

EAST TENNESSEE DEVELOPMENT DISTRICT
Financial Statements and Supplementary Information
Year Ended June 30, 2021



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Financial Statements and Supplementary Information
Year Ended June 30, 2021

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EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Directors and Officials
Year Ended June 30, 2021

Board of Directors

Officers

Chairman: Roland Dykes, III, Member at Large
Vice-Chairman: Mark Potts, Jefferson County Mayor
Secretary: Joe Brooks, Claiborne County Mayor
Treasurer: Jeff Tibbals, Scott County Mayor

Executive Committee Members

Terry Frank, Anderson County Mayor
Tom Taylor, Mayor of Maryville
E.L. Morton, Campbell County Mayor
Joe Brooks, Claiborne County Mayor
Crystal Ottinger, Cocke County Mayor
Mike Byrd, Grainger County Mayor
Bill Brittain, Hamblen County Mayor
Mark Potts, Jefferson County Mayor
Glenn Jacobs, Knox County Mayor
Rollen "Buddy" Bradshaw, Loudon County Mayor
Mitch Ingram, Monroe County Mayor
Brian Langley, Morgan County Executive
Ron Woody, Roane County Executive
Jason Bailey, Union County Mayor
Jeff Tibbals, Scott County Mayor
Larry Waters, Sevier County Mayor

Tennessee General Assembly

Senator Richard Briggs
Representative Jeremy Faison

Minority Members-at-Large

Ronald Dykes, III
Evelyn Gill

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

Other Members of the Board of Directors

Anderson County

Mr. Andy Wallace
Mayor Scott Burton
Mayor Tim Sharp
Mayor Chris Mitchell
Mayor Warren Gooch

Blount County

Mayor Ed Mitchell
Mr. Bryan Daniels
Mayor Andy Lawhorn
Mayor Andy White
Mayor Tom Bickers
Mayor Michael Talley
Mayor Carl Koella
Mayor Odis "Clint" Abbott

Campbell County

Mayor Bobby Stooksbury
Mayor June Forster
Mayor Mike Stanfield
Mayor Dwight Osborn
Mr. Johnny Vanover

Claiborne County

Mayor Neal Pucciarelli
Mayor Linda Fultz
Mayor Jerry Beeler
Ms. Anna Beth Walker
Mayor Bill Fannon

Cocke County

Mayor Roland "Trey" Dykes
Mayor DeWayne Daniel
Mr. Tommy Bible

Morgan County

Mayor Buddy Miller
Mayor Jonathan Dagley
Mayor Karen Melton
Ms. Sharon Heidel

Grainger County

Mr. David Lietzke
Mayor Marvin Braden
Mayor Fred Sykes
Mayor Ben Waller

Hamblen County

Mr. Marshall Ramsey
Mayor Gary Chesney

Jefferson County

Mayor George A. Gantte
Mayor Donna Hernandez
Mayor Glenn Warren Jr.
Mayor Beau Tucker
Mayor Danny Whillock
Ms. Leann Sutton
Mayor Fred Taylor

Knox County

Ms. Jane Jolley
Mayor Ron Williams
Mayor Indya Kincannon

Loudon County

Mayor Dewayne Birchfield
Mayor Tony Aikens
Mayor Jeff Harris
Mayor Damian Crawford
Mr. Jack Qualls

Monroe County

Mr. Stacy Chambers
Mayor Doyle Lowe
Mayor Augusta Davis
Mayor Marilyn Parker
Mayor John Hammontree

Roane County

Mayor Wayne Best
Mayor Omer Cox
Mayor Mike Miller
Mayor Tim Neal
Ms. Pam May

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 Dennis Jeffers
Mr. Jerry Dodson

Union County

Mayor Jerry Lawson
Mayor Marty Smith
Mayor Gary Chandler
Mr. Randy Turner

Sevier County

Mayor Mike Werner
Mayor David Wear
Ms. Earlene Teaster
Mayor Jerry Huskey
Mayor Robert Fox



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, 2021, 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, 2021, 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 - 13 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 schedules 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 schedules 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 December 21, 2021 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 solely 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 the effectiveness of the District's 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.

