring and re-marketing the individual loans to qualified lenders as the loans mature and receives a fee for these services based on a percentage of the outstanding principal balance. The note agreement requires the League to pay interest in advance into a separate account and to maintain the account solely for the purpose of paying interest on a monthly basis. The note, which matures in August 2022, is secured by certain marketable securities owned and pledged by the Tennessee Municipal League Risk Management Pool, an affiliated organization, to a financial institution. The effective interest rate, which varies with prevailing market rates as described in the note agreement, when combined with the re-marketing fee rate averaged approximately 6.2% and 5.9% for the years ended June 30, 2001 and 2000, respectively.

Changes in long-term debt for the year ended June 30, 2001 are as follows:

	<u>Balance</u> <u>6-30-00</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6-30-01</u>
Note principal	<u>\$3,900,000</u>	<u>-</u>	<u>(50,000)</u>	<u>3,850,000</u>

Future maturities of note principal and interest are as follows:

Fiscal Year Ending	<u>Principal</u>	<u>Interest</u>
<u>June 30:</u>		
2002	\$ 50,000	239,085
2003	50,000	235,980
2004	50,000	232,875
2005	50,000	229,770
2006	100,000	226,665
Thereafter	<u>3,550,000</u>	<u>2,462,265</u>
 Total	 <u>\$3,850,000</u>	 <u>3,626,640</u>

# TENNESSEE MUNICIPAL LEAGUE

## Notes to Financial Statements

### (6) RETIREMENT PLANS

#### Defined Contribution Plan:

The League has a defined contribution retirement plan with the Teachers Insurance and Annuity Association-College Retirement Equities Fund (“TIAA-CREF”) and contributes ten percent of eligible employees’ salaries to the plan. An employee may contribute a maximum of approximately 15% of his or her salary, subject to Internal Revenue Service limitations. Retirement contributions by the League totaled \$49,513 and 51,742 for the years ended June 30, 2001 and 2000, respectively.

#### Defined Benefit Plan:

##### Plan Description

During 2001, the League was approved to participate in the Tennessee Consolidated Retirement System (“TCRS”). Employees of the League are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the TCRS which provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member’s high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefits is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system become vested after five years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the League participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230 or by calling (615) 741-7063 or can be accessed at [www.treasury.state.tn.us](http://www.treasury.state.tn.us).

# TENNESSEE MUNICIPAL LEAGUE

## Notes to Financial Statements

### (6) RETIREMENT PLANS, Continued

#### Defined Benefit Plan, Continued:

##### Funding Policy

The League has adopted a noncontributory retirement plan for its employees by assuming employee contributions of up to five percent of annual covered payroll. The League is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2001 was 10% of annual covered payroll. The contribution requirements of plan members are set by State statute. Contribution requirements for the League are established and may be amended by the TCRS Board of Trustees.

##### Annual Pension Cost

For the year ending June 30, 2001, the League's annual pension cost of \$ 17,555 to TCRS was equal to the League's required and actual contributions. The required contribution was determined as part of the initial participation actuarial valuation using the frozen initial liability actuarial cost method. Contribution rates determined by the initial participation actuarial valuation are guaranteed for four years. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 5.5% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), and (c) projected 4.5% annual increase in the Social Security wage base. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The League's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis.

##### Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/01	\$17,555	100%	\$0

Changes in Actuarial Assumptions Actuarial assumptions used in future valuations will be determined as of the June 30, 2000 experience study.

# TENNESSEE MUNICIPAL LEAGUE

## Notes to Financial Statements

### (7) COMMITMENTS AND CONTINGENCIES

The League has contracted with the Alliance Commercial Real Estate Services, Inc. to manage an office building owned by the League. The agreement provides for Alliance Commercial Real Estate Services, Inc. to receive the greater of \$2,600 or 5% of gross rents collected monthly in addition to commissions of 4% and 2.5% for new and renewed leases, respectively, and 10% for construction supervision. The contract is on a month-to-month basis, and either party may terminate the agreement with proper notice.

