

EAST TENNESSEE DEVELOPMENT DISTRICT

Financial Statements and Supplementary Information

Year Ended June 30, 2013



EAST TENNESSEE DEVELOPMENT DISTRICT  
Financial Statements and Supplementary Information  
Year Ended June 30, 2013

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EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Directors and Officials  
Year Ended June 30, 2013

**Board of Directors**

**Officers**

Chairman: William Baird, Campbell County Mayor  
Vice-Chairman: Estelle Herron, Loudon County Mayor  
Secretary: Troy Beets, City of Kingston Mayor  
Treasurer: Bill Brittain, Hamblen County Mayor

**Executive Committee Members**

Terry Frank, Anderson County Mayor  
Donald R. Mull, Mayor of Alcoa  
William A. Baird, Campbell County Mayor  
Jack C. Daniels, Claiborne County Mayor  
Vaughn Moore, Cocke County Mayor  
Mark Hipsher, Grainger County Mayor  
Bill Brittain, Hamblen County Mayor  
Rodney K. Davis, Jefferson County Development Representative  
Tim Burchett, Knox County Mayor  
Estelle Herron, Loudon County Mayor  
Tim Yates, Monroe County Mayor  
Don Edwards, Morgan County Executive  
Ron Woody, Roane County Executive  
Troy Beets, City of Kingston Mayor  
Jeff Tibbals, Scott County Mayor  
Larry Watters, Sevier County Mayor  
Mike Williams, Union County Mayor

**Tennessee General Assembly**

Senator Ken Yager  
Representative Kelly Keisling

**Minority Members-at-Large**

George Williams, Manager, Alcoa City Center

EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Directors and Officials (Continued)

**Other Members of the Board of Directors**

Anderson County

Mr. Tim Thompson  
Mayor Scott Burton  
Mayor Timothy L. Sharp  
Mayor Chris Mitchell  
Mayor Tom Beehan

Blount County

Mayor Ed Mitchell  
Mr. Bryan Daniels  
Mayor Ann Edmonds  
Mayor Tom Taylor  
Mayor Tom Bickers  
Mayor Michael Talley  
Mayor Carl Koella

Campbell County

Mayor Chris Stanley  
Mayor Jack Cannon  
Mr. J. Harold Willoughby  
Mayor Mike Stanfield  
Mayor Les Stiers

Claiborne County

Mayor Bill McGaffee  
Mayor Bill Fultz  
Mayor Jerry Beeler  
Ms. Robin Mason  
Mayor Wayne Jessie

Cocke County

Mayor Connie Ball  
Mayor Mary Keller  
Mr. Glenn Ray

Morgan County

Mayor J.R. Voyles  
Mayor Joey Williams  
Mayor Dennis Reagan  
Ms. Sharon Heidel

Grainger County

Mr. David Lietzke  
Mayor Patsy McElhane  
Mayor Danny Turley  
Mayor Terry Wolfe

Hamblen County

Mr. Marshall Ramsey  
Mayor Danny Thomas

Jefferson County

Mayor George A. Gantte  
Mayor Michael Keane  
Mayor Charles Guinn  
Mayor Stanley Wilder  
Mayor Alan Palmieri  
Mayor Mark Potts

Knox County

Mr. Dean Rice  
Mayor Ralph McGill  
Mayor Madeline Rogero

Loudon County

Mayor Tom Peeler  
Mayor Tony Aikens  
Mayor Judy McGill Keller  
Mayor John Drinnon  
Mr. Pat Phillips

Monroe County

Mr. Shan Harris  
Mayor Doyle Lowe  
Mayor Alfred McClendon  
Mayor Patrick Hawkins  
Mayor Larry Summey

Roane County

Mayor Chris Mason  
Mayor Troy Beets  
Mayor Chris Hepler  
Mayor James Watts  
Ms. Leslie Henderson

EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Directors and Officials (Continued)

**Other Members of the Board of Directors**

Scott County

Mr. David Cross  
Mayor Jack E. Lay  
Mayor Virgil D. Cecil  
Mayor George W. Potter

Sevier County

Mayor Mike Werner  
Mayor David Wear  
Mayor Glenn Cardwell  
Mayor Bryan Atchley  
Ms. Earlene Teaster

Union County

Mayor Johnny Merritt  
Mayor H.E. Richardson  
Mayor Gary Chandler



## Independent Auditors' Report

To the Board of Directors  
East Tennessee Development District

We have audited the accompanying financial statements of East Tennessee Development District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, 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 inquires 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The Schedule of Directors and Officers is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal and state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

The Schedule of Directors and Officers has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on it.

*Rodefer Moss & Co, PLLC*

Knoxville, Tennessee  
November 13, 2013

EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis  
June 30, 2013

Within this section of the East Tennessee Development District's (the "District") financial report, management provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

**Financial Highlights**

- The District's assets exceed its liabilities by \$3,106,347 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$2,950,741.
  
- Net position consist of the following:
  - (1) Capital assets, net of accumulated depreciation, of \$54,638
  - (2) Net position amounting to \$1,196,455 and \$21,044 are restricted for use in the Economic Development Agency Revolving Loan Fund Program ("EDA RLF") and the Small and Minority Business Loan program, respectively.
  - (3) Unrestricted net position of \$1,834,210 represent the portion available to maintain the District's continuing obligations to local governments, grantors and creditors.
  
- The District's governmental funds reported a total ending fund balance of \$3,751,709 for the year ended June 30, 2013. This compares to the prior year fund balance of \$3,578,403. Of these amounts, \$1,917,499 and \$1,919,360 were reserved for the EDA RLF Program and the Small and Minority Owned Business Program for the years ended June 30, 2013 and June 30, 2012, respectively.
  