Roderick Moss & Co, PLLC

Knoxville, Tennessee
December 21, 2021

EAST TENNESSEE DEVELOPMENT DISTRICT
Management's Discussion & Analysis
June 30, 2021

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, 2021. 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 \$4,751,195 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,850,145.
- Net position consists of the following:
 - 1) Capital assets, net of accumulated depreciation, of \$71,328.
 - 2) Net position amounting to \$1,302,058, \$713,460 and \$203,811 is restricted for use in the Economic Development Agency Revolving Loan Fund Program ("EDA RLF"), the Economic Development Agency Revolving Loan Fund Program for Covid ("RLF Covid"), and the State of Tennessee Department of Agriculture Revolving Loan Fund Program ("RLF Agriculture"), respectively.
 - 3) Unrestricted net position of \$2,460,538 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 \$4,679,867 for the year ended June 30, 2021. This compares to the prior year fund balance of \$3,744,960. Of these amounts, \$2,219,329 and \$1,482,734 were reserved for the EDA RLF Program, RLF Covid Program, and the RLF Agriculture Program for the years ended June 30, 2021 and June 30, 2020, respectively.
- Total liabilities of the District's governmental funds at year end decreased from \$613,896 to \$360,380. Of the total liabilities, \$277,715 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2021.

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 the 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 \$901,050 of which \$709,536 was a transfer of an endowment grant leaving a change in net position of \$191,514 during the fiscal year from a beginning balance of \$3,850,145 to \$4,751,195 at fiscal yearend.

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, 2021. The District continues cost control efforts as reflected in our financial statements.

Summary of Net Position

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 3,451,094	\$ 2,968,523
Restricted assets	1,311,438	1,036,704
Capital assets	<u>71,328</u>	<u>105,185</u>
Total assets	<u>\$ 4,833,860</u>	<u>\$ 4,110,412</u>
Current liabilities	<u>\$ 82,665</u>	<u>\$ 260,267</u>
Total liabilities	<u>\$ 82,665</u>	<u>\$ 260,267</u>
Net Position		
Investment in capital assets	\$ 71,328	\$ 105,185
Restricted for revolving loan fund	1,302,058	1,281,224
Restricted for Revolving Loan Fund - Covid	713,460	-
Restricted for Revolving Loan Fund - Agriculture	203,811	201,510
Unrestricted	<u>2,460,538</u>	<u>2,262,226</u>
Total net position	<u>\$ 4,751,195</u>	<u>\$ 3,850,145</u>

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$901,050 of which \$709,536 was a transfer of an endowment grant. We had a loan payoff in the restricted assets and have invested in technology in the capital assets. Both of those factors and the Emergency Repair Program close make up most of this year's 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>2021</u>	<u>% of Total</u>	<u>2020</u>	<u>% of Total</u>
Revenues				
Programs revenues:				
Charges for services	\$ 1,002,811	47.2%	\$ 955,829	42.1%
Operating grants	1,056,065	49.7%	1,245,628	55.0%
General revenues:				
Interest earned	<u>64,169</u>	<u>3.0%</u>	<u>63,349</u>	<u>2.8%</u>
Total revenues	<u>\$ 2,123,045</u>	<u>100.0%</u>	<u>\$ 2,264,806</u>	<u>100.0%</u>
Expenses				
General government	\$ 1,193,337	61.8%	\$ 1,287,147	59.9%
Public services	<u>738,194</u>	<u>38.2%</u>	<u>862,942</u>	<u>40.1%</u>
Total expenses	<u>\$ 1,931,531</u>	<u>100.0%</u>	<u>\$ 2,150,089</u>	<u>100.0%</u>
Change in net position	\$ 191,514		\$ 114,717	
Net position at the beginning of the year	3,850,145		3,735,428	
Transfer of endowment grant	<u>709,536</u>		<u>-</u>	
Net position at the end of the year	<u>\$ 4,751,195</u>		<u>\$ 3,850,145</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 increased \$46,982. This is the net effect of the Regional Planning revenue decrease, and the Administrative Contracts increase. However, the corresponding net effect in Public Services expenses have increased. The operating grant revenue decreased this year by \$189,563. This decrease is due to the net effect of decreases in revenue from the ERP and solid waste programs and increases in revenue from the RPO and EDA Covid Response programs.

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 resource 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 \$4,679,867. Of this year-end total \$2,460,538 is unassigned indicating availability for continuing District requirements. Restricted fund balances of \$2,219,329 are reserved for the EDA RLF Program \$1,320,058, RLF Covid Program \$713,460, and the RLF Agriculture Program \$203,811. Fund balances increased this year by \$225,371. Total revenue this year decreased \$141,761 over last year and total expenses decreased \$297,841 over last year with the net effect of an increased fund balance.

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, \$188,426, net of accumulated depreciation (\$117,098) amounted to \$71,328. There were \$0 in additions during the fiscal year. Disposals made to capital assets during the fiscal year amounted to \$462. Depreciation expense for the year amounted to \$33,475.

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 year 2020 has been filled with defining moments and historic events. Mass civil rights protests swept the nation in early-summer, and a presidential election with the largest voter turnout in U.S. history occurred over the fall. However, on a macro level, the year 2020 will largely be defined by the outbreak of COVID-19. The pandemic has led to mass sickness and death across the state, nation, and world and has altered the way we live, the way businesses operate, the way students learn and workers work, and the way consumers spend their money.