The League contracted with a law firm for urban coordination services for a monthly fee of \$10,250 through August 1, 2000. Since that date, the services have continued on a month-to-month basis and either party may terminate the arrangement with proper notice. The League also contracts with another law firm for government relations services for a monthly fee of \$8,000 while the Tennessee General Assembly is in regular session, \$13,000 while it is in extraordinary session and \$5,000 while it is out of session.

The League had contracted with a former executive director to provide advisory services pursuant to a contractual agreement that expired in April, 2001. The contract provided for the League to pay \$3,000 a month and to provide medical insurance and retirement contributions during the contract term.

The League leases a copy machine under a noncancelable operating lease. The total remaining minimum payments on the lease are as follows:

<u>Ending June 30</u>	<u>Amount</u>
2002	\$ 4,992
2003	4,992
2004	<u>4,160</u>
	<u>\$14,144</u>

## TENNESSEE MUNICIPAL LEAGUE

### Notes to Financial Statements

#### (8) FUTURE MINIMUM RENTALS

The League leases office space to tenants under noncancelable operating leases with terms ranging from one to five years. Certain of the leases contain a provision for the tenant to reimburse the League for the cost of common area maintenance as determined on an annual basis. Leases with the State of Tennessee comprised approximately 49% and 56% of total rentals for 2001 and 2000, respectively. Future minimum rentals for all leases at June 30, 2001 are presented below:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
2002	\$764,931
2003	663,922
2004	546,296
2005	<u>93,604</u>
	<u>\$2,068,753</u>

#### (9) SEGMENT INFORMATION

The Tennessee Municipal League has both office building leasing activities as well as financial operations related to its membership activities. The League maintains separate financial records for each of these operating segments. Segment information for the year ended June 30, 2001 is summarized as follows:

	<u>Balance Sheets</u>	
	<u>Membership</u>	<u>Building</u>
Current assets	\$ 822,431	1,025,313
Restricted assets	---	54,283
Property and equipment, net	<u>49,131</u>	<u>3,365,487</u>
Total Assets	<u>\$871,562</u>	<u>4,445,083</u>
Current liabilities	\$ 262,479	108,560
Long-term debt, net of current maturities	---	3,800,000
Retained earnings	<u>609,083</u>	<u>536,523</u>
Total Liabilities and Equity	<u>\$ 871,562</u>	<u>4,445,083</u>

**TENNESSEE MUNICIPAL LEAGUE**

**Notes to Financial Statements**

**(9) SEGMENT INFORMATION, Continued**

Statements of Earnings

	<u>Membership</u>	<u>Building</u>
Operating revenues	\$ 1,720,588	784,895
Operating expenses	<u>1,530,514</u>	<u>478,761</u>
Operating income	190,074	306,134
Nonoperating revenues (expenses)	<u>(17,052)</u>	<u>(144,992)</u>
Income before capital contributions	173,022	161,142
Capital contributions	<u>-</u>	<u>3,775</u>
Net income	<u>\$173,022</u>	<u>164,917</u>

Other Data

Property and equipment:		
Additions, net	\$30,414	52,330
Depreciation	11,820	100,374
Working capital	559,952	916,753

**(10) RELATED ORGANIZATIONS**

The League receives sponsorship fees from affiliated organizations. During the years ended June 30, 2001 and 2000, the League received sponsorship fees totaling \$669,244 and \$654,337, respectively, from the Tennessee Municipal League Risk Management Pool (“TMLRMIP”), based on 1.75% of TMLRVIIP’s gross revenues. The League also received a sponsorship fee of \$50,000 from the Tennessee Municipal Bond Fund (TMBF) in 2001 and 2000 that is negotiated annually. The League also leases office space to both of these organizations pursuant to lease agreements negotiated at rates that management has represented to approximate market.

**(11) INTRAFUND ACTIVITIES**

During 2001 and 2000, the League’s Membership Fund paid \$94,496 and \$94,324, respectively, to the Building Fund for leased office space pursuant to a lease agreement. Also, the Building Fund paid \$40,000 and \$20,000 in 2001 and 2000, respectively, to the Membership Fund for administrative services provided on behalf of the Building Fund.

