

EAST TENNESSEE DEVELOPMENT DISTRICT
Financial Statements and Supplementary Information
Year Ended June 30, 2017



EAST TENNESSEE DEVELOPMENT DISTRICT
Financial Statements and Supplementary Information
Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
Schedule of Directors and Officials	1
Independent Auditors' Report	4
Management's Discussion & Analysis	6
Basic Financial Statements:	
Statement of Net Position	13
Statement of Activities	14
Balance Sheet - Governmental Funds	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	17
Reconciliation of the Governmental Funds Statement Fund Balance to the Statement of Activities	18
Notes to Financial Statements	19
Supplementary Information:	
Schedule of Expenditures of Federal Awards	27
Schedule of Expenditures of State Awards	28
Notes to Schedules of Expenditures of State and Federal Awards	29
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 <i>Government Auditing Standards</i>	30
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 Required by the Uniform Guidance	32
Schedule of Findings and Questioned Costs	34

EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Directors and Officials
Year Ended June 30, 2017

Board of Directors

Officers

Chairman: Terry Frank, Anderson County Mayor
Vice-Chairman: Johnny Merritt, City of Luttrell Mayor
Secretary: E.L. Morton, Campbell County Mayor
Treasurer: Ron Woody, Roane County Executive

Executive Committee Members

Terry Frank, Anderson County Mayor
Donald R. Mull, Mayor of Alcoa
E.L. Morton, Campbell County Mayor
Jack C. Daniels, Claiborne County Mayor
Crystal Ottinger, Cocke County Mayor
Terry Wolfe, Mayor of Bean Station
Bill Brittain, Hamblen County Mayor
Rodney K. Davis, Jefferson County Development Representative
Tim Burchett, Knox County Mayor
Rollen "Buddy" Bradshaw, Loudon County Mayor
Tim Yates, Monroe County Mayor
Don Edwards, Morgan County Executive
Ron Woody, Roane County Executive
Tim Thompson, Anderson County Development Representative
Dale Perdue, Scott County Mayor
Larry Waters, Sevier County Mayor
Johnny Merritt, City of Luttrell Mayor

Tennessee General Assembly

Senator Ken Yager
Representative Kelly Keisling

Minority Members-at-Large

Roland Dykes, III

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 Michael Lovely
Mayor Chris Mitchell
Mayor Warren Gooch

Blount County

Mayor Ed Mitchell
Mr. Bryan Daniels
Mayor Andy Lawhorn
Mayor Tom Taylor
Mayor Tom Bickers
Mayor Michael Talley
Mayor Carl Koella

Campbell County

Mayor Bobby Stooksbury
Mayor Jack Cannon
Mr. Andy Wallace
Mayor Mike Stanfield
Mayor Forster Baird

Claiborne County

Mayor Neal Pucciarelli
Mayor Linda Fultz
Mayor Jerry Beeler
Ms. Robin Mason
Mayor Bill Fannon

Cocke County

Mayor Connie Ball
Mayor DeWayne Daniel
Mr. Tommy Bible

Morgan County

Mayor Buddy Miller
Mayor Jonathan Dagley
Mayor Teresa Ryon
Ms. Sharon Heidel

Grainger County

Mr. David Lietzke
Mayor Patsy McElhaney
Mayor Fred Sykes
Mayor Mark Hipsher

Hamblen County

Mr. Marshall Ramsey
Mayor Gary Chesney

Jefferson County

Mayor George A. Gantte
Mayor J. Clint Hurley
Mayor Beau Tucker
Mayor Glenn Warren Jr.
Mayor Alan Palmieri
Mayor Mark Potts

Knox County

Ms. Sarah Fansler
Mayor Ralph McGill
Mayor Madeline Rogero

Loudon County

Mayor Tom Peeler
Mayor Tony Aikens
Mayor Jim Greenway
Mayor Chris Miller
Mr. Jack Qualls

Monroe County

Mr. Bryan Hall
Mayor Doyle Lowe
Mayor Glenn Moser
Mayor Patrick Hawkins
Mayor Bob Lovingood

Roane County

Mayor Wayne Best
Mayor Cecil Crowe
Mayor Tim Neal
Mayor Mike Miller
Mr. Wade Creswell

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

Other Members of the Board of Directors (Continued)