- Total Liabilities of the District's governmental funds at year end increased \$42,232 to \$298,670. Of the total liabilities, \$149,255 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2013.

**Overview of Financial Statements**

Management's Discussion and Analysis introduce the District's basic financial statements. The basic financial statements include: government-wide financial statements; fund financial statements; and notes to the financial statements. The District also includes in this report additional information to supplement the financial statements.

**Government-wide Financial Statements**

The District's annual report includes two government-wide financial statements. These statements both provide long-term and short-term information about the District's status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide financial statements is the *Statement of Net Position*. This is the District-wide statement of position presenting information that includes all of the District's assets and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors in addition to the financial information provided in this report.



EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis (Continued)

**Overview of Financial Statements (Continued)**

The second government-wide statement is the *Statement of Activities* which reports how the District's net position changed during the current fiscal year. All current year revenues and expenses are included regardless of when the cash is received or disbursed. An important purpose of the design of the statement of activities is to show the financial reliance of the District's distinct activities or functions on revenues provided by the District's local governments and grantors.

Both government-wide financial statements are designed to distinguish between governmental activities supported mostly by grants and assessments and business-type activities. However, all of the District's activities fall within governmental activities category.

**Fund Financial Statements**

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The District uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's funds rather than the District as a whole. The district utilizes one type of fund: governmental funds.

*Governmental funds* are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to assist in understanding the differences between these two perspectives.

**Notes to the Financial Statements**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the *Schedule of Expenditures of Federal Awards*, *Schedule of Expenditure of State Awards* and the *Schedule of Directors and Officials*.

**Financial Analysis of the District as a Whole**

The District implemented the new financial reporting model used in this report beginning with fiscal year ended June 30, 2002. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis (Continued)

**Financial Analysis of the District as a Whole (Continued)**

The District's net position increased \$155,606 during the fiscal year from a beginning balance of \$2,950,741 to \$3,106,347 at fiscal year end.

At this time, both state and federal grant programs appear to be stable. The rural transportation program will continue to be funded with a 10% match from the District. Grant administration services to participating cities and counties within our region remain stable as well with multiple new projects that have been approved for funding in addition to the projects we were providing administrative services for as of June 30, 2013. The District continues cost control efforts as reflected in our financial statements.

Summary of Net Position

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,583,754	\$ 2,590,707
Restricted assets	1,317,370	1,129,380
Capital assets	<u>54,638</u>	<u>72,338</u>
Total assets	<u>\$ 3,955,762</u>	<u>\$ 3,792,425</u>
Current liabilities	\$ 149,415	\$ 141,684
Small and minority owned business loan payable	<u>700,000</u>	<u>700,000</u>
Total liabilities	<u>\$ 849,415</u>	<u>\$ 841,684</u>
Net Position		
Net investment in capital assets	\$ 54,638	\$ 72,338
Restricted for revolving loan fund	1,196,455	1,188,973
Small and minority owned business loan program	21,044	26,818
Unrestricted	<u>1,834,210</u>	<u>1,662,612</u>
Total net position	<u>\$ 3,106,347</u>	<u>\$ 2,950,741</u>

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$155,606. We have maintained good control over our expenses and an increase in Total Assets is reflective of the increase in net position.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis (Continued)

**Financial Analysis of the District as a Whole (Continued)**

The comparative data provided below is a summary of changes in net position for the current and previous fiscal years:

Summary of Changes in Net Position

	<u>2013</u>	<u>% of Total</u>	<u>2012</u>	<u>% of Total</u>
<b>Revenues</b>				
Programs revenues:				
Charges for services	\$ 1,077,712	48.4%	\$ 1,233,207	55.1%
Operating grants	1,097,402	49.2%	927,551	41.4%
General revenues:				
Interest earned	53,898	2.4%	78,561	3.5%
Other revenues	<u>850</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Total revenues	<u>\$ 2,229,862</u>	<u>100.0%</u>	<u>\$ 2,239,319</u>	<u>100.0%</u>
<b>Expenses</b>				
General government	\$ 1,176,994	56.7%	\$ 1,110,121	56.6%
Public services	<u>897,262</u>	<u>43.3%</u>	<u>850,755</u>	<u>43.4%</u>
Total expenses	<u>\$ 2,074,256</u>	<u>100.0%</u>	<u>\$ 1,960,876</u>	<u>100.0%</u>
Change in net position	\$ 155,606		\$ 278,443	
Net position at the beginning of the year	<u>2,950,741</u>		<u>2,672,298</u>	
Net position at the end of the year	<u>\$ 3,106,347</u>		<u>\$ 2,950,741</u>	

In review of the Summary of Changes in Net Position, there have been a few shifts from the previous year. The Charges for services have decreased \$155,495 mainly due to the Local Planning services Transition Grant reduction of \$107,000 and one of our main local assessments being paid that was not in the previous year. Our operating grants increased \$169,851 mainly due to a new Water Quality Grant this year. Public Service expenses have increased this year due to the addition of the Water Quality Grant. The General government expenses have increased this year over last with an increase in ERP requests this year.

**Financial Analysis of the District's Funds**

**Governmental Funds**

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of expendable resources focus. This information is useful in assessing resources available at year-end in comparison with upcoming financing requirements. Governmental funds reported ending fund balance of \$3,751,709. Of this year-end total \$1,834,210 is unreserved indicating availability for continuing District requirements. Restricted fund balances of \$1,917,499 are reserved for the EDA RLF Program \$1,196,455 and the Small and Minority Owned Business Loan Program \$721,044. Fund balances increased this year by \$173,306. Key factors contributing to this increase were revenues from grant programs and continued efforts to control operating costs.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis (Continued)

**Proprietary Funds**

The District has no proprietary funds.