At the onset of the pandemic, many states, including Tennessee, issued stay-at-home orders and social distancing mandates, shutting down all non-essential activities in an effort to slow the spread of the virus. As a result, school years were cancelled or shifted to online instruction, office workers began working remotely, businesses closed, and large public events were cancelled. Lockdowns coupled with fear of contracting the virus resulted in a rapid decline in economic activity. As a result, the nation's longest economic expansion on record ended in February 2020, and the economy entered into its 33rd recession since the 1850s. The current recession, triggered by the pandemic, is unique in its breadth, depth, and rapidity, as the state's labor market turned sideways in a matter of weeks. From March to April, nearly 400 thousand Tennesseans lost their jobs and the unemployment rate went from a record low 3.3 percent to a record high of 15.5 percent in a one-month period. The economic fallout would have likely been worse had it not been for federal stimulus provided through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and aggressive monetary policy by the Federal Reserve, which provided enhanced unemployment insurance (UI) benefits, loans, and stimulus checks to help keep (some) households afloat and struggling businesses from failing.

Following large economic contractions in the spring, economic data started to shore up in May as states reopened. In May and June combined, 208.1 thousand jobs were added back to Tennessee payrolls and the unemployment rate fell to 9.6 percent in June. April seems to have been the trough of the recession, as the state has seen positive economic growth in each month since. Federal assistance coupled with the limited ability for consumers to spend on travel or in-person services has also led to a large increase in consumer purchases of taxable goods, which has helped support state tax revenues and the economic recovery. However, COVID-19 caseloads have surged in recent months and the remaining provisions of the CARES Act are set to expire (as of this writing), leaving the recovery on rocky footing.

High frequency data on restaurant visits from Open Table show that in late-May, open restaurants in Tennessee were only seating about a third of the number of diners as compared to the year prior, but by late-October, this number reached as high as 85 percent. However, with the massive surge in recent caseloads, restaurant visits have begun to fall again, and were roughly 50 percent lower than the same time last year as of mid-November.

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

Economic Factors and Next Year's Budget (continued)

Tennessee's pace of job growth has also slowed in recent months, as the state has averaged roughly 20 thousand jobs added per month from August to October (compared to over 100 thousand in both May and June), and there are still 131 thousand fewer jobs in October than there were prior to the pandemic. Beginning in May, the University of Tennessee's Howard H. Baker Jr. Center for Public Policy has conducted bi-weekly statewide surveys in order to track public opinion on the pandemic and the state's reopening plans. In the September wave, 17.0 percent of survey participants said that they would not feel comfortable eating at a dine-in restaurant until a vaccine was available and 21.0 percent would not partake until new caseloads steadily declined. Similarly, 24.0 percent would not attend a large public event, and 20.0 percent would not go to a movie theater, bowling alley, or attend other similar recreational activities until a vaccine were available. These responses suggest that a sizeable portion of the state population will not resume pre-pandemic spending patterns until a vaccine is available. It is therefore likely that we will see muted economic growth in the near term.

With that in mind, the short-term outlook calls for positive economic growth in the near term as we dig out of the current recession, but the recovery may be one of fits and starts as we continue to grapple with the virus. In the short term, economic activity will largely depend on the trajectory of the virus, accompanying government responses (to control the virus or provide fiscal support), the development and deployment of effective treatments and/or vaccines, as well as the behavior of individuals across the state, nation, and world. The Tennessee forecast assumes that there will not be new rounds of fiscal stimulus but that a vaccine will be made widely available in the U.S. by the middle of 2021, which will provide a boost to the economic recovery. Additional fiscal stimulus is certainly possible, but the timing and size are so uncertain that it would be difficult to incorporate their effects into the short-term forecast.

The outlook calls for inflation-adjusted gross domestic product (real GDP) to contract by 3.5 percent in 2020 followed by stronger positive growth of 2.9 percent in 2021 and 3.6 percent in 2022 as the economy recovers from the pandemic's negative shocks. Expectations are that real GDP in Tennessee will reach pre-pandemic peak levels (from 2019) by the end of 2022. Nonfarm jobs will also continue to recover in 2021, with moderate growth in the first half of the year as the virus continues to shape the recovery, then followed by stronger growth in the third and fourth quarter as (hopefully) successful vaccines are distributed throughout the country. As a result, nonfarm jobs will grow by 2.2 percent in 2021 and 2.0 percent in 2022 but will not fully recover to pre-pandemic levels until the third quarter of 2023. While total nonfarm payrolls will fully recover by 2023, some sub sectors will show scarring well past then, as the recovery is not evenly distributed. Employment in the state's leisure and hospitality sector, one of the hardest hit by the pandemic, will not fully recover until 2024 as restaurants and smaller entertainment venues struggle to stay in business, and restrictions on large events keep revenues down. Employment in the manufacturing sector is projected to remain below pre-pandemic levels throughout the decade, due to depressed global demand, rising levels of uncertainty, and a continued reliance on automation. Even within the manufacturing sector, the recovery has been uneven, as factories that provide popular consumer goods have seen a surge in demand, while those relying on business to-business sales continue to struggle. The recovery has also been unequal across the wage distribution. Among high wage workers, especially those with the ability to telework, the labor market has largely recovered to pre-pandemic levels, whereas employment among lower and middle wage workers is still depressed.