Scott County

Mr. David Cross
Mayor Jack E. Lay
Mayor Virgil D. Cecil
Mayor Dennis Jeffers

Sevier County

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

Union County

Mayor Mike Williams
Mayor H.E. Richardson
Mayor Gary Chandler



Independent Auditors' Report

To the Board of Directors
East Tennessee Development District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the East Tennessee Development District (the "District") as of and for the year ended June 30, 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 District'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 governmental activities and each major fund of the District as of June 30, 2017, and the respective changes in financial position for the year then ended in 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 - 12 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Directors and Officials 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Roddefm Moss + Co, PLLC

Knoxville, Tennessee
October 10, 2017

EAST TENNESSEE DEVELOPMENT DISTRICT
Management's Discussion & Analysis
June 30, 2017

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, 2017. 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 \$3,430,554 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,324,657.
- Net position consist of the following:
 - 1) Capital assets, net of accumulated depreciation, of \$25,976.
 - 2) Net positions amounting to \$1,222,863 and \$11,251 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 \$2,170,464 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 \$3,981,949 for the year ended June 30, 2017. This compares to the prior year fund balance of \$3,891,609. Of these amounts, \$1,814,389 and \$1,801,946 were reserved for the EDA RLF Program and the Small and Minority Owned Business Program for the years ended June 30, 2017 and June 30, 2016, respectively.
- Total liabilities of the District's governmental funds at year end decreased \$127,388 to \$247,377. Of the total liabilities, \$112,023 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2017.

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.

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 \$105,897 during the fiscal year from a beginning balance of \$3,324,657 to \$3,430,554 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, 2017. The District continues cost control efforts as reflected in our financial statements.

Summary of Net Position

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 2,983,337	\$ 2,965,401
Restricted assets	1,133,966	1,116,279
Capital assets	<u>25,976</u>	<u>10,419</u>
Total assets	<u>\$ 4,143,279</u>	<u>\$ 4,092,099</u>
Current liabilities	\$ 712,725	\$ 190,071
Small and minority owned business loan payable	<u>-</u>	<u>577,371</u>
Total liabilities	<u>\$ 712,725</u>	<u>\$ 767,442</u>
Net Position		
Investment in capital assets	\$ 25,976	\$ 10,419
Restricted for revolving loan fund	1,222,863	1,212,114
Small and minority owned business loan program	11,251	11,408
Unrestricted	<u>2,170,464</u>	<u>2,090,716</u>
Total net position	<u>\$ 3,430,554</u>	<u>\$ 3,324,657</u>

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$105,897. We have improved our collections process which decreases our accounts receivable position, received loan forgiveness on some of our delinquent loans in the Small and Minority Owned Business loan program, and maintained good control over our payables, which improves current liabilities position, all which are 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:

<u>Summary of Changes in Net Position</u>				
	<u>2017</u>	<u>% of Total</u>	<u>2016</u>	<u>% of Total</u>
Revenues				
Programs revenues:				
Charges for services	\$ 1,117,311	52.4%	\$ 1,202,038	59.2%
Operating grants	963,135	45.1%	773,712	38.1%
General revenues:				
Interest earned	<u>53,514</u>	<u>2.5%</u>	<u>52,631</u>	<u>2.6%</u>
Total revenues	<u>\$ 2,133,960</u>	<u>100.0%</u>	<u>\$ 2,028,381</u>	<u>100.0%</u>
Expenses				
General government	\$ 1,171,898	57.8%	\$ 1,145,897	60.4%
Public services	<u>856,165</u>	<u>42.2%</u>	<u>751,824</u>	<u>39.6%</u>
Total expenses	<u>\$ 2,028,063</u>	<u>100.0%</u>	<u>\$ 1,897,721</u>	<u>100.0%</u>
Change in net position	\$ 105,897		\$ 130,660	
Net position at the beginning of the year	<u>3,324,657</u>		<u>3,193,997</u>	
Net position at the end of the year	<u>\$ 3,430,554</u>		<u>\$ 3,324,657</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 \$84,727 mainly due to the decrease of services in Grant administration that we could bill for this year over the last year. Our operating grants increased \$189,423 mainly due to the increase in funds available to operate the Emergency Repair Program that we had this year over last year. The public service expenses have increased this year over last year mainly due the decrease in the amount of projects we had in the Emergency repair program.