**Capital Asset and Debt Administration**

**Capital Assets**

The District's capital assets, \$199,576, net of accumulated depreciation (\$144,938) amounted to \$54,638. Additions made to capital assets during the fiscal year amounted to \$3,927. Depreciation expense for the year amounted to \$21,627.

**Long-term Debt and Bond Ratings**

The District has no long-term debt. Development District legislation has no provision authorizing the issuance of bonds.

**Economic Factors and Next Year's Budget**

The Tennessee economy experienced sustained growth during the first 9 months of 2013 although the pace of expansion has not equaled expectations. Despite the relatively modest pace of growth, the state was able to make up additional ground that was lost over the course of the Great Recession. Further progress is needed in the quarters ahead to allow for a full recovery, especially in state labor markets. Employment growth came in at 1.3 percent versus 1.4 percent growth for the national economy. Especially noteworthy was the 2.9 percent increase in employment in the state's manufacturing sector. Growth in the durable goods sector has been vibrant while job losses in nondurable goods manufacturing have continued (CBER Tennessee Economic Outlook for 2013).

Within the ETDD region, several large industrial locations and expansions have occurred in 2013. In Loudon County, the location of Del Conca Tile will create 178 new jobs and the company will invest over \$70 million in a new building and equipment. The recent location of ProNova in Blount County will result in the creation of 500 new jobs and the company expects to invest up to \$52 million in buildings and equipment. Long time heavyweight Alcoa Aluminum announced a \$300 million dollar expansion in the summer of 2013 - reversing a sustained decline in the manufacturing capacity of their Blount County operations.

The housing sector continues to improve as low cost financing and affordable prices have combined to bolster existing home sales levels. As inventories decrease, housing developers are adding new housing stock at a pace not seen since the pre-recession years. In the Town of Farragut, the value of building permits issued in the first 9 months of 2013 exceeds the total annual value of permits for all of 2012.

Tourism revenues are also staging an impressive comeback. In Sevier County, the dominant tourism market in the ETDD region, sales tax revenues are up 4.6 % over 2012 levels and 12.4% over 2011 levels.

At the federal level, continued uncertainty regarding annual budget levels for programs, the impact of another round of sequestration and the partisan brinkmanship that seems to be associated with increasing the debt ceiling level will cause significant anxiety among all benefactors of federal funding. However, ETDD recently received confirmation from the Economic Development Administration that another 3 years of funding have been approved at a level of \$58,500 per year. This level is marginally lower than the \$63,000 annual contribution that ETDD received over the past three years but certainly a welcome commitment in tight budget times. Likewise for the Appalachian Regional Commission - ETDD expects to receive \$128,530 in calendar year 2013 versus the \$135,369 that ETDD received in calendar year 2012. Although the levels of funding have decreased, ETDD is faring comparatively well given the current fiscal climate.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis (Continued)

**Economic Factors and Next Year's Budget (Continued)**

At the state level, ETDD has received commitments from various state departments to fund all of ETDD's existing state funded activities. TDOT will continue to fund the two Rural Transportation Organizations at level funding, TACIR will continue to fund the infrastructure survey at level funding, THDA will maintain its \$20,000 commitment for housing advocacy and the Historical Commission will fund ETDD's historic preservation activities at the FY 2012 level. The solid waste program experienced a reduction of approximately \$10,000 from 2012 and the Elderly Repair Program will not be funded by THDA in FY 2014. Beyond these modest decreases, ETDD's funding from the State of Tennessee remains stable and reliable.

Internally, ETDD expects to continue to garner grant administration revenue from the Community Development Block Grant Program, the FastTrack Infrastructure Development Program and the US Economic Development Administration. Total annual revenues from these programs should remain stable with past annual levels.

In summary, even during the tight budget environment, both the Federal Government and the State of Tennessee have continued to fund all of the District's current programs. All indications are that the Federal Government and the State of Tennessee will continue to fund the District's programs at current or slightly lower levels for the foreseeable future. This expectation, coupled with an accelerated economic recovery in the region, leave the District in a somewhat favorable position for the coming year. Although the region is still experiencing relatively high unemployment rates, growth in the service sector (lodging, legal, education management, health services, etc.) is robust and significant increases in business investment are evident throughout the region. The economic outlook for the State of Tennessee for 2014 includes dramatic new job growth and healthy increases in household income averages. Given these factors, along with historic low interest rates, and increased consumer confidence and spending, economic activity in our region is expected to be above average in 2014.

Analysis of economic factors and trends in government funding are essential to the District's budgeting process. For the fiscal year ending June 30, 2014, the District's Board of Directors approved a budget with total expenditures of \$1,823,794 and total revenues of \$1,823,828. The District's budget is adopted and maintained in compliance with applicable District policies and State laws.