# TENNESSEE MUNICIPAL LEAGUE

## Notes to Financial Statements

**(11) INTRAFUND ACTIVITIES, Continued**

During 2000, League management forgave the repayment of an intrafund loan in the amount of \$285,000 made in prior years to the Membership Fund from the Building Fund.

Intrafund transactions have been eliminated in the accompanying financial statements.

**(12) RISK MANAGEMENT**

The League is exposed to various risks to general liability and property and casualty losses. The League's policy is to purchase commercial insurance for these and other risks of loss. Settled claims for losses have not exceeded commercial insurance coverage in any of the past three years.

**(13) RESTATEMENT AND RECLASSIFICATION**

Certain amounts in the accompanying 2000 financial statements have been reclassified to conform with the 2001 presentation. Such reclassifications had no effect on retained earnings as of July 1, 1999.

During 2001, the League renegotiated the rate of interest that it receives on cash deposited with a financial institution. As part of the renegotiation, the financial institution considered deposits held in the prior year as well as in the current year, resulting in additional interest income of \$15,749 for 2000. Accordingly, accounts receivable and retained earnings as of June 30, 2000 and interest income and net income for the year then ended have been restated to reflect the additional interest.

During 2001, League management determined that office rent paid by the Membership Fund to the Building Fund had been incorrectly reported in a prior year. The following restatement has been made, accordingly, to correct retained earnings of the Membership Fund as of July 1, 1999:

	<u>Membership Fund</u>	<u>Building Fund</u>	<u>Total</u>
Retained Earnings (Deficit), July 1, 1999 -			
As Previously Reported	\$ (138,512)	482,364	343,852
Restatement	<u>7,659</u>	<u>-</u>	<u>7,659</u>
Retained Earnings, July 1, 1999-As Restated	\$ <u>(130,853)</u>	<u>482,364</u>	<u>351,511</u>

## Supplemental Schedules

# TENNESSEE MUNICIPAL LEAGUE

## Schedule of Balance Sheets - By Fund

<u>Assets</u>	June 30, 2001			2000				
	Membership Fund	Building Fund	Eliminations	Total	Membership Fund	Building Fund	Eliminations	Total
<b>Current Assets:</b>								
Cash and cash equivalents	\$692,672	1,017,806		1,710,478	407,778	848,702		1,256,480
Accounts receivable	127,764	2,745		130,509	69,562	13,426		82,988
Prepaid expenses	<u>9,654</u>	<u>4,762</u>	(7,659)	<u>6,757</u>	<u>7,659</u>	<u>4,498</u>	(7,659)	<u>4,498</u>
Total Current Assets	<u>830,090</u>	<u>1,025,313</u>		<u>1,847,744</u>	<u>484,999</u>	<u>866,626</u>		<u>1,343,966</u>
<b>Restricted Assets:</b>								
Interest reserve fund - cash and cash equivalents	-	51,842		51,842	-	63,132		63,132
Tenant security deposits escrow	-	<u>2,441</u>		<u>2,441</u>	-	<u>2,441</u>		<u>2,441</u>
Total Restricted Assets	<u>-</u>	<u>54,283</u>		<u>54,283</u>	<u>-</u>	<u>65,573</u>		<u>65,573</u>
<b>Property and Equipment:</b>								
Property and Equipment	375,654	4,138,753		4,514,467	345,240	4,086,423		4,431,663
Less accumulated depreciation	<u>(326,523)</u>	<u>(773,266)</u>		<u>(1,099,789)</u>	<u>(315,117)</u>	<u>(672,893)</u>		<u>(988,010)</u>
Total Property and Equipment, Net	<u>49,131</u>	<u>3,365,487</u>		<u>3,414,618</u>	<u>30,123</u>	<u>3,413,530</u>		<u>3,443,653</u>
Total Assets	<u>\$879,221</u>	<u>4,445,083</u>	(7,659)	<u>5,316,645</u>	<u>515,122</u>	<u>4,345,729</u>	(7,659)	<u>4,853,192</u>
<u>Liabilities and Equity</u>								
<b>Current Liabilities:</b>								
Current maturities of long-term debt	\$ -	50,000		50,000	-	50,000		50,000
Accounts payable	191,716	8,740		200,456	25,921	13,198		39,119
Accrued expenses and other liabilities	78,422	43,398	(7,659)	114,161	53,140	44,321	(7,659)	89,802
Accrued interest	-	<u>6,422</u>		<u>6,422</u>	-	16,604		<u>16,604</u>
Total Current Liabilities	270,138	108,560		371,039	79,061	124,123		195,525
Long-Term Debt, less current maturities	-	<u>3,800,000</u>		<u>3,800,000</u>	-	<u>3,850,000</u>		<u>3,850,000</u>
Total Liabilities	<u>270,138</u>	<u>3,908,560</u>		4,171,039	<u>79,061</u>	3,974,123		4,045,525
<b>Equity:</b>								
Retained earnings:								
Unreserved	<u>609,083</u>	<u>536,523</u>		<u>1,145,606</u>	<u>436,061</u>	<u>371,606</u>		<u>807,667</u>
Total Equity	<u>609,083</u>	<u>536,523</u>		<u>1,145,606</u>	<u>436,061</u>	<u>371,606</u>		<u>807,667</u>
Total Liabilities and Equity	<u>\$879,221</u>	<u>4,445,083</u>	(7,659)	<u>5,316,645</u>	<u>515,122</u>	<u>4,345,729</u>	(7,659)	<u>4,853,192</u>