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 \$3,981,949. Of this year-end total \$2,167,560 is unassigned indicating availability for continuing District requirements. Restricted fund balances of \$1,814,389 are reserved for the EDA RLF Program \$1,225,767, and the Small and Minority Owned Business Loan Program \$588,622. Fund balances increased this year by \$90,340. Key factors contributing to this increase are grant administration, managing our grants effectively and efficiency in management and cost controls.

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, \$174,171, net of accumulated depreciation (\$148,195) amounted to \$25,976. Additions and disposals made to capital assets during the fiscal year amounted to \$26,164 and \$28,027, respectively. Depreciation expense for the year amounted to \$10,607.

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 slowed some in 2016, but still performed well for the year. The slower performance was due largely to weaker growth for the national economy. Nominal personal income, which includes all income from all sources earned by Tennesseans, was up 3.6 percent, matching the rate of growth for the nation. The state's labor market has shown continued momentum. Nonfarm employment was up 2.4 percent for the year compared to 1.8 percent growth for the U.S. The state's manufacturing sector showed robust 2.7 percent growth while the nation's manufacturing sector lost jobs in 2016. The state unemployment rate averaged 4.6 percent in 2016, just under the 4.9 percent national unemployment rate, and well below the 5.8 percent state rate registered in 2015. In Tennessee, the number of unemployed people fell 10.3 percent in 2015 and 18.1 percent in 2016. Tennessee's inflation-adjusted gross domestic product (GDP) is expected to be up 2.1 percent in 2017 and 2018, while the U.S. is expected to see slightly stronger growth of 2.3 percent and 2.6 percent. Somewhat stronger growth, coupled with rising energy prices, will put upward pressure on inflation. The Consumer Price Index is likely to rise 2.5 percent this year compared to only 1.3 percent growth last year.

Tennessee saw another strong year of job growth in 2016, with nonfarm payrolls expanding an estimated 2.4 percent, reflecting 69,500 new jobs. The state unemployment rate stood at 4.8 percent in December. Accompanying these road-based improvements in the labor market are two problems. First, there is growing anecdotal evidence suggesting that employers are finding it hard to fill vacancies. This is especially the case in metropolitan areas where labor markets are particularly tight, as evidenced by exceptionally low unemployment rates. Rising labor costs are a substantive example of labor market tightness. On the other hand, underemployment remains a problem for some workers, unemployment rates are high for some demographic groups of the population and the number of discouraged workers (individuals who have withdrawn from the labor force because of bleak employment prospects) remains elevated. Within the ETDD region, broadband expansion has become a critical economic driver for job creation and new growth. In Cocke County, the Newport Utility Board has committed over \$30 million to the expansion of high speed broadband service within its footprint. The Town of Dandridge is seeking \$500,000 from the Appalachia Regional Commission to expand the broadband capabilities within its borders. In Campbell County, the Highland Telephone Company has agreed to install \$1.5 million of broadband improvements in an extremely remote area of the county known as Elk Valley. The expansion is being funded primarily by grants from the Appalachian Regional Commission and the Economic Development Administration.

Tennessee's nominal personal income growth accelerated to 4.5 percent in 2017, with growth expect to increase to 5.1 percent in 2018. Nominal income for the national economy will be up 4.6 percent in 2017 and 5.2 percent in 2018. While average wages are expected to experience more robust growth in 2018, a slower pace of job creation will offset this growth yielding slower growth in overall wage and salary income. Nominal per capita income growth in Tennessee is projected to be 3.5 percent in 2017, producing a per capita income figure of \$44,217. Per capita income will rise a further 4 percent in 2018. Over the long-term, Tennessee has seen improvement in its per capita income standing among the southeastern states but has not seen the same movement with respect to national average per capita income. Currently, Tennessee's per capita income is 86.6 percent of the national average.

See independent auditors' report.