**Contacting the District's Financial Management**

This financial report is designed to provide a general overview of the District's finances, comply with finance-related laws and regulations and demonstrate the District's commitment to public accountability. If you have questions about this report or would like additional information, contact the District's Fiscal Officer at P.O. Box 249, Alcoa, TN 37701-0249.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Statement of Net Position  
June 30, 2013

ASSETS

Current Assets - Unrestricted

Cash and cash equivalents	\$ 1,663,843
Accounts receivable	155,671
Intergovernmental receivables	149,255
Prepaid expenses	<u>14,856</u>

Total current assets - unrestricted \$ 1,983,625

Current Assets - Restricted

Revolving Loan Fund, current maturities	89,153
Small and Minority-Owned Business Loan Program, current maturities	<u>166,313</u>

Total current assets - restricted 1,317,370

Total current assets 3,300,995

Capital assets, net of accumulated depreciation

54,638

Revolving Loan Fund, less current maturities

533,015

Small and Minority-Owned Business Loan Program, less current maturities

67,114

Total assets \$ 3,955,762

LIABILITIES AND NET POSITION

Current Liabilities

Accounts payable	\$ 39,518
Accrued leave	73,038
Other current liabilities	<u>36,859</u>

Total current liabilities \$ 149,415

Small and Minority-Owned Business Loan Payable

700,000

Total liabilities 849,415

Net Position

Net investment in capital assets	54,638
Restricted for Revolving Loan Fund	1,196,455
Restricted for Small and Minority Owned Business Loan Program	21,044
Unrestricted	<u>1,834,210</u>

Total net position \$ 3,106,347

EAST TENNESSEE DEVELOPMENT DISTRICT  
Statement of Activities  
Year Ended June 30, 2013

Function / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Net Revenue
Governmental activities				
General government	\$ 1,176,994	\$ 1,077,712	\$ -	\$ (99,282)
Public service	<u>897,262</u>	<u>-</u>	<u>1,097,402</u>	<u>200,140</u>
Total governmental activities	<u>\$ 2,074,256</u>	<u>\$ 1,077,712</u>	<u>\$ 1,097,402</u>	<u>100,858</u>
General revenues				
Interest earned				7,245
Other revenue				<u>850</u>
Total general revenue				<u>8,095</u>
Public service revenue				
Interest earned				<u>46,653</u>
Increase in net position				155,606
Net position at the beginning of the year				<u>2,950,741</u>
Net position at the end of the year				<u>\$ 3,106,347</u>

EAST TENNESSEE DEVELOPMENT DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2013

	General	Grants Management	Total Governmental Funds
<b>ASSETS</b>			
Current Assets - Unrestricted			
Cash and cash equivalents	\$ 1,663,843	\$ -	\$ 1,663,843
Accounts receivable	155,671	-	155,671
Due from other funds	149,255	-	149,255
Intergovernmental receivable	-	149,255	149,255
Prepaid expenses	14,856	-	14,856
Total current assets - unrestricted	1,983,625	149,255	2,132,880
Restricted assets:			
Revolving Loan Fund, current maturities	89,153	-	89,153
Small and Minority-Owned Business Loan Program, less current maturities	166,313	-	166,313
Total current assets - restricted	1,317,370	-	1,317,370
Total current assets	3,300,995	149,255	3,450,250
Revolving Loan Fund, less current maturities	533,015	-	533,015
Small and Minority-Owned Business Loan Program, less current maturities	67,114	-	67,114
Total assets	\$ 3,901,124	\$ 149,255	\$ 4,050,379
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities			
Accounts payable	\$ 39,518	\$ -	\$ 39,518
Accrued leave	73,038	-	73,038
Other current liabilities	36,859	-	36,859
Due to other funds	-	149,255	149,255
Total current liabilities	149,415	149,255	298,670
Fund balances			
Restricted for			
Restricted for Revolving Loan Fund	1,196,455	-	1,196,455
Small and Minority Owned Business Loan Program	721,044	-	721,044
Unassigned	1,834,210	-	1,834,210
Total fund balances	3,751,709	-	3,751,709
Total liabilities and fund balances	\$ 3,901,124	\$ 149,255	\$ 4,050,379



EAST TENNESSEE DEVELOPMENT DISTRICT  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
June 30, 2013

Total fund balance - total governmental funds	\$ 3,751,709
Amounts reported for government activities in the statement of net assets are different because:	
Capital assets of \$199,576 net of accumulated depreciation of (\$144,938) are not financial resources and, therefore are not reported in the funds. See Note 4.	54,638
Long -term liabilities are not due and payable in the current period and therefore are not reported in the funds. See Note 10 for additional detail.	<u>(700,000)</u>
Net assets of governmental activities	<u>\$ 3,106,347</u>

EAST TENNESSEE DEVELOPMENT DISTRICT  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Governmental Funds  
Year Ended June 30, 2013

	General Fund	Grants Management	Total
<b>Revenues</b>			
Grantor contributions	\$ -	\$ 938,168	\$ 938,168
Contributions - in-kind	-	159,234	159,234
Local assessments	188,039	-	188,039
Local contracts	379,555	-	379,555
Interest income	46,455	-	46,455
Administrative contracts	240,763	-	240,763
Regional Planning	260,167	-	260,167
Other revenue	17,481	-	17,481
<b>Total revenue</b>	<b>1,132,460</b>	<b>1,097,402</b>	<b>2,229,862</b>
<b>Expenditures</b>			
Salaries	529,368	337,004	866,372
Fringe benefits	275,430	175,346	450,776
Travel	22,713	14,460	37,173
Rent - office, storage, and equipment	47,553	30,273	77,826
Capital purchases	2,399	1,528	3,927
Audit	7,026	4,474	11,500
Contracted services	986	627	1,613
Automobile expenses	7,527	4,792	12,319
Conferences and meetings	8,356	5,320	13,676
Printing	3,269	2,080	5,349
Equipment repairs and maintenance	14,722	9,373	24,095
Memberships and publications	5,891	3,751	9,642
Postage	3,567	2,270	5,837
Materials and supplies	5,146	3,276	8,422
Telephone and e-mail services	3,453	2,199	5,652
Insurance premiums	9,464	6,025	15,489
Grant expenses	192,959	122,840	315,799
Planning expense	14,644	9,322	23,966
Grant expenses - in-kind	-	159,234	159,234
Other expenditures	4,821	3,068	7,889
<b>Total expenditures</b>	<b>1,159,294</b>	<b>897,262</b>	<b>2,056,556</b>
Excess (deficiency) of revenues over expenditures	(26,834)	200,140	173,306
<b>Other financing sources (uses)</b>			
Transfers from other funds	200,140	-	200,140
Transfers to other funds	-	(200,140)	(200,140)
<b>Net other financing sources (uses)</b>	<b>200,140</b>	<b>(200,140)</b>	<b>-</b>
<b>Net increase in fund balance</b>	<b>173,306</b>	<b>-</b>	<b>173,306</b>
Fund balances at the beginning of the year	3,578,403	-	3,578,403
Fund balances at the end of the year	<u>\$ 3,751,709</u>	<u>\$ -</u>	<u>\$ 3,751,709</u>