TENNESSEE MUNICIPAL LEAGUE

Schedule of Revenue, Expenses and Changes  
In Retained Earnings By Fund

	For the Years Ended June 30,					
	Membership Fund	2001		Membership Fund	2000	
		Building Fund	Total		Building Fund	Total
<b>Operating Revenues:</b>						
Membership dues	\$629,853	-	629,853	624,836	-	624,836
Sponsorship fees	719,244	-	719,244	704,337	-	704,337
Conference registration and fees	331,340	-	331,340	254,064	-	254,064
Rental income	-	784,246	784,246	-	769,156	769,156
Other revenue	<u>40,151</u>	<u>649</u>	<u>40,800</u>	<u>22,734</u>	<u>6,739</u>	<u>29,473</u>
Total Operating Revenues	<u>1,720,588</u>	<u>784,895</u>	<u>2,505,483</u>	<u>1,605,971</u>	<u>775,895</u>	<u>2,381,866</u>
<b>Operating Expense:</b>						
Salaries	533,289	-	533,289	468,050	-	468,050
Employee payroll taxes and benefits	196,753	-	196,753	167,541	-	167,541
Legislative expenses	277,636	-	277,636	242,747	-	242,747
Conference expenses	246,458	-	246,458	130,217	-	130,217
Professional services	18,500	-	18,500	18,745	-	18,745
Newspaper and product service guide expenses	39,063	-	39,063	27,986	-	27,986
Printing and postage	56,499	-	56,499	62,954	-	62,954
Real estate taxes	-	60,405	60,405	-	60,415	60,405
Depreciation	11,820	100,374	112,194	9,909	99,917	109,826
Other operating expenses	<u>150,496</u>	<u>317,982</u>	<u>468,478</u>	<u>144,188</u>	<u>324,023</u>	<u>468,211</u>
Total Operating Expenses	<u>1,530,514</u>	<u>478,761</u>	<u>2,009,275</u>	<u>1,272,337</u>	<u>484,345</u>	<u>1,756,682</u>
Operating Income	<u>190,074</u>	<u>306,134</u>	<u>496,208</u>	<u>333,634</u>	<u>291,550</u>	<u>625,184</u>
<b>Nonoperating Revenues (Expenses):</b>						
Operating transfers in (out):						
Rental income (expense)	(94,496)	94,496	-	(94,324)	94,324	-
Management fee income (expense)	40,000	(40,000)	-	20,000	(20,060)	-
Interest income	37,444	41,148	78,592	22,604	41,074	63,678
Interest expense	-	(240,636)	(240,636)	-	(232,706)	(232,706)
Total Nonoperating Revenues (Expenses)	<u>(17,052)</u>	<u>(144,992)</u>	<u>(162,044)</u>	<u>(51,720)</u>	<u>(117,308)</u>	<u>(169,028)</u>
<b>Net Income Before Capital Contributions and</b>						
Extraordinary Items	173,022	161,142	334,164	281,914	174,242	456,156
Capital Contributions - Tenants	-	3,775	3,775	-	-	-
Extraordinary Item - Gain (Loss) or Forgiveness of Debt	-	-	-	<u>285,000</u>	(285,000)	-
Net Income	<u>173,022</u>	<u>164,917</u>	<u>337,939</u>	<u>566,914</u>	<u>(110,758)</u>	<u>456,156</u>
Retained Earnings (Deficit), Beginning - As Previously Reported	436,061	371,606	807,667	(138,512)	482,364	343,852
Restatement	-	-	-	7,659	-	7,659
Retained Earnings (Deficit), Beginning - As Restated	<u>436,061</u>	<u>371,606</u>	<u>807,667</u>	<u>(130,853)</u>	<u>482,364</u>	<u>351,511</u>
Retained Earnings, Ending	<u>\$609,083</u>	<u>536,523</u>	<u>1,145,606</u>	<u>436,061</u>	<u>371,606</u>	<u>807,667</u>