Economic Factors and Next Year's Budget (continued)

The housing sector continues its sustained expansion as low cost financing and availability within all price ranges have combined to bolster existing home sales levels. As demand for inventory increases, housing developers are having difficulty adding new housing stock at a pace that meets demand. In 2016 in Knox County, 1236 units were sold at an average price of \$191,660. There were 6,137 units on the market in December of 2016. In January of 2016, there were 7,402 units on the market at an average price of \$215,467. While robust housing construction and sales activity certainly are a boon to the local economy, affordability concerns are starting to creep into the long term housing outlook. Housing tends to be more affordable here than elsewhere in the nation. The median price of purchasing a home is lower than the national median, though higher than the state median. For renters, our region is more affordable than elsewhere in the state and nation. Nonetheless, some members of our community face significant housing challenges. Homelessness remains a problem, with the number of homeless people up 12% since 2015.

At the federal level, continued uncertainty regarding annual budget levels for programs remains a cause for anxiety among all benefactors of federal funding. The current administration has indicated its intent to eliminate many domestic programs that benefit local governments and slash budgets for virtually all federal agencies except defense. In FY 2017 Congress managed to pass an Omnibus Budget Agreement late in the year that provided some modicum of stability to state and local governments. However, in FY 2018 a budget still has not yet been passed and a continuing resolution was recently approved to keep the US government open until December. The inability of Congress to agree on budget priorities will continue to cause timing and content problems with funding at the federal level.

In 2016, ETDD recently received confirmation from the Economic Development Administration that another 3 years of funding was approved at a level of \$58,500 per year. ETDD also received confirmation that an additional \$7,000 per year would be awarded through 2018. The Appalachian Regional Commission – perhaps the most important long term funding agency for ETDD – provided \$132,986 in calendar year 2017, the same amount that ETDD received in calendar year 2016. Although overall levels of federal funding have decreased, ETDD is faring comparatively well given the current fiscal climate.

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 and the THDA will maintain its \$20,000 commitment for housing advocacy. Last year the Historical Commission increased ETDD's historic preservation funding to \$36,000 and it will remain at that level for FY 2018. Funding from TDEC for the regional solid waste program was increased substantially to \$63,450 in 2015 and will remain at that level for FY 2018. Also, the Tennessee General Assembly again appropriated an additional \$50,000 for ETDD beyond the annual \$180,000 funding level. Beyond these modest variations, 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 in FY 2018 should be slightly lower than the FY 2017 level due to normal cyclical variations.

In summary, even during the constricted 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 higher levels for the foreseeable future. This expectation leaves the District in a somewhat favorable position for the coming year. Although the rural portions of the region are still experiencing relatively high poverty rates, growth in the construction and housing sectors is robust and significant increases in business investment are evident throughout the region. The economic outlook for the State of Tennessee for 2018 is for steady economic growth with little need for tax increases. 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 fiscal year 2018.

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

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, 2017

ASSETS

Current Assets - Unrestricted

Cash and cash equivalents	\$ 2,056,988
Accounts receivable	120,836
Intergovernmental receivables	112,023
Prepaid expenses	<u>13,067</u>

Total current assets - unrestricted \$ 2,302,914

Current Assets - Restricted

Cash and cash equivalents	1,014,854
Revolving Loan Fund, current maturities	89,583
Small and Minority-Owned Business Loan Program, current maturities	<u>29,529</u>

Total current assets - restricted 1,133,966

Total current assets 3,436,880

Capital assets, net of accumulated depreciation

25,976

Revolving Loan Fund, less current maturities

680,423

Total assets \$ 4,143,279

LIABILITIES

Current Liabilities

Accounts payable	\$ 1,806
Accrued leave	116,818
Other current liabilities	16,730
Small and Minority-Owned Business Loan Payable	<u>577,371</u>

Total liabilities \$ 712,725

NET POSITION

Investment in capital assets	\$ 25,976
Restricted for Revolving Loan Fund	1,222,863
Restricted for Small and Minority Owned Business Loan Program	11,251
Unrestricted	<u>2,170,464</u>

Total net position \$ 3,430,554

EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Activities
Year Ended June 30, 2017

Function / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Net Revenue
Governmental activities				
General government	\$ 1,171,898	\$ 1,117,311	\$ -	\$ (54,587)
Public service	<u>856,165</u>	<u>-</u>	<u>963,135</u>	<u>106,970</u>
Total governmental activities	<u>\$ 2,028,063</u>	<u>\$ 1,117,311</u>	<u>\$ 963,135</u>	52,383
General revenues				
Interest earned				10,229
Public service revenue				
Interest earned				<u>43,285</u>
Increase in net position				105,897
Net position at the beginning of the year				<u>3,324,657</u>
Net position at the end of the year				<u>\$ 3,430,554</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