See notes to financial statements.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Reconciliation of the Governmental Funds Statement  
Fund Balance to the Statement of Activities  
Year Ended June 30, 2013

Increase in Fund Balances - Governmental Funds \$ 173,306

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures however, in the  
statement of activities, the cost of those assets is allocated over their estimated  
useful lives and recorded as depreciation expense. Depreciation expense in the  
current period was \$21,627. There were \$3,927 in net capital purchases.

(17,700)

Increase in Net Assets - Governmental Activities

\$ 155,606

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements  
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

East Tennessee Development District (the "District") follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

**Financial Reporting Entity** - The District is a political subdivision of the State of Tennessee created in accordance with Chapter 241 of the Public Acts of 1965. The District was established in 1966 as a means for the counties and municipalities within the district to effectively organize themselves to carry on general and comprehensive planning and development activities. The District serves Anderson, Blount, Campbell, Claiborne, Cocke, Grainger, Hamblen, Jefferson, Knox, Loudon, Monroe, Roane, Scott, Sevier and Union Counties, in the State of Tennessee. There are no other entities which comprise the reporting entity. The District is not a component unit of another reporting entity.

**Basis of Presentation**

*Government-Wide Financial Statements* - The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The District only participates in governmental activities. These activities are financed through intergovernmental revenues and other non-exchange revenues.

*Fund Financial Statements* - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. The District's funds are categorized as governmental. An emphasis is placed on major funds. Both of the District's funds are considered to be major because total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category.

The funds of the financial reporting entity are described below:

**Governmental Funds**

*General Fund* - The General Fund is the primary operating fund of the District and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

*Special Revenue Funds* - Special Revenue Funds are used to account for the proceeds for specific revenue sources that are legally restricted to expenditures for certain purposes.

**Major Funds**

The funds are further classified as major or non-major as follows:

*General* - The fund accounts for all activities except those legally or administratively required to be accounted for in other funds.

*Grants Management Fund* - The fund is used to account for revenues and expenditures of all grants received.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**Measurement Focus and Basis of Accounting** - Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus** - On the government-wide Statement of Net Position and the Statement of Activities, activities are presented using the economic resources measurement focus as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus is used.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. The funds use fund balance as the measure of available spendable financial resources at the end of the period.
- b. The accounting objectives of the “economic resources” measurement focus are the determination of operating income, changes in net position (or cost recovery) and financial position. All assets and liabilities (whether current or non-current) associated with their activities are reported.

**Basis of Accounting** - In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis accounting, revenues are recognized when “measurable and available.” Measurable is defined as knowing or being able to reasonably estimate the amount. Available is defined as collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

When both restricted and unrestricted sources are available for use, it is the District’s policy to use restricted resources first, then unrestricted as they are needed.

**Cash and Cash Equivalents** - For reporting purposes, the District considers all demand accounts and certificates of deposits to be cash equivalents.

**Interfund Receivables and Payables** - During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

**Receivables** - In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include grants, assessments, and contractual reimbursements.

In the fund financial statements, material receivables include revenue accruals such as grants and other intergovernmental revenues since they are usually both measurable and available.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**Notes Receivable** - The notes receivable consist of loans to various local business through the Revolving Loan Fund and Small and Minority-Owned Business Loan program, further discussed in Notes 8 and 9, respectively.

**Capital Assets** - In the governmental-wide financial statements, capital assets are accounted for as capital assets. All capital assets are valued at historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Computer equipment	3 years
Autos and other equipment	5 years

**Equity Classifications**

Government-wide Statements

Equity is classified as net position and displayed in three components:

- a) Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b) Restricted net position - consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position - all other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

*Non-spendable* fund balance includes amounts that cannot be spent because they are either not in spendable form (i.e., inventories) or legally or contractually required to be maintained intact (the corpus of a permanent fund). Non-spendable fund balance also includes the long-term portion of loans and notes receivable and property acquired for resale.

*Restricted* fund balances have constraints imposed by grantors, creditors, contributors, laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

*Committed* fund balances result when the government’s governing body imposes constraints through formal action of that body. Committed amounts cannot be used for any other purpose unless the government removes the constraint using the same type of action that was used to commit those amounts. The government would commit, modify or rescind those funds by a vote of the Executive Committee.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**Equity Classifications - (Continued)**

*Fund Financial Statements - (Continued)*

*Assigned* fund balances are constrained by the government's intent for those assigned amounts to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the governing body, a body to which the governing body has delegated authority (i.e., a budget or finance committee), or an official that the governing body has designated. The Executive Director or Deputy Director would be authorized to assign these funds. This would be treated on a case by case basis as authorized by a vote of the Executive Committee.