The state unemployment rate is expected to average 7.5 percent for the 2020 year as a whole, before quickly trending down to 5.2 percent in 2021 and 4.4 percent in 2022 as the labor market recovers. The national unemployment rate will follow a similar trajectory. Nominal personal income is projected to increase by 4.2 percent in 2020, due to a boom in federal transfer payments (e.g., unemployment insurance and stimulus checks) but will slow to 1.1 percent in 2021 as transfer payments normalize before growing at a more stable rate of 4.6 percent in 2022. For the fiscal year, nominal personal income is expected to rise by 1.8 percent in FY 2020/21 and 3.3 percent in FY 2021/22.

Nominal taxable sales will grow by a subdued 1.7 percent in 2020 but will then see much stronger rates of growth in 2021 and 2022, as sales will advance by 4.7 percent and 4.4 percent respectively. Relatively strong growth in 2021 will be driven by a recovery in sales at eating and drinking places, and hotels and motels, which were severely depressed in 2020, as well as the collection of sales and use taxes on online purchases. Tennessee began taxing online retailers in July 2019 if their sales to Tennessee consumers exceeded \$500,000 in the previous year. This helped to keep taxable sales growth out of negative territory in 2020. As of October 2020, this sales threshold was reduced from \$500,000 to \$100,000, which should broaden the base of online sales tax collections, and provide a boost to taxable sales in 2021. For the fiscal year, nominal taxable sales will grow by 5.3 percent in FY 2020/21 (as compared to the weakened sales of FY 2019/20), and 3.1 percent in FY 2021/22.

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

Economic Factors and Next Year's Budget (continued)

There are certainly a number of downside risks, which could lead to slower economic growth in the near term. The most looming risk, of course, is the pandemic. As virus caseloads are surging, some states have started to re-impose restrictions and consumers may grow even more cautious and reduce spending. Enhanced UI benefits through the CARES Act and a temporary eviction moratorium for renters (through a Centers for Disease Control and Prevention (CDC) order) are also set to expire, and with no additional fiscal stimulus to fall back on (as of this writing), a second economic contraction, or "double-dip recession," is certainly possible. However, we are better equipped now than we were in the spring. Consumers have learned how to better navigate the pandemic and any restrictions (or are ignoring safety protocols), and many businesses have already adopted new practices to account for this new reality (e.g., shifting to curbside pickup, expanding outdoor seating at restaurants, and creating or improving online ordering systems) which could provide a buffer to a second economic shock. (source: 2021 Report to the Governor, TN CBER)

The median home sales price in the Knoxville / Knox County area was \$285,000 this year, an increase of 20.0% from one year ago. Housing inventories remain tight nationally, regionally, and locally. In the Knoxville area, total inventory remains down around 11% from a year ago and 44% from pre-pandemic levels. Half of homes sold in the Knoxville area were on the market for 6 days or less. (Source: Housing Market Statistics, Knoxville Chamber)

As has been the case for the past 2 decades, the federal fiscal policy environment remains somewhat uncertain for the near term. Although the national economy continues to recover from the impact of COVID-19, supply chain issues are impacting all sectors of the economy, inflation pressures are negatively impacting personal disposable income, and many employers are struggling with return-to-work policies. Continuing concerns over the national debt level, trade deficits with China, and the impending uncertainty regarding the resolution of the pandemic may impact consumer spending patterns in the near term. Competing interests in Congress have led to strong disagreements on budget priorities and relief packages, and a federal budget has still not been agreed upon as of November 2021. However, ETDD continues to fare reasonably well in the current federal budget climate. ETDD was awarded a two-year Covid response grant from the Economic Development Administration in 2020 and will continue to implement the regional COVID response work plan through June of 2022. The Appalachian Regional Commission – perhaps the most important long-term funding agency for ETDD – committed to provide \$132,986 in calendar year 2021, the same amount that ETDD received in calendar year 2020. ETDD expects that the American Relief Program Act (ARPA) and other federal covid relief appropriations will provide ETDD with a substantial amount of supplemental funding for FY 2022.