	<u>General</u>	<u>Grants Management</u>	<u>Total Governmental Funds</u>
ASSETS			
Current Assets - Unrestricted			
Cash and cash equivalents	\$ 2,056,988	\$ -	\$ 2,056,988
Accounts receivable	120,836	-	120,836
Due from other funds	112,023	-	112,023
Intergovernmental receivables	-	112,023	112,023
Prepaid expenses	13,067	-	13,067
Total current assets - unrestricted	<u>2,302,914</u>	<u>112,023</u>	<u>2,414,937</u>
Restricted assets			
Cash and cash equivalents	1,014,854	-	1,014,854
Revolving Loan Fund, current maturities	89,583	-	89,583
Small and Minority-Owned Business Loan Program, current maturities	<u>29,529</u>	<u>-</u>	<u>29,529</u>
Total current assets - restricted	<u>1,133,966</u>	<u>-</u>	<u>1,133,966</u>
Total current assets	3,436,880	112,023	3,548,903
Revolving Loan Fund, less current maturities	<u>680,423</u>	<u>-</u>	<u>680,423</u>
Total assets	<u>\$ 4,117,303</u>	<u>\$ 112,023</u>	<u>\$ 4,229,326</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 1,806	\$ -	\$ 1,806
Accrued leave	116,818	-	116,818
Other current liabilities	16,730	-	16,730
Due to other funds	<u>-</u>	<u>112,023</u>	<u>112,023</u>
Total current liabilities	<u>135,354</u>	<u>112,023</u>	<u>247,377</u>
Fund balances			
Restricted for			
Revolving Loan Fund	1,225,767	-	1,225,767
Small and Minority Owned Business Loan Program	588,622	-	588,622
Unassigned	<u>2,167,560</u>	<u>-</u>	<u>2,167,560</u>
Total fund balances	<u>3,981,949</u>	<u>-</u>	<u>3,981,949</u>
Total liabilities and fund balances	<u>\$ 4,117,303</u>	<u>\$ 112,023</u>	<u>\$ 4,229,326</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2017

Total fund balance - total governmental funds	\$ 3,981,949
Amounts reported for government activities in the statement of net position are different because:	
Capital assets of \$174,171 net of accumulated depreciation of \$148,195 are not financial resources and therefore are not reported in the funds. See Note 4.	25,976
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. See Note 9 for additional detail.	<u>(577,371)</u>
Net position of governmental activities	<u>\$ 3,430,554</u>



EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Funds
Year Ended June 30, 2017

	Grants		Total
	General Fund	Management	
Revenue			
Grantor contributions	\$ -	\$ 862,979	\$ 862,979
Local contracts	468,902	-	468,902
Regional planning	288,859	-	288,859
Administrative contracts	169,275	-	169,275
Local assessments	188,165	-	188,165
Contributions - in-kind	-	100,156	100,156
Interest income	42,772	-	42,772
Other revenue	12,852	-	12,852
Total revenue	<u>1,170,825</u>	<u>963,135</u>	<u>2,133,960</u>
Expenditures			
Salaries	607,542	386,799	994,341
Fringe benefits	278,179	177,106	455,285
Grant	97,647	62,168	159,815
Grant - in-kind	-	100,156	100,156
Rent - office, storage, and equipment	45,049	28,681	73,730
Planning	41,875	26,661	68,536
Equipment repairs and maintenance	26,413	16,816	43,229
Capital purchases	15,986	10,178	26,164
Travel	12,973	8,259	21,232
Conferences and meetings	10,443	6,648	17,091
Memberships and publications	9,835	6,262	16,097
Insurance premiums	9,106	5,798	14,904
Automobile	8,701	5,540	14,241
Audit	7,332	4,668	12,000
Printing and postage	5,883	3,745	9,628
Materials and supplies	4,085	2,601	6,686
Telephone and e-mail services	3,813	2,428	6,241
Other	2,053	1,307	3,360
Contracted services	446	284	730
Non-capital purchases	94	60	154
Total expenditures	<u>1,187,455</u>	<u>856,165</u>	<u>2,043,620</u>
Excess of revenues over expenditures	<u>(16,630)</u>	<u>106,970</u>	<u>90,340</u>
Other financing sources (uses)			
Transfers from other funds	106,970	-	106,970
Transfers to other funds	-	(106,970)	(106,970)
Net other financing sources (uses)	<u>106,970</u>	<u>(106,970)</u>	<u>-</u>
Net increase in fund balance	90,340	-	90,340
Fund balances at the beginning of the year	<u>3,891,609</u>	<u>-</u>	<u>3,891,609</u>
Fund balances at the end of the year	<u>\$ 3,981,949</u>	<u>\$ -</u>	<u>\$ 3,981,949</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, 2017