Any residual fund balance remaining after all of the other categories of fund balance have been determined is categorized as *unassigned* fund balance.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then use unrestricted fund balance. Furthermore, committed fund balances first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes which amounts in any of those unrestricted fund balance classifications can be used. As of June 30, 2013, the District did not have committed or assigned fund balances.

**Restricted Assets** - Restricted assets include cash and notes receivable of the general fund that are legally restricted as to their use. These assets are related to the Economic Development Agency Revolving Loan Fund Program and the Small and Minority-Owned Business Loan Program.

**Concentration of Risk** - Financial instruments that potentially subject the District to concentrations of credit risk consist primarily of cash. The District places its cash with financial institutions and, at times, such balances may exceed federally insured amounts. At June 30, 2013, all of the District's bank accounts were fully insured either by the FDIC or by the banks' participation in the State of Tennessee's collateral pool.

**Compensated Absences** - The District's employees are granted annual leave in varying amounts per month based on years of service, as well as 45 hours in personal leave per fiscal year. Annual leave may be accumulated in an amount up to 450 hours; amounts in excess of 450 hours at June 30 will be forfeited. At June 30, 2013, accrued annual leave amounted to \$73,038. Up to 15 hours of unused personal leave may be carried over to the next year. The unused portion is forfeited. The unearned portion of personal leave is forfeited upon termination of employment. Prior to December 31, 1998, employees were granted sick leave. Accrued sick leave may be used for bereavement and in conjunction with short-term and/or long-term disability and is forfeited at termination.

**Revenues** - Amounts reported as program revenues include: (1) operating grants; and (2) charges for services for local assessments, local contracts, and administrative contracts. Interest and other revenue are reported as general revenues rather than program revenues.

**In-kind Revenue and Expenditures** - The District administers the elderly repair program which requires an in-kind match of labor or materials from the home-owner. The match is determined by the number of labor hours at minimum wage and the actual cost of the materials and is recorded as in-kind revenue and in-kind grant expenses. In-kind revenue and grant expenses were \$159,234 for the year ended June 30, 2013.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

**Expenditures/Expenses** - In the government-wide financial statements, expenses are classified by function for government type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character:            Current (further classified by function)

In the fund financial statements, governmental funds report expenditures of financial resources.

**Interfund Transfers** - Permanent reallocation of resources between funds of the reporting entity, are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual government funds have been eliminated.

**New Accounting Pronouncements** - For fiscal year 2013, the District implemented GASB Statements No. 63 and 65. Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statements No. 4, Elements of Financial Statements, as a consumption of net position applicable to future reporting period and an acquisition of net position applicable to a future reporting period, respectively. Further, Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Date of Management's Review** - Management has evaluated events for recognition or disclosure through November 13, 2013, which is the date the financial statements were issued. No material or significant events have occurred that would affect the financial statements or footnote disclosures through that date.



EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 2 - CASH AND CASH EQUIVALENTS

The District's bank deposits at year-end were entirely covered by federal depository insurance and collateral held in the District's name in the Bank Collateral Pool monitored by the State of Tennessee Treasury Department.

NOTE 3 - ADMINISTRATIVE COSTS

The District contracts to provide accounting and administrative services to Areawide Development Corporation Reimbursement. Accounting and administrative costs totaled \$344,436 (including in local contract revenue) for the year ended June 30, 2013.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

	Balance as of 7/1/12	Additions	Retirements	Balance as of 6/30/13
Governmental activities				
Furniture and equipment	\$ 124,445	\$ 3,927	\$ -	\$ 128,372
Automobile	88,856	-	17,652	71,204
	\$ 213,301	\$ 3,927	\$ 17,652	\$ 199,576
Accumulated depreciation				
Furniture and equipment	\$ 97,780	\$ 9,890	\$ -	\$ 107,670
Automobiles	43,183	11,737	17,652	37,268
	\$ 140,963	\$ 21,627	\$ 17,652	\$ 144,938
Governmental activities capital assets, net	\$ 72,338	\$ (17,700)	\$ -	\$ 54,638

Depreciation expense was charged to governmental activities as follows:

General government	\$ 5,935
Public services	15,692
Total depreciation expense	\$ 21,627

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 5 - OPERATING LEASES

East Tennessee Development District leases facilities, a storage location, and office equipment under operating leases. Rent expense under these leases for the year ended June 30, 2013, was \$77,826. Operating lease requirements under these agreements for the next five years and thereafter will be approximately:

2014	\$ 77,544
2015	77,544
2016	77,297
2017	76,884
2018	76,884
Thereafter	<u>2,133,531</u>
	<u>\$ 2,519,684</u>

NOTE 6 - RETIREMENT PLANS

**Deferred Compensation Plan**

Employees of the East Tennessee Development District may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457(b) (Deferred Compensation Plans With Respect to Service for State and Local Governments). The District adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Sections 457 Deferred Compensation Plans*, in 1998. In accordance with GASB No. 32, the separate assets and liabilities of the plan are in a separate trust and therefore are not reflected in the accompanying financial statements. The Plan is administered by Hartford Life Insurance Company effective January 1, 2012. Previously, the Plan was administered by Nationwide Retirement Consulting Group.

Employees are eligible on the first day of the month following completion of six months of continuous service. The Plan permits salary reduction contributions up to the maximum allowed as well as catch up contributions for employees beginning at age 50. The District matches 100% of the employee's contributions up to 5% of W-2 eligible compensation. The District may also make a discretionary contribution each year in addition to the matching contribution. There was no discretionary contribution for the year ended June 30, 2013. Employee contributions were \$67,879 and the District's match was \$41,508 for the year ended June 30, 2013. Employees are 100% vested at all times.