**TENNESSEE MUNICIPAL LEAGUE**

**Schedule of Conference Expenses Membership Fund**

**For the Years Ended June 30,**

	<u>2001</u>	<u>2000</u>
Salaries	\$55,525	47,500
Annual leave	.	2,245
Payroll taxes	4,314	3,634
Retirement contributions	5,767	4,708
Group insurance	4,803	3,774
Parking expenses	1,520	1,480
Catering expenses	125,760	32,198
Conference center	15,883	13,001
Speakers	2,935	2,515
Exhibits expense	8,512	6,122
Travel and entertainment expense	4,440	3,795
Office supplies	47	198
Printing and postage	16,132	9,012
Miscellaneous	<u>820</u>	<u>35</u>
Total Conference Expenses	<u>\$246,458</u>	<u>130,217</u>

TENNESSEE MUNICIPAL LEAGUE

Schedule of Other Operating Expenses - By Fund

For the Years Ended June 30,

	<u>2001</u>			<u>2000</u>		
	Membership <u>Fund</u>	Building <u>Fund</u>	<u>Total</u>	Membership <u>Fund</u>	Building <u>Fund</u>	<u>Total</u>
Automobile expenses	\$4,205	.	4,205	6,757	.	6,757
Board meetings	9,194	.	9,194	9,948	.	9,948
Contract labor - receptionist	3,550	.	3,550	.	.	.
Contract services - executive search	4,948	.	4,948	.	.	.
Dues (NLC & SML)	28,690	.	28,690	27,218	.	27,218
NLC expense	7,246	.	7,246	6,242	.	6,242
Travel and entertainment	15,850	.	15,850	17,033	.	17,033
Telephone	16,165	.	16,165	15,837	.	15,837
Communication services	4,167	.	4,167	7,594	.	7,594
Equipment maintenance	18,504	.	18,504	13,895	.	13,895
Staff training conferences	13,642	.	13,642	6,310	.	6,310
Corporate insurance	6,215	5,311	11,526	8,161	5,058	13,219
Office supplies	16,714	2,197	18,911	14,669	2,011	16,680
Miscellaneous	1,406	27	1,433	1,587	.	1,587
Small equipment and accessories	.	.	.	2,247	.	2,247
Unemployment claims expense	.	.	.	6,690	.	6,690
Professional fees	.	.	.	.	672	672
Repair and maintenance	.	108,637	108,637	.	84,004	84,004
Parking expense	.	1,380	1,380	.	1,480	1,480
Cleaning services and supplies	.	46,213	46,213	.	46,153	46,153
Management fees	.	44,132	44,132	.	45,030	45,030
Commissions	.	936	936	.	53,697	53,697
Security and safety expenses	.	5,030	5,030	.	6,605	6,605
Utilities	.	104,119	104,119	.	79,313	79,313
Total Other Operating Expenses	\$ <u>150,496</u>	<u>317,982</u>	<u>468,478</u>	<u>144,188</u>	<u>324,023</u>	<u>468,211</u>