Increase in Fund Balances - Governmental Funds \$ 90,340

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 \$10,607. There were \$26,164 in net capital purchases.

15,557

Increase in Net Position - Governmental Activities

\$ 105,897



EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements
June 30, 2017

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, Morgan, 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 as follows:

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.

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.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

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

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.

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.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

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

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) 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.

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.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

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

Equity Classifications - (Continued)

Fund Financial Statements - (Continued)

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, 2017, 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, 2017, 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 37.5 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 can be converted into a cash conversion to be invested into the District's 457(b) retirement plan or forfeited. At June 30, 2017, accrued annual leave amounted to \$116,818. 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 \$100,156 for the year ended June 30, 2017.

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.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

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

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 and transactions occurring subsequent to the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

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 \$442,801 (included in local contract revenue) for the year ended June 30, 2017.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

	Balance as of 7/1/2016	Additions	Retirements	Balance as of 6/30/2017
Governmental activities				
Furniture and equipment	\$ 104,830	\$ 5,160	\$ 15,506	\$ 94,484
Automobile	71,204	21,004	12,521	79,687
	\$ 176,034	\$ 26,164	\$ 28,027	\$ 174,171
Accumulated depreciation				
Furniture and equipment	\$ 98,661	\$ 7,250	\$ 15,506	\$ 90,405
Automobiles	66,954	3,357	12,521	57,790
	\$ 165,615	\$ 10,607	\$ 28,027	\$ 148,195
Governmental activities capital assets, net	\$ 10,419	\$ 15,557	\$ -	\$ 25,976

Depreciation expense was charged to governmental activities as follows:

General government	\$ 3,757
Public services	6,850
Total depreciation expense	\$ 10,607

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, 2017, was \$73,730. Operating lease requirements under these agreements for the next five years and thereafter will be approximately as follows:

2018		\$ 79,200
2019		79,200
2020		79,200
2021		79,200
2022		79,200
Thereafter		<u>1,881,000</u>
		<u>\$ 2,277,000</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 Mass Mutual Financial 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, 2017. Employee contributions were \$72,258 and the District’s match was \$48,665 for the year ended June 30, 2017. 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. The Plan is administered by the District. The Plan Administer has the complete power to determine all questions arising in connection with the administration, interpretation, and application of the Plan. 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 \$994,341 in 2017. The District contributed \$150,768 to the Plan for the year ended June 30, 2017.

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 “RLF Plan”) dated July 29, 1983.

Funding for the loans are 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, 2017 balance of \$770,006 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 2019 through 2032. Current interest rates range from 4.75% to 6.25%.

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, 2017, management does not deem an allowance necessary.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2018	\$ 89,583
2019	82,657
2020	72,192
2021	56,012
2022	59,143
Thereafter	<u>410,419</u>
	<u>\$ 770,006</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.

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.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

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

The District has notes receivable outstanding at June 30, 2017, of \$29,529 to one entity with a maturity of 1 year and interest rate of 5.25% and are collateralized based upon the established guidelines.

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 current liabilities due to the Small and Minority-Owned Business Loan Program at June 30, 2017 was \$577,371.