At the state level, ETDD has received commitments from various state departments to fund most of ETDD's existing state funded activities for FY 2022. TDOT will continue to fund the two Rural Transportation Organizations at substantially increased funding, estimated at \$135,000 in 2022. TACIR will continue to fund the infrastructure survey at level funding and the THDA will maintain its \$20,000 commitment for housing advocacy. This year the Historical Commission maintained its historic preservation funding at the \$42,000 level. Also, the annual appropriation from the Tennessee General Assembly was restored to its historical level at \$200,000 for ETDD in FY 2022, an amount that is approximately \$25,000 above the FY 2021 funding level. Beyond these 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. ETDD was awarded a Brownfields Coalition Grant for the US EPA and will begin implementation of the work Plan in FY 2022. Total annual revenues from these programs in FY 2022 should be higher than the FY 2021 level due to normal cyclical variations.

In summary, even during the uncertain budget environment, both the Federal Government and the State of Tennessee have continued to fund most 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, given the current fiscal climate. Although the rural portions of the region are still experiencing relatively high poverty rates, growth in the construction and housing sectors remains robust and significant increases in business investment are evident throughout the region. The economic outlook for the State of Tennessee for 2022 is for steady economic recovery and very conservative revenue spending protocols to be utilized. Given these factors, along with historic low interest rates and increasing consumer confidence and spending, economic activity in our region is expected to be below average in fiscal year 2022 but on the upswing.

See independent auditors' report.

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, 2021

ASSETS

Current Assets - Unrestricted	
Cash and cash equivalents	\$ 2,070,943
Accounts receivable	176,661
Intergovernmental receivables	277,715
Prepaid expenses	<u>4,248</u>
Total current assets - unrestricted	\$ 2,529,567
Current Assets - Restricted	
Cash and cash equivalents	1,232,704
Revolving Loan Fund - Agriculture, current maturities	10,366
Revolving Loan Fund - Covid, current maturities	47,604
Revolving Loan Fund, current maturities	<u>20,764</u>
Total current assets - restricted	<u>1,311,438</u>
Total current assets	3,841,005
Capital assets, net of accumulated depreciation	71,328
Revolving Loan Fund - Agriculture, less current maturities	36,796
Revolving Loan Fund - Covid, less current maturities	646,922
Revolving Loan Fund, less current maturities	<u>237,809</u>
Total assets	<u>\$ 4,833,860</u>

LIABILITIES

Current Liabilities	
Accounts payable	\$ 1,627
Accrued leave	76,814
Other current liabilities	<u>4,224</u>
Total liabilities	<u>\$ 82,665</u>

NET POSITION

Investment in capital assets	\$ 71,328
Restricted	
Restricted for Revolving Loan Fund	1,302,058
Restricted for Revolving Loan Fund - Agriculture	203,811
Restricted for Revolving Loan Fund - Covid	713,460
Unrestricted	<u>2,460,538</u>
Total net position	<u>\$ 4,751,195</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Activities
Year Ended June 30, 2021

Function / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Net Revenue
Governmental activities				
General government	\$ 1,193,337	\$ 1,002,811	\$ -	\$ (190,526)
Public service	738,194	-	1,056,065	317,871
Total governmental activities	<u>\$ 1,931,531</u>	<u>\$ 1,002,811</u>	<u>\$ 1,056,065</u>	127,345
General revenues				
Interest earned				26,808
Public service revenue				
Interest earned				<u>37,361</u>
Increase in net position				191,514
Net position at the beginning of the year				3,850,145
Transfer of endowment grant				<u>709,536</u>
Net position at the end of the year				<u>\$ 4,751,195</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Balance Sheet - Governmental Funds
June 30, 2021