**Money Purchase Pension Plan**

The District maintains a Money Purchase Pension Plan for all employees in lieu of social security deductions. The Plan is defined contribution plan, established January 1, 1983, and amended January 1, 2010, under Section 401(a) of the Internal Revenue Code. All employees depend solely on amounts contributed by the District to the Plan. Employees must be 18 years of age in order to participate in the Plan and become eligible immediately on their hire date. The Plan has fixed employer contribution of 15.3% of W-2 eligible wages. The fixed contribution amount may be adjusted annually and equals the FICA tax rate plus the Medicare tax rate for the Plan year for both an employer and an employee subject to those taxes but no less than 7.5%. Employees are 100% vested at all times. The District's total salaries were \$866,372 in 2013. The District contributed \$132,362 to the Plan for the year ended June 30, 2013.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 7 - REVOLVING LOAN FUND

The District administers a program whereby low interest loans are made to businesses qualifying under a long-term economic deterioration grant under Title IX, Section 903 of the Public Works and Economic Development Act of 1965, as amended, and the Revolving Loan Fund Plan for East Tennessee Development District (the "Plan") dated July 29, 1983.

Funding for the loans is provided by the U.S. Economic Development Administration ("EDA") and the Tennessee Department of Economic and Community Development ("TECD"), at 75% and 25%, respectively.

The June 30, 2013 balance of \$622,168 in notes receivable consists of loans to seven entities. The notes bear, at a minimum, a rate of interest of prime (as defined) minus 1%, are collateralized by certain equipment, and mature in 2014 through 2026. Current interest rates range from 5.25% to 8.00%.

The District's exposure to credit loss in the amount of nonperformance by the other party to the notes receivable is represented by the contractual amount of the notes receivable. The District evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained is based on the Revolving Loan Fund guidelines. Management periodically evaluates the need for an allowance for losses based on the known and inherent risk, adverse situations that may affect the borrowers' ability to repay, estimated value of underlying and current economic conditions. As of June 30, 2013, management does not deem an allowance necessary.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2014	\$ 89,153
2015	75,103
2016	58,192
2017	61,958
2018	64,811
Thereafter	<u>272,951</u>
	<u>\$ 622,168</u>

NOTE 8 - SMALL AND MINORITY-OWNED BUSINESS LOAN PROGRAM

The District contracted with the State of Tennessee, Department of Treasury to administer and service loans for the State's Small and Minority-Owned Business Assistance Program developed pursuant to Chapter 830 of the Tennessee Public Acts of 2004 to support outreach to new, expanding, and existing small and minority-owned businesses in Tennessee that do not have reasonable access to capital markets and traditional commercial lending facilities.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 8 - SMALL AND MINORITY-OWNED BUSINESS LOAN PROGRAM - (Continued)

The District is responsible for re-lending funds by originating and servicing loans at below market rates to qualifying businesses located in the counties within the district for the purpose of starting and expanding the respective business of the qualifying business. The qualifying business may obtain loans that initially finance a specific project such as acquisition of machinery and equipment, working capital, supplies and materials, inventory, and other business-related activity as approved by the Program Administrator. The maximum loan amount to any one qualifying business shall not exceed \$125,000 with an interest rate between a maximum of 2% over prime or a minimum of 2% under prime. The repayment period depends upon the use of the loan proceeds: equipment - the lesser of 5 years or its useful life; working capital, supplies and inventory - 3 years; or other business-related activity - 5 years. The collateral for the loans may be business or personal and may include real property, tangible personal property, accounts receivable, certificates of deposit, and other intangibles. However, assets acquired with loan proceeds must be used to secure the loan. Personal guarantees from all principal owners (with 20% or more ownership) must be obtained.

The District has notes receivable outstanding at June 30, 2013, of \$233,427 to seven entities with maturities ranging from 3 to 5 years and interest rates ranging from 5.25% to 8.00% and are collateralized based upon the established guidelines.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30.</u>	
2014	\$ 166,313
2015	56,145
2016	7,376
2017	<u>3,593</u>
	<u>\$ 233,427</u>

The District must repay the State of Tennessee the principal of all loans made under this program. The repayment of the funds has been deferred until the end of the program term, (ten years with an option to renew for additional five year terms). If the contract is terminated by the State of Tennessee for failure of the District to perform its obligations in a timely or proper manner or violation of any terms of the contract, the principal balance of all loans made under the program will be immediately due and payable on the effective date of the termination.

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. The balance of long-term liabilities due to the Small and Minority-Owned Business Loan Program at June 30, 2013, was \$700,000.

NOTE 9 - CHANGES IN SMALL AND MINORITY-OWNED BUSINESS LOAN PAYABLE

	Balance as of 6/30/2012	Increases	Decreases	Balance as of 6/30/2013
State of Tennessee				
Department of Treasury				
Small and minority owned business loan program	\$ 700,000	\$ -	\$ -	\$ 700,000

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 11 - RISK MANAGEMENT

The District carries commercial insurance for risks of loss including general liability, property, casualty, directors' and officers' liability, automobile, and crime. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12 - CONTINGENCY

The District participates in federal and state financial assistance programs. Management is not aware of any deficiencies or noncompliance issues that, upon ultimate resolution, would have a material adverse impact on the financial statements of the District.