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

	Balance as of 6/30/2016	Increases	Decreases	Balance as of 6/30/2017
State of Tennessee				
Department of Treasury				
Small and minority owned business loan program	\$ 577,371	\$ -	\$ -	\$ 577,371

NOTE 10 - 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 11 - 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, 2017

Grantor Agency	Program Name and CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable	Subrecipients
Federal Highway Administration Passed- Through to State of Tennessee, Dept. of Transportation	Rural Transportation (N) CFDA #20.205	47014 50671	\$ 20,691 -	\$ 20,691 25,152	\$ - 45,332	\$ - 20,180	\$ - -
Federal Highway Administration Passed- Through to State of Tennessee, Dept. of Transportation	Rural Transportation (S) CFDA # 20.205	47015 50688	21,975 -	21,975 25,418	- 46,662	- 21,244	- -
Total Program 20.205			42,666	93,236	91,994	41,424	-
U.S. Department of Commerce - Economic Development Administration	District Planning CFDA #11.302	ED16ATL3030005	31,500 -	31,500 49,000	- 66,500	- 17,500	- -
U.S. Department of Commerce - Economic Development Administration	Revolving Loan Fund CFDA #11.307	04-39-03208	-	944,977	944,977	-	770,006
National Park Service Passed-Through to State of Tennessee, Dept. of Environment and Conservation and TN Historical Commission	Historic Preservation CFDA #15.904	46540 51116	8,439 -	8,439 27,879	- 36,370	- 8,491	- -
Appalachian Regional Commission	District Assistance CFDA #23.009	TN-0710-B-C46-16 TN-710-B-C47-17	- -	66,493 66,493	66,493 66,493	- -	- -
Total Expenditures of Federal Awards			<u>\$ 82,605</u>	<u>\$ 1,288,017</u>	<u>\$ 1,272,827</u>	<u>\$ 67,415</u>	<u>\$ 770,006</u>

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of State Awards
June 30, 2017

Grantor Agency	Program Name and CFDA Number	Contract Number	Beginning Receivable	Cash Receipts	Expenditures	Ending Receivable	Subrecipients
Tennessee Advisory Commission on Intergovernmental Relations	Infrastructure Program	47470 51628	\$ 21,309 -	\$ 21,309 49,931	\$ - 71,330	\$ - 21,399	\$ - -
Tennessee Department of Environment and Conservation	Solid Waste Grant	32701-02464 32701-02762	32,623 -	32,623 57,993	- 67,228	- 9,235	- -
Tennessee Department of Economic and Community Development	Matching Fund Grant	50455	-	200,000	200,000	-	-
Tennessee Housing Development Authority	Technical Assistance Grant	31620-00313 31620-00345	9,600 -	9,600 11,129	- 19,982	- 8,853	- -
Tennessee Housing Development Authority	Elderly Repair Program	ERP-2015-001 ERP-17-01	33,284 -	33,284 165,218	- 165,218	- -	- -
Department of Transportation	Rural Transportation (S)	47015 50688	2,716 -	2,716 3,142	- 5,767	- 2,625	- -
Department of Transportation	Rural Transportation (N)	47014 50671	2,558 -	2,558 3,109	- 5,603	- 2,494	- -
Total Expenditures of State Awards			<u>\$ 102,090</u>	<u>\$ 592,612</u>	<u>\$ 535,128</u>	<u>\$ 44,606</u>	<u>\$ -</u>

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Schedules of Federal and State Awards
June 30, 2017

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, 2017. The information in these Schedules is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”), 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 the Uniform Guidance, 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, 2017 are summarized as follows:

Revolving Loan Fund Program	
Loans Disbursement	<u>\$ 770,006</u>

Expenditure calculation for this program was as follows:

Cash	\$ 455,761
Outstanding loan balances	770,066
Administrative costs	<u>34,202</u>
	1,260,029
Federal share	<u>75%</u>
Federal awards expended	<u>\$ 945,022</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, 2017, 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 October 10, 2017.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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.

Rodehorst Moss & Co, PLLC

Knoxville, Tennessee
October 10, 2017



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 Required by the Uniform Guidance

To the Board of Directors
East Tennessee Development District

Report on Compliance with 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 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. 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 of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rodehorst Moss & Co, PLLC

Knoxville, Tennessee
October 10, 2017



EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:
Material weakness(es) identified? ___ yes no
Reportable condition(s) identified not
considered to be material weaknesses? ___ yes none reported
Type of auditor's report issued on compliance for
major programs Unmodified
Any audit findings disclosed that are required to be
Reported in accordance with 2 CFR
Section 200.516(a) ___ yes no

Identification of major programs:

CFDA Number(s)

11.307

Name of Federal Program or Cluster

Revolving Loan Fund

Dollar threshold used to distinguish
between type A and type B programs: \$750,000
Auditee qualified as low-risk auditee? yes ___no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted