

EAST TENNESSEE DEVELOPMENT DISTRICT  
Financial Statements and Supplementary Information  
Year Ended June 30, 2018



EAST TENNESSEE DEVELOPMENT DISTRICT  
Financial Statements and Supplementary Information  
Year Ended June 30, 2018

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EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Directors and Officials  
Year Ended June 30, 2018

**Board of Directors**

**Officers**

Chairman: Johnny Merritt, City of Luttrell Mayor  
Vice-Chairman: E.L. Morton, Campbell County Mayor  
Secretary: Ron Woody, Roane County Executive  
Treasurer: Roland Dykes III, Member-at-Large

**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  
Mike Williams, Union County Mayor  
Dale Perdue, Scott County Mayor  
Larry Waters, Sevier County Mayor  
Johnny Merritt, City of Luttrell Mayor

**Tennessee General Assembly**

Senator Ken Yager  
Representative Kent Calfee

**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 June Forster  
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 McElhane  
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 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

Union County

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

Sevier County

Mayor Mike Werner  
Mayor David Wear  
Mayor Kevin Howard  
Mayor Bryan Atchley  
Ms. Earlene Teaster



## 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, 2018, 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, 2018, 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 December 18, 2018, 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.



Knoxville, Tennessee  
December 18, 2018

EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis  
June 30, 2018

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, 2018. 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 \$3,541,598 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,430,554.
- Net position consist of the following:
  - 1) Capital assets, net of accumulated depreciation, of \$18,220.
  - 2) Net position amounting to \$1,236,051 is restricted for use in the Economic Development Agency Revolving Loan Fund Program ("EDA RLF").
  - 3) Unrestricted net position of \$2,287,327 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 \$3,919,213 for the year ended June 30, 2018. This compares to the prior year fund balance of \$3,981,949. Of these amounts, \$1,236,729 and \$1,814,389 were reserved for the EDA RLF Program and the Small and Minority Owned Business Program for the years ended June 30, 2018 and June 30, 2017, respectively.
- Total liabilities of the District's governmental funds at year end increase \$148,458 to \$395,835. Of the total liabilities, \$202,645 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2018.

**Overview of Financial Statements**

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

**Government-wide Financial Statements**

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

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



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

**Overview of Financial Statements (Continued)**

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

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

**Fund Financial Statements**

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

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

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

**Notes to the Financial Statements**

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

**Other Information**

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

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

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

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

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

The District's net position increased \$111,044 during the fiscal year from a beginning balance of \$3,430,554 to \$3,541,598 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, 2018. The District continues cost control efforts as reflected in our financial statements.

**Summary of Net Position**

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 3,033,778	\$ 2,983,337
Restricted assets	682,790	1,133,966
Capital assets	<u>18,220</u>	<u>25,976</u>
Total assets	<u>\$ 3,734,788</u>	<u>\$ 4,143,279</u>
Current liabilities	<u>\$ 193,190</u>	<u>\$ 712,725</u>
Total liabilities	<u>\$ 193,190</u>	<u>\$ 712,725</u>
Net Position		
Investment in capital assets	\$ 18,220	\$ 25,976
Restricted for revolving loan fund	1,236,051	1,222,863
Small and minority owned business loan program	-	11,251
Unrestricted	<u>2,287,327</u>	<u>2,170,464</u>
Total net position	<u>\$ 3,541,598</u>	<u>\$ 3,430,554</u>