SUPPLEMENTARY INFORMATION



EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Expenditures of Federal Awards  
June 30, 2013

Grantor Agency	Program Name and CFDA Number	Contract Number	Amount of Award	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred	
U.S. Department of Commerce - Economic Development Administration	District Planning CFDA #11.302	04-83-06308	*	\$ -	\$ 31,500	\$ 60,750	\$ 29,250	(1)
U.S. Department of Commerce - Economic Development Administration	Revolving Loan Fund CFDA #11.307	04-39-03208		-	924,963	924,963	-	
National Park Service	Historic Preservation CFDA #15.904	GG-1237403 33064	32,000 32,000	9,856 -	9,856 20,476	- 28,939	- 8,463	(1)
Appalachian Regional Commission	District Assistance CFDA #23.009	TN-0710B-C42	135,368	-	135,409	135,409	-	
Federal Highway Administration	Rural Transportation (N) CFDA #20.205	GG-1236010 GG-1339527	45,190 45,190	10,986 -	10,986 34,464	- 45,247	- 10,783	(1)
Federal Highway Administration	Rural Transportation (S) CFDA # 20.205	GG-1235955 GG-1339524	47,638 47,638	11,215 -	11,215 34,489	- 47,383	- 12,894	(1)
Total Expenditures of Federal Awards				<u>\$ 32,057</u>	<u>\$ 1,213,358</u>	<u>\$ 1,242,691</u>	<u>\$ 61,390</u>	

(1) Due from grantor at June 30, 2013.

\*The award is for 3 Calendar years 1/1/2013-  
12/31/2015

EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Expenditures of State Awards  
June 30, 2013

Grantor Agency	Program Name and CFDA Number	Contract Number	Amount of Award	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
Tennessee Advisory Commission on Intergovernmental Relations	Infrastructure Program	GU-12-36-955 33315	\$ 68,280 70,120	\$ 20,911 -	\$ 20,911 49,084	\$ - 70,120	\$ - 21,036 (1)
Tennessee Department of Environment and Conservation	Solid Waste Grant	Z-09-213436-00 GG1338884	25,250 36,860	13,501 -	13,501 17,865	- 36,068	- 18,203 (1)
Tennessee Department of Economic and Community Development	Matching Fund Grant	33013	150,000	-	150,000	150,000	-
Tennessee Department of Economic and Community Development	Planning	GG-12-37-907	50,000	-	50,000	50,000	-
Tennessee Housing Development Authority	Technical Assistance Grant	31620-00075 31620-00137	20,000	11,650 -	11,650 4,425	- 19,300	- 14,875 (1)
Tennessee Housing Development Authority	Elderly Repair Program	Z-01-038328-00 ERP-2012-001	222,000	33,892 -	33,892 174,104	- 204,927	- 30,823 (1)
Tennessee Department of Environment and Conservation	Water Quality Grant	29992 33049	86,800 47,700	- -	86,800 12,140	86,800 41,825	- 29,685 (1)
Department of Transportation	Rural Transportation (S)	GG-12-35-955 GG-1339524	5,955 5,955	1,386 -	1,386 4,263	- 5,857	- 1,594 (1)
Department of Transportation	Rural Transportation (N)	GG-12-36-010 GG-1339527	5,649 5,649	1,358 -	1,358 4,260	- 5,592	- 1,332 (1)
Total Expenditures of State Awards				<u>\$ 82,698</u>	<u>\$ 635,639</u>	<u>\$ 670,489</u>	<u>\$ 117,548</u>

(1) Due from grantor at June 30, 2013.

(2) The Schedule excludes in-kind contributions

See accompanying independent auditors' report.



EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Schedules of State and Federal Awards  
June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedules of expenditures of state and federal awards (the "Schedules") include the state and federal grant activity of East Tennessee Development District (the "District") under programs of the state and federal government for the year ended June 30, 2013. The information in these Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these Schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements. Catalog of Federal Domestic Assistance ("CFDA") numbers are presented for those programs for which such numbers were available. All programs are presented by the state and federal department. Because the Schedules present only a selected portion of the operations of the District, they are not intended to and do not present the financial position, changes in net position, or cash flows of the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - LOANS

Loans made by the District to eligible participants under Revolving Loan Fund Program during the year ended June 30, 2013 are summarized as follows:

Revolving Loan Fund Program	
Loans Disbursement	<u>\$ 622,168</u>

Independent Auditors' 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*

To the Board of Directors  
East Tennessee Development District

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of East Tennessee Development District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements of the District, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 13, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Rodehor Moss & Co, PLLC*

Knoxville, Tennessee  
November 13, 2013



Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
East Tennessee Development District

**Report on Compliance for Each Major Federal Program**

We have audited East Tennessee Development District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2013. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

**Report on Internal Control Over Compliance**

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Rodefer Moss & Co, PLLC*

Knoxville, Tennessee  
November 13, 2013



EAST TENNESSEE DEVELOPMENT DISTRICT  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2013

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unqualified  
 Internal control over financial reporting:  
   Material weakness(es) identified? \_\_\_ yes X no  
   Reportable condition(s) identified not considered to be material weaknesses? \_\_\_ yes X none reported  
 Noncompliance material to financial statements noted? \_\_\_ yes X no

**Federal Awards**

Internal control over major programs:  
   Material weakness(es) identified? \_\_\_ yes X no  
   Reportable condition(s) identified not considered to be material weaknesses? \_\_\_ yes X none reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be Reported in accordance with Circular A-133, Section 510(a) \_\_\_ yes X no

Identification of major programs:

**CFDA Number(s)**

**Name of Federal Program or Cluster**

11.307

Revolving Loan Fund

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes \_\_\_no

**Section II - Financial Statement Findings**

None noted

**Section III - Federal Award Findings and Questioned Costs**

None noted