	General	Grants Management	Total Governmental Funds
ASSETS			
Current Assets - Unrestricted			
Cash and cash equivalents	\$ 2,070,943	\$ -	\$ 2,070,943
Accounts receivable	176,661	-	176,661
Due from other funds	277,715	-	277,715
Intergovernmental receivables	-	277,715	277,715
Prepaid expenses	4,248	-	4,248
Total current assets - unrestricted	<u>2,529,567</u>	<u>277,715</u>	<u>2,807,282</u>
Restricted assets			
Cash and cash equivalents	1,232,704	-	1,232,704
Revolving Loan Fund - Agriculture, current maturities	10,366	-	10,366
Revolving Loan Fund - Covid, current maturities	47,604	-	47,604
Revolving Loan Fund, current maturities	20,764	-	20,764
Total current assets - restricted	<u>1,311,438</u>	<u>-</u>	<u>1,311,438</u>
Total current assets	3,841,005	277,715	4,118,720
Revolving Loan Fund - Agriculture, less current maturities	36,796	-	36,796
Revolving Loan Fund - Covid, less current maturities	646,922	-	646,922
Revolving Loan Fund, less current maturities	237,809	-	237,809
Total assets	<u>\$ 4,762,532</u>	<u>\$ 277,715</u>	<u>\$ 5,040,247</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 1,627	\$ -	\$ 1,627
Accrued leave	76,814	-	76,814
Other current liabilities	4,224	-	4,224
Due to other funds	-	277,715	277,715
Total current liabilities	<u>82,665</u>	<u>277,715</u>	<u>360,380</u>
Fund balances			
Restricted for			
Revolving Loan Fund	1,302,058	-	1,302,058
Revolving Loan Fund - Agriculture	203,811	-	203,811
Restricted for Revolving Loan Fund - Covid	713,460	-	713,460
Unassigned	2,460,538	-	2,460,538
Total fund balances	<u>4,679,867</u>	<u>-</u>	<u>4,679,867</u>
Total liabilities and fund balances	<u>\$ 4,762,532</u>	<u>\$ 277,715</u>	<u>\$ 5,040,247</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2021

Total fund balance - total governmental funds	\$ 4,679,867
Amounts reported for government activities in the statement of net position are different because:	
Capital assets of \$188,426 net of accumulated depreciation of \$117,098 are not financial resources and therefore are not reported in the funds. See Note 4.	<u>71,328</u>
Net position of governmental activities	<u>\$ 4,751,195</u>



EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Funds
Year Ended June 30, 2021

	Grants		Total
	General Fund	Management	
Revenue			
Grantor contributions	\$ -	\$ 1,056,065	\$ 1,056,065
Local contracts	298,467	-	298,467
Regional planning	292,559	-	292,559
Local assessments	188,165	-	188,165
Administrative contracts	212,431	-	212,431
Interest income	64,169	-	64,169
Other revenue	11,189	-	11,189
Total revenue	<u>1,066,980</u>	<u>1,056,065</u>	<u>2,123,045</u>
Expenditures			
Salaries	585,893	373,014	958,907
Fringe benefits	252,474	160,741	413,215
Grant	148,469	94,524	242,993
Rent - office, storage, and equipment	52,704	33,554	86,258
Planning	36,267	23,090	59,357
Equipment repairs and maintenance	21,576	13,737	35,313
Insurance premiums	9,375	5,968	15,343
Memberships and publications	8,773	5,585	14,358
Audit	7,026	4,474	11,500
Contracted services	5,821	3,706	9,527
Other	5,335	3,396	8,731
Automobile	4,902	3,121	8,023
Materials and supplies	4,759	3,030	7,789
Telephone and e-mail services	4,373	2,784	7,157
Printing and postage	3,611	2,299	5,910
Conferences and meetings	2,812	1,790	4,602
Non-capital purchases	2,292	1,460	3,752
Travel	1,865	1,187	3,052
Work Comp	1,153	734	1,887
Total expenditures	<u>1,159,480</u>	<u>738,194</u>	<u>1,897,674</u>
Excess of expenditures (over) under revenues	<u>(92,500)</u>	<u>317,871</u>	<u>225,371</u>
Other financing sources (uses)			
Transfers from other funds	317,871	-	317,871
Transfers to other funds	-	(317,871)	(317,871)
Net other financing sources (uses)	<u>317,871</u>	<u>(317,871)</u>	<u>-</u>
Net increase in fund balance	225,371	-	225,371
Fund balances at the beginning of the year	3,744,960	-	3,744,960
Transfer of endowment grant	<u>709,536</u>	<u>-</u>	<u>709,536</u>
Fund balances at the end of the year	<u>\$ 4,679,867</u>	<u>\$ -</u>	<u>\$ 4,679,867</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, 2021

Increase in Fund Balances - Governmental Funds \$ 225,371

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 \$33,857.

(33,857)

Increase in Net Position - Governmental Activities \$ 191,514



EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements
June 30, 2021

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 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 businesses through the Revolving Loan Fund, further discussed in Note 7.

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 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:

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 positions 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, 2021, 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 State of Tennessee, Department of Agriculture Revolving Loan Fund 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, 2021, 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, 2021, accrued annual leave amounted to \$76,814. 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 emergency 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 \$0 for the year ended June 30, 2021.

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 \$289,542 (included in local contract revenue) for the year ended June 30, 2021.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

	Balance as of 7/1/2020	Additions	Retirements	Balance as of 6/30/2021
Governmental activities				
Furniture and equipment	\$ 89,105	\$ -	\$ 462	\$ 88,643
Automobile	99,783	-	-	99,783
	188,888	-	462	188,426
Accumulated depreciation				
Furniture and equipment	38,304	25,136	462	62,978
Automobiles	45,399	8,721	-	54,120
	83,703	33,857	462	117,098
Governmental activities capital assets, net	\$ 105,185	\$ (33,857)	\$ -	\$ 71,328

Depreciation expense was charged to governmental activities as follows:

General government	\$ 3,757
Public services	30,100
Total depreciation expense	\$ 33,857

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, 2021, was \$86,258. Operating lease requirements under these agreements for the next five years and thereafter will be approximately as follows:

<u>Year ending June 30,</u>	
2022	\$ 85,800
2023	85,800
2024	85,800
2025	85,800
2026	85,800
Thereafter	<u>1,694,550</u>
	<u>\$ 2,123,550</u>

NOTE 6 - RETIREMENT PLANS

Deferred Compensation Plan

Effective February 1, 2020, employees of the District may participate in two deferred compensation plans adopted under the provisions of Internal Revenue Code Section 457(b) (Deferred Compensation Plans With Respect to Service for State and Local Governments) and Internal Revenue Code Section 401(k)-Cash or Deferred Arrangement for Governmental Employers. 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 The State of Tennessee Treasury Department and record kept by Empower Retirement.

Employees are eligible to begin participation on their hire date. The Plan permits salary reduction contributions up to the maximum allowed by the IRS 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 and employees are eligible for this match on the first day the month following completion of six months of continuous service. Employee contributions were \$79,228 and the District’s match was \$39,778 for the year ended June 30, 2021. Employees are 100% vested at all times.

3121 Plan

The District maintains a 3121 Social Security Replacement Plan under the State of Tennessee 401(k) Plan for all employees in lieu of social security deductions. The Plan is a feature under the State’s 401(k) defined contribution plan, established July 1, 1982, and adopted by the District effective February 1, 2020. The Plan is administered by The State of Tennessee Treasury Department and record kept by Empower Retirement. 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 \$958,907 in 2021. The District contributed \$144,584 to the Plan for the year ended June 30, 2021.

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 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, 2021 balance of \$258,573 in notes receivable consists of loans to two entities. The notes bear, at a minimum, a rate of interest of prime (as defined) minus 1%, are collateralized by certain equipment, and mature through 2032. Current interest rates range from 4.75% to 5.75%.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2022	\$ 20,764
2023	21,870
2024	23,036
2025	24,264
2026	25,559
Thereafter	<u>143,080</u>
	<u>\$ 258,573</u>

In fiscal year 2019, the District contracted with the State of Tennessee, Department of Agriculture to administer and service loans for the agricultural production and farm based businesses. The funds will be loaned to agriculture and farm based businesses that do not have reasonable access to capital markets and traditional commercial lending facilities to provide funding for certain infrastructure projects.

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 specific infrastructure purposes. The June 30, 2021 balance of \$47,162 consists of loans made to two entities. The notes bear an interest rate of 4.00%, collateralized by equipment, maturing from 2024 through 2026.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2022	\$ 10,366
2023	10,784
2024	11,217
2025	4,740
2026	4,929
Thereafter	<u>5,126</u>
	<u>\$ 47,162</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

NOTE 7 - REVOLVING LOAN FUND - (Continued)

In fiscal year 2021, the District contracted with the EDA to administer and service loans for the CARES Act Revolving Loan Fund Supplemental Disaster Recovery and Resiliency Award Plan. The objective of this plan is to assist small business that have been economically impacted by the COVID-19 pandemic to recover and sustain operations.

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. The June 30, 2021 balance of \$694,526 consists of loans made to four entities. The notes bear an interest rate of 4.00%, collateralized by equipment, maturing from 2024 through 2026.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2022	\$ 47,604
2023	49,407
2024	51,291
2025	53,262
2026	55,323
Thereafter	<u>437,639</u>
	<u>\$ 694,526</u>

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, 2021, management does not deem an allowance necessary.

NOTE 8 - RISK MANAGEMENT

The District carries commercial insurance for risks of loss including general liability, property, casualty, directors' and officers' liability, automobile, and crime. There were no claims in any of the past three fiscal years.

NOTE 9 - 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.

NOTE 10 - RISKS AND UNCERTAINTIES

On March 11, 2020 the World Health Organization designated COVID-19 a world health pandemic. Our existing contingency and disaster preparedness plans give management the tools necessary to guide the District through such circumstances. We have evaluated the short-term and long-term impacts of this pandemic on the District, the outcome of which is not predictable with assurance, and it is possible that the District could be affected negatively by these circumstances. Although the ultimate financial impact of this pandemic cannot be ascertained, through a thorough evaluation of cash, our funding base, and our overhead projections, management believes that any resulting financial impact should not materially affect the financial position of the District as of June 30, 2021.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

NOTE 11 - CARES ACT

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, and increased limitations on qualified charitable contributions. Management is currently evaluating how these provisions of the CARES Act will impact the District’s financial position, results of operations, and cash flows.