**TENNESSEE MUNICIPAL LEAGUE**

**Schedule of Cash and Cash Equivalents**

**June 30, 2001**

	<u>Interest Rate</u>	<u>Book Balance</u>
Membership Fund:		
Petty Cash		<u>\$50</u>
Cash in Banks - Unrestricted:		
SunTrust Bank- demand deposit	1.00%	54,106
Bank of America - demand deposit	3.55%	638,516
		<u>692,622</u>
Total Membership Fund		<u>\$692,672</u>
<b>Building Fund:</b>		
Cash in Banks - Unrestricted:		
Capital Bank and Trust - demand deposit		\$239
Bank of America - demand deposit	3.29%	253,029
Capital Bank and Trust - money market	3.84%	764,538
		<u>1,017,806</u>
Cash in Banks - Restricted:		
Bank of America - interest reserve	3.29%	<u>51,842</u>
Total Building Fund		<u>\$1,069,648</u>
Total Cash and Cash Equivalents		<u>\$1,762,320</u>

TENNESSEE MUNICIPAL LEAGUE

**Schedule of Future Debt Service Requirements**

**For Fiscal Years Ending June 30,**

<u>Year</u>	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2002	\$50,000	239,085	289,085
2003	50,000	235,980	285,980
2004	50,000	232,875	282,875
2005	50,000	229,770	279,770
2006	100,000	226,665	326,665
2007	100,000	220,455	320,455
2008	100,000	214,245	314,245
2009	100,000	208,035	308,035
2010	100,000	201,825	301,825
2011	150,000	195,615	345,615
2012	150,000	186,300	336,300
2013	150,000	176,985	326,985
2014	150,000	167,670	317,670
2015	200,000	158,355	358,355
2016	200,000	145,935	345,935
2017	200,000	133,515	333,515
2018	250,000	121,095	371,095
2019	300,000	105,570	405,570
2020	300,000	86,940	386,940
2021	350,000	68,310	418,310
2022	350,000	46,575	396,575
2023	400,000	24,840	424,840
	<u>\$3,850,000 -</u>	<u>3,626,640</u>	<u>7,476,640</u>

\* Interest based upon the rate experienced for the year ended June 30, 2001 of approximately 6.2%.

**TENNESSEE MUNICIPAL LEAGUE**

**Schedule of Insurance**

**June 30, 2001**

**Limits of Coverage**

**Building Coverage**

Building	\$5,000,000
Building Contents	100,000
Business Income	Actual Loss - Maximum 12 Months
Commercial General Property Liability:	
General Aggregate	2,000,000
Products	2,000,000
Personal and Advertising Injury	1,000,000
Each Occurrence	1,000,000
Fire Damage	300,000
Medical Payments (per person)	5,000
Equipment Breakdown	7,800,000
	Other coverage
Commercial Auto	1,000,000
General Liability	500,000
Commercial Umbrella Liability	1,000,000
Commercial Crime	100,000
Worker's Compensation	Statutory

**TENNESSEE MUNICIPAL LEAGUE**

**Schedule of Officers and Board of Directors**

**June 30, 2001**

**Officers**<sup>(1)</sup>

President: Jerry Sharber  
Vice Presidents: Barbara McIntyre  
Tom Rowland  
Sam Tharpe  
Secretary-Treasurer: Rae Young Bond, Executive Director (January 16, 2001- present)  
Suzette Denslow, Executive Director (July 1-November 17, 2000)

**Board of Directors**<sup>(2)</sup>

Mayoral Directors:	W. W. Herenton Jon Kinsey Bill Purcell	Regional District Directors:	Frank L. Diggs Kay Dotson Richard Douglas
			Margaret Feierabend DonW. Fox Tommy Green Margaret Pearson John Proffitt
State At Large Directors:	John P. Franklin, Jr. Yusuf Hakeem Doris D. Hensley Dale R. Kelley Bob Kirk John E. Piper Ron Washington David Wilson Dan Speer	Past President Directors:	Victor Ashe Charles Farmer George Harvell, Jr. Margaret Mahery Bill Revell
		Chairperson Directors:	Tommie Goodwin Charles Seivers

(1) Officers may receive compensation if authorized by the board of directors. Pursuant to corporate by-laws, the Executive Director who is compensated as a full-time employee also serves as Secretary-Treasurer of the League (see Schedule of Employee Compensation in Excess of \$25,000).

(2) Directors receive no compensation pursuant to corporate by-laws.

TENNESSEE MUNICIPAL LEAGUE

Schedule of Employee Compensation in Excess of \$25,000

For the Year Ended June 30, 2001

	Earned	Other
Rae Young Bond, Executive Director (January 16 - present)	\$ 54,413	1,925
Suzette Denslow, Executive Director (July 1-November 17, 2000)	61,232	1,575
Randy Sanders	96,583	-
Ross Loder	58,500	-
Sylvia Trice	56,393	-
Gael Stahl	54,560	-
Cynthea Avans	50,865	-
Debra Groves	41,125	-
Denise Paige	36,499	-
Mary Womack	34,804	-
Joe Sweat	30,000	-

**TENNESSEE MUNICIPAL LEAGUE**

**Schedule of Contractors, Professional Advisors or Other Personal  
Service Providers Receiving Amounts in Excess of \$2,500**

**For the Year Ended June 30, 2001**

**Service Provider**

Barrett, Johnston & Parsley	Corporate Legal Services
Yearly, Howell & Associates, CPAs	Corporate Audit Services
Bass, Berry & Sims, PLC	Lobbyist
Boult, Cummings, Conners & Berry, PLC	Lobbyist
Nelson J. Biddle	Legislative Consulting
Claudette Jones & Associates	Newspaper Production Services
Beverly A. McNeil	Staff Training
Randstad	Receptionist Services
The Centre Group	Executive Search Services
C & P Janitorial Services	Building Janitorial Services
CBS/Cove Janitorial Services	Building Janitorial Services
C & S Heat, Air & Electric	Building Repair Services
Dillingham & Smith	Building Repair Services
Wilmot, Inc.	Building Repair Services
Nashville Machine	Building Elevator Maintenance Services
Alliance Commercial Real Estate Services, Inc.	Building Management, Leasing, and Maintenance Services
Banc of America Securities, L.L.C.	Debt Remarketing Services

## **Compliance and Internal Control Reports**

**YEARY, HOWELL & ASSOCIATES**

501 EAST IRIS DRIVE

NASHVILLE, TN 37204-3109

HUBERT E. (BUDDY) YEARY  
GREGORY V. HOWELL

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Independent Auditor's Report on Compliance and  
On Internal Control over Financial Reporting Based  
On an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards*

To the Board of Directors  
Tennessee Municipal League  
Nashville, Tennessee

We have audited the financial statements of the Tennessee Municipal League as of and for the year ended June 30, 2001, and have issued a report thereon dated September 10, 2001. 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.

Compliance

As part of obtaining reasonable assurance about whether the Tennessee Municipal League financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tennessee Municipal League's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Tennessee Municipal League's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are as follows:

## CURRENT-YEAR COMMENTS

### Membership Fund Operations

#### (01-01) Fixed Asset Accounting Controls

During the year, League personnel had begun establishing subsidiary records for property and equipment but had ceased these efforts prior to completion.

We recommend that detailed property and equipment records be established for furniture, fixtures and equipment owned by the League and that such records be reconciled periodically to general ledger control totals.. As part of this effort, a complete physical count of fixed assets would be necessary. Controls should also be established for removing retired assets from the detailed records.

#### Management Response

Management concurs and will complete the project previously initiated.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

However, we noted certain matters involving the internal control structure and its operations that we have reported to the management of the Tennessee Municipal League in a separate letter report dated September 10, 2001.

This report is intended for the information of the League's audit committee and management and State regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

September 10, 2001