SUPPLEMENTARY INFORMATION



EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

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 CFDA # 20.205	61906 (39 mo) 61906 (39 mo)	\$ 26,849 <u>-</u>	\$ 26,849 <u>57,560</u>	\$ - <u>197,404</u>	\$ - <u>139,844</u>	\$ - <u>-</u>
Total Program 20.205			26,849	84,409	197,404	139,844	-
U.S. Department of Commerce - Economic Development Administration	Revolving Loan Fund RLF Covid CFDA #11.307	04-39-03208 04-79-07526	- -	977,979 560,003	977,979 560,003	- -	258,573 694,526
U.S. Department of Commerce - Economic Development Administration	COVID Response CFDA #11.307	ED20ATL3070100 (2yr)	-	<u>131,837</u>	<u>175,933</u>	<u>44,096</u>	<u>-</u>
Total Program 11.307			-	1,669,819	1,713,915	44,096	953,099
Appalachian Regional Commission	District Assistance CFDA #23.009	TN-710-B-C50-20 TN-710-B-C51-21	- -	66,493 66,493	66,493 66,493	- -	- -
U.S. Department of Commerce - Economic Development Administration	District Planning CFDA #11.302	ED19ATL3020007 ED19ATL3020007	17,500 -	17,500 52,500	- 70,000	- 17,500	- -
National Park Service Passed-Through to State of Tennessee, Dept. of Environment and Conservation and TN Historical Commission	Historic Preservation CFDA #15.904	63659 67090-01	2,112 -	2,112 15,355	- 23,156	- 7,801	- -
Environmental Protection Agency Office Water Passed-Through to the State of Tennessee, Dept. of Environment and Conservation	BMP Implementation CFDA #66.454	64153 64153	6,678 <u>-</u>	6,678 <u>17,043</u>	- <u>17,043</u>	- <u>-</u>	- <u>-</u>
Total Expenditures of Federal Awards			<u>\$ 53,139</u>	<u>\$ 1,998,402</u>	<u>\$ 2,154,504</u>	<u>\$ 209,241</u>	<u>\$ 953,099</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of State Awards
Year Ended June 30, 2021

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	62607	\$ 21,806	\$ 21,806	\$ -	\$ -	\$ -
		66215	-	51,262	73,231	21,969	
Tennessee Department of Environment and Conservation	Solid Waste Grant	62434	52,352	52,352	-	-	-
Tennessee Department of Economic and Community Development	Matching Fund Grant	68333	-	200,000	200,000	-	-
Tennessee Housing Development Authority	Technical Assistance Grant	31620-00520	12,825	11,775	(1,050)	-	-
		31620-00586	-	8,850	16,750	7,900	-
Tennessee Housing Development Authority	Emergency Repair Program	ERP-19-01	210,151	210,151	-	-	-
		ERP-21-01	-	101,659	115,392	13,733	-
Department of Transportation	Rural Transportation	61906	3,356	3,356		-	-
			-	10,348	35,220	24,872	-
Total Expenditures of State Awards			<u>\$ 300,490</u>	<u>\$ 671,559</u>	<u>\$ 439,543</u>	<u>\$ 68,474</u>	<u>\$ -</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Schedules of Federal and State Awards
June 30, 2021

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, 2021. 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. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform guidance.

NOTE 3 - LOANS

Loans made by the District to eligible participants under Revolving Loan Fund Program during the year ended June 30, 2021 are summarized as follows:

Revolving Loan Fund Program	
Loans Disbursement	<u>\$ 953,099</u>

Expenditure calculation for this program was as follows:

Cash	\$ 1,076,055
Outstanding loan balances	953,099
Administrative costs	<u>21,489</u>
	2,050,643
Federal share	<u>75%</u>
Federal awards expended	<u>\$ 1,537,982</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, 2021, 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 December 21, 2021.

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 financial statements. 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.

Rodger Moss & Co, PLLC

Knoxville, Tennessee
December 21, 2021



Independent Auditors' Report on Compliance For 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 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 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2021. 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 federal statutes, regulations, the terms, and conditions of its federal awards 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 the audit 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"). 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 types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

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 a 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.

Rodger Mess & Co, PLLC

Knoxville, Tennessee
December 21 , 2021



EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

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
Significant deficiency(ies) identified? ___ 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 auditors' 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

EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2020

Financial Statement Findings

There were no prior findings reported.

Federal Award Findings and Questioned Costs

There were no prior findings or questioned costs reported related to federal awards.