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$111,044. We have improved our collections process which decreases our accounts receivable position, received loan forgiveness on the final delinquent loan in the Small and Minority Owned Business loan program, closed out and paid back the remaining balance in that 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>2018</u>	<u>% of Total</u>	<u>2017</u>	<u>% of Total</u>
Revenues				
Programs revenues:				
Charges for services	\$ 1,178,560	38.9%	\$ 1,117,311	52.3%
Operating grants	1,790,300	59.1%	963,135	45.1%
General revenues:				
Interest earned	<u>60,011</u>	<u>2.0%</u>	<u>53,514</u>	<u>2.5%</u>
Total revenues	<u>\$ 3,028,871</u>	<u>100.0%</u>	<u>\$ 2,133,960</u>	<u>100.0%</u>
Expenses				
General government	\$ 1,362,258	46.7%	\$ 1,171,898	57.8%
Public services	<u>1,555,569</u>	<u>53.3%</u>	<u>856,165</u>	<u>42.2%</u>
Total expenses	<u>\$ 2,917,827</u>	<u>100.0%</u>	<u>\$ 2,028,063</u>	<u>100.0%</u>
Change in net position	\$ 111,044		\$ 105,897	
Net position at the beginning of the year	<u>3,430,554</u>		<u>3,324,657</u>	
Net position at the end of the year	<u>\$ 3,541,598</u>		<u>\$ 3,430,554</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 \$61,249 mainly due to a combination of three items, Asset Based Planning workshop contract, Strategic Planning meetings contract, and an increase in the number of communities served in Local Planning over the last year. Our operating grants increased \$827,165 mainly due to the increase in funds available to operate the Emergency Repair Program and Retail Academy 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 \$3,523,378. Of this year-end total \$2,286,649 is unassigned indicating availability for continuing District requirements. Restricted fund balances of \$1,236,729 are reserved for the EDA RLF Program. Fund balances decreased this year by \$458,571. Key factors contributing to this decrease is the forgiveness of the remaining Small and Minority Owned Business Loan and the repayment of the corresponding long-term liability back to the State of Tennessee.

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, \$172,793, net of accumulated depreciation (\$154,573) amounted to \$18,220. There were no additions during the fiscal year. Disposals made to capital assets during the fiscal year amounted to \$1,378. Depreciation expense for the year amounted to \$7,756.

**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 is expected to continue to expand through the short-term forecast horizon extending through the fourth quarter of 2020. Barring any unforeseen economic downturn for the national economy, this would mark the longest economic expansion on record in the post-World War II era. The economy's fundamentals are strong, and there are no broad-based weaknesses that would precipitate a recession. However, unanticipated shocks are always possible that could derail the ongoing expansion. Tennessee's inflation-adjusted GDP is projected to advance at a 2.1 percent rate in 2018 and see 2.0 percent growth in the following year. U.S. GDP is expected to see slightly higher growth of 2.6 percent and 2.3 percent in the same years. The slower performance of the state economy is due to the fact that many sectors, like transportation equipment, have limited capacity for growth especially in the face of a weakened sales outlook. Tennessee nonfarm employment is expected to be up 1.4 percent and 1.2 percent in 2018 and 2019, respectively, in the ballpark of growth for national nonfarm employment. This reflects a declining trend in overall employment growth as discussed above. Manufacturing job growth will ease from the heated 3.1 percent rate of 2016 to 1.0 percent in 2017. (State quarterly data for the third quarter of 2017 shows manufacturing employment up only 0.3 percent on a year-over-year basis.) Growth in manufacturing jobs in 2018 and 2019 should come in at 0.3 percent in each year. Especially strong job growth will continue in the professional and business services sector. Leisure and hospitality will also continue to see healthy gains. The state unemployment rate should remain at historically low levels through the current economic expansion, despite slower employment growth. The number of unemployed people will continue to fall sharply in 2018 and then slow. Forecasting is always a challenge when observed data are not in the long-term historical record. Accordingly, do not be surprised if we see the state unemployment rate dip below 3 percent in the months ahead. Tennessee's nominal personal income should be up 4.3 percent in 2018 and 4.3 percent in 2019. Sustained strength in proprietors' income and an improved outlook for rent, interest and dividend income will help drive personal income. On a fiscal year basis, nominal personal income is projected to grow 3.9 percent in the 2017/18 fiscal year and 4.4 percent in 2018/19. Taxable sales will see modest growth in reflection of the maturation of the current business cycle. Taxable sales are projected to grow 4.6 percent in 2017, 4.5 percent in 2018 and 3.3 percent in 2019. Automobile dealer sales are expected to be sluggish compared to earlier years of the expansion as consumers have satisfied their pent up demand for new vehicles. Growth in automobile dealer sales in 2017 will be only 1.0 percent, due largely to a large 6.2 percent seasonally-adjusted contraction in the third quarter of the year; sales will improve to 3.0 percent in 2018 and 2019. Hotels and motels sales will experience healthy rates of sales growth in 2018 and 2019 as the state continues to benefit from a strong tourism sector. On a fiscal year basis, expect taxable sales to be up 3.2 percent in fiscal year 2018/19.

Nominal personal income in Tennessee has generally demonstrated decent growth in the last several years. Income was up 3.7 percent in 2017 and roughly similar growth of 3.6 percent is expected this year. Proprietors' income has experienced relatively stronger growth while rent, interest and dividend income grew slowly in 2017, with only slight improvement expected in 2018. While wage and salary income growth has been respectable, slow hourly earnings growth has held back overall wage and salary growth. Per capita income in Tennessee was \$43,326 in 2016, or about 88 percent of the national average. The keys to improving per capita income include investments in education and training and the ongoing recruitment and retention of firms that have high levels of capital investment that enable them to compete in the global market. Per capita

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

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

personal income (as measured by the Bureau of Economic Analysis or BEA) continues to show wide variation across the state. Just three counties had per capita income above the national average in 2016; only nine counties had per capita income above the BEA state average. Like many other measures of regional economic performance, per capita income has some tendency to be higher in and around the state's metropolitan areas. Job prospects are typically brighter in metropolitan areas and levels of educational attainment are higher as well, in turn supporting higher earnings. (Source: UT Boyd Center State's Economic Outlook for 2018).

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 2017 in Knox County, 996 units were sold at an average price of \$199,416. There were 3,188 housing units added to the market in 2017 with 1,561 of these being multi-family units. 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 in Knoxville up to 2,878 persons, a slight increase from 2016.

The federal fiscal policy environment remains somewhat uncertain for the near term. Although tax reform has stimulated the national economy in the near term, looming national debt concerns will become more prevalent in the future as budget deficits continue to skyrocket. The proclivity for competing interests in Congress to disagree on budget priorities will continue to cause timing and content problems with funding at the federal level. In December of 2018, ETDD intends to file an application with the Economic Development Administration that requests 3 years of funding at a level of \$58,500 per year. ETDD fully expects that the application will be approved and the funding will become available in early 2019. The Appalachian Regional Commission – perhaps the most important long term funding agency for ETDD – provided \$132,986 in calendar year 2018, the same amount that ETDD received in calendar year 2017. 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 ETDD intends to seek an additional increase in funding for FY 2018. Funding from TDEC for the regional solid waste program was decreased marginally in 2018 but there are opportunities to restore the funding to previous levels during the fiscal year. Also, the Tennessee General Assembly again appropriated an additional \$50,000 for ETDD beyond the annual \$150,000 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 2019 should be slightly higher than the FY 2018 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 2019 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 2019.

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, 2018

## ASSETS

## Current Assets - Unrestricted

Cash and cash equivalents	\$ 2,135,540
Accounts receivable	136,260
Intergovernmental receivables	202,645
Prepaid expenses	<u>5,393</u>

Total current assets - unrestricted \$ 2,479,838

## Current Assets - Restricted

Cash and cash equivalents	607,312
Revolving Loan Fund, current maturities	<u>75,478</u>

Total current assets - restricted 682,790

Total current assets 3,162,628

Capital assets, net of accumulated depreciation 18,220

Revolving Loan Fund, less current maturities 553,940

Total assets \$ 3,734,788

## LIABILITIES

## Current Liabilities

Accounts payable	\$ 119,493
Accrued leave	64,992
Other current liabilities	<u>8,705</u>

Total liabilities \$ 193,190

## NET POSITION

Investment in capital assets	\$ 18,220
Restricted for Revolving Loan Fund	1,236,051
Unrestricted	<u>2,287,327</u>

Total net position \$ 3,541,598

EAST TENNESSEE DEVELOPMENT DISTRICT

Statement of Activities  
Year Ended June 30, 2018

Function / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Net Revenue
Governmental activities				
General government	\$ 1,362,258	\$ 1,178,560	\$ -	\$ (183,698)
Public service	<u>1,555,569</u>	<u>-</u>	<u>1,790,300</u>	<u>234,731</u>
Total governmental activities	<u>\$ 2,917,827</u>	<u>\$ 1,178,560</u>	<u>\$ 1,790,300</u>	51,033
General revenues				
Interest earned				19,720
Public service revenue				
Interest earned				<u>40,291</u>
Increase in net position				111,044
Net position at the beginning of the year				<u>3,430,554</u>
Net position at the end of the year				<u>\$ 3,541,598</u>



EAST TENNESSEE DEVELOPMENT DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2018

	General	Grants Management	Total Governmental Funds
<b>ASSETS</b>			
Current Assets - Unrestricted			
Cash and cash equivalents	\$ 2,135,540	\$ -	\$ 2,135,540
Accounts receivable	136,260	-	136,260
Due from other funds	202,645	-	202,645
Intergovernmental receivables	-	202,645	202,645
Prepaid expenses	5,393	-	5,393
Total current assets - unrestricted	<u>2,479,838</u>	<u>202,645</u>	<u>2,682,483</u>
Restricted assets			
Cash and cash equivalents	607,312	-	607,312
Revolving Loan Fund, current maturities	75,478	-	75,478
Total current assets - restricted	<u>682,790</u>	<u>-</u>	<u>682,790</u>
Total current assets	3,162,628	202,645	3,365,273
Revolving Loan Fund, less current maturities	<u>553,940</u>	<u>-</u>	<u>553,940</u>
Total assets	<u>\$ 3,716,568</u>	<u>\$ 202,645</u>	<u>\$ 3,919,213</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities			
Accounts payable	\$ 119,493	\$ -	\$ 119,493
Accrued leave	64,992	-	64,992
Other current liabilities	8,705	-	8,705
Due to other funds	-	202,645	202,645
Total current liabilities	<u>193,190</u>	<u>202,645</u>	<u>395,835</u>
Fund balances			
Restricted for			
Revolving Loan Fund	1,236,729	-	1,236,729
Unassigned	2,286,649	-	2,286,649
Total fund balances	<u>3,523,378</u>	<u>-</u>	<u>3,523,378</u>
Total liabilities and fund balances	<u>\$ 3,716,568</u>	<u>\$ 202,645</u>	<u>\$ 3,919,213</u>

EAST TENNESSEE DEVELOPMENT DISTRICT  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2018

Total fund balance - total governmental funds \$ 3,523,378

Amounts reported for government activities in the statement of net position are different because:

Capital assets of \$172,793 net of accumulated depreciation of \$154,573 are not financial resources and therefore are not reported in the funds. See Note 4. 18,220

Net position of governmental activities \$ 3,541,598



EAST TENNESSEE DEVELOPMENT DISTRICT  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Governmental Funds  
Year Ended June 30, 2018

	General Fund	Grants Management	Total
Revenue			
Grantor contributions	\$ -	\$ 1,464,679	\$ 1,464,679
Local contracts	506,854	-	506,854
Regional planning	301,661	-	301,661
Administrative contracts	147,050	-	147,050
Local assessments	188,165	-	188,165
Contributions - in-kind	-	325,621	325,621
Interest income	39,777	-	39,777
Other revenue	55,064	-	55,064
Total revenue	1,238,571	1,790,300	3,028,871
Expenditures			
Salaries	624,363	397,508	1,021,871
Grant	452,229	287,917	740,146
Repayment of Small and Minority Owned Business Loan	335,317	213,484	548,801
Fringe benefits	286,668	182,510	469,178
Grant - in-kind	-	325,621	325,621
Rent - office, storage, and equipment	53,409	34,003	87,412
Planning	46,722	29,746	76,468
Equipment repairs and maintenance	24,631	15,682	40,313
Travel	21,581	13,739	35,320
Small and Minority Owned Business Loan Forgiveness	17,456	11,114	28,570
Conferences and meetings	11,466	7,300	18,766
Other	9,538	6,072	15,610
Memberships and publications	7,962	5,069	13,031
Insurance premiums	8,824	5,618	14,442
Audit	7,332	4,668	12,000
Printing and postage	6,852	4,362	11,214
Automobile	6,425	4,090	10,515
Materials and supplies	3,902	2,484	6,386
Telephone and e-mail services	3,747	2,386	6,133
Contracted services	3,449	2,196	5,645
Total expenditures	1,931,873	1,555,569	3,487,442
Excess of expenditures over revenues	(693,302)	234,731	(458,571)
Other financing sources (uses)			
Transfers from other funds	234,731	-	234,731
Transfers to other funds	-	(234,731)	(234,731)
Net other financing sources (uses)	234,731	(234,731)	-
Net decrease in fund balance	(458,571)	-	(458,571)
Fund balances at the beginning of the year	3,981,949	-	3,981,949
Fund balances at the end of the year	\$ 3,523,378	\$ -	\$ 3,523,378

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, 2018

Decrease in Fund Balances - Governmental Funds \$ (458,571)

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This the principal repayments in the amount of \$548,801 plus \$28,570 in loan forgiveness. See Note 9 for additional details. 577,371

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 \$7,756. (7,756)

Increase in Net Position - Governmental Activities \$ 111,044

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements  
June 30, 2018

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, 2018, 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.

**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, 2018, 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, 2018, accrued annual leave amounted to \$64,992. 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 \$308,277 for the year ended June 30, 2018.

**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 \$481,902 (included in local contract revenue) for the year ended June 30, 2018.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

	Balance as of 7/1/2017	Additions	Retirements	Balance as of 6/30/2018
Governmental activities				
Furniture and equipment	\$ 94,484	\$ -	\$ 1,378	\$ 93,106
Automobile	79,687	-	-	79,687
	<u>\$ 174,171</u>	<u>\$ -</u>	<u>\$ 1,378</u>	<u>\$ 172,793</u>
Accumulated depreciation				
Furniture and equipment	\$ 90,405	\$ 3,555	\$ 1,378	\$ 92,582
Automobiles	57,790	4,201	-	61,991
	<u>\$ 148,195</u>	<u>\$ 7,756</u>	<u>\$ 1,378</u>	<u>\$ 154,573</u>
Governmental activities capital assets, net	<u>\$ 25,976</u>	<u>\$ (7,756)</u>	<u>\$ -</u>	<u>\$ 18,220</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 3,757
Public services	3,999
Total depreciation expense	<u>\$ 7,756</u>

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, 2018, was \$87,412. Operating lease requirements under these agreements for the next five years and thereafter will be approximately as follows:

<u>Year ending June 30,</u>	
2019	\$ 80,340
2020	80,340
2021	80,340
2022	80,340
2023	80,340
Thereafter	<u>1,827,735</u>
	<u>\$ 2,229,435</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, 2018. Employee contributions were \$88,931 and the District's match was \$53,251 for the year ended June 30, 2018. 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 Administrator 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 \$1,021,871 in 2018. The District contributed \$161,629 to the Plan for the year ended June 30, 2018.

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, 2018 balance of \$629,418 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, 2018, management does not deem an allowance necessary.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30.</u>	
2019	\$ 75,478
2020	64,633
2021	47,967
2022	50,580
2023	52,774
Thereafter	<u>337,986</u>
	<u>\$ 629,418</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)

During 2018, the District received forgiveness on one remaining loan in the amount of \$28,570. The loans were written off by the District, and correspondingly, any long-term liability associated with the loan due to the State of Tennessee were forgiven by the State of Tennessee which then decreased the District's liability to \$548,801.

The program was closed in the current fiscal year, and the District repaid the remaining liability of \$548,801 to the State of Tennessee. The balance of long-term liabilities due to the small and Minority-Owned Business Loan Program at June 30, 2018 was \$0.

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

	Balance as of 7/1/2017	Increases	Decreases	Balance as of 6/30/2018
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  
Year Ended June 30, 2018

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	50671 50671	\$ 20,180 -	\$ 20,180 35,181	\$ - 45,174	\$ - 9,993	\$ - -
Federal Highway Administration Passed- Through to State of Tennessee, Dept. of Transportation	Rural Transportation (S) CFDA # 20.205	50688 50688	21,244 -	21,244 35,536	- 47,638	- 12,102	- -
Total Program 20.205			41,424	112,141	92,812	22,095	-
Appalachian Regional Commission	District Assistance CFDA #23.009	TN-710-B-C47-17 TN-710-B-C48-18	- -	66,493 66,493	66,493 66,493	- -	- -
Appalachian Regional Commission	PIPES Program CFDA #23.009	TN-18571-16	-	53,902	53,902	-	53,902
Total Program 23.009			-	186,888	186,888	-	53,902
U.S. Department of Commerce - Economic Development Administration	District Planning CFDA #11.302	ED16ATL3030005	17,500 -	17,500 52,500	- 70,000	- 17,500	- -
U.S. Department of Commerce - Economic Development Administration	Revolving Loan Fund CFDA #11.307	04-39-03208	-	947,773	947,773	-	629,418
National Park Service Passed-Through to State of Tennessee, Dept. of Environment and Conservation and TN Historical Commission	Historic Preservation CFDA #15.904	51116 55772	8,491 -	8,491 17,170	- 24,955	- 7,785	- -
U.S. Department of Housing and Urban Development	Retail Academy Program CFDA #14.228	55046	-	90,000	90,000	-	90,000
Total Expenditures of Federal Awards			\$ 67,415	\$ 1,432,463	\$ 1,412,428	\$ 47,380	\$ 773,320

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Expenditures of State Awards  
Year Ended June 30, 2018

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	51628 54720	\$ 21,399 -	\$ 21,399 71,772	\$ - 71,772	\$ - -	\$ - -
Tennessee Department of Environment and Conservation	Solid Waste Grant	49387 53748	9,235 -	9,235 46,481	- 65,590	- 19,109	- -
Tennessee Department of Economic and Community Development	Matching Fund Grant	55218	-	200,000	200,000	-	-
Tennessee Housing Development Authority	Technical Assistance Grant	31620-00345 31620-00405	8,853 -	8,853 8,252	- 16,830	- 8,578	- -
Tennessee Housing Development Authority	Elderly Repair Program	ERP-17-01	-	353,389	478,236	124,847	-
Appalachian Regional Commission	PIPES Program	TN-18571-16	-	17,344	17,344	-	17,344
Tennessee Department of Economic and Community Development	FastTrack Economic Development	55190	-	155,000	155,000	-	155,000
Department of Transportation	Rural Transportation (S)	50688 50688	2,625 -	2,625 4,459	- 5,955	- 1,496	- -
Department of Transportation	Rural Transportation (N)	50671 50671	2,494 -	2,494 4,405	- 5,640	- 1,235	- -
Total Expenditures of State Awards			<u>\$ 44,606</u>	<u>\$ 905,708</u>	<u>\$ 1,016,367</u>	<u>\$ 155,265</u>	<u>\$ 172,344</u>

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Schedules of Federal and State Awards  
June 30, 2018

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, 2018. 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, 2018 are summarized as follows:

Revolving Loan Fund Program

Loans Disbursement	\$ 629,418
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Expenditure calculation for this program was as follows:

Cash	\$ 607,311
Outstanding loan balances	629,418
Administrative costs	<u>26,968</u>
	1,263,697
Federal share	<u>75%</u>
Federal awards expended	<u>\$ 947,773</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, 2018, 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 11, 2018.

**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.

Rodger Moss & Co PLLC

Knoxville, Tennessee  
December 18, 2018



**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 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, 2018. 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, 2018.

**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.

Rodger Moss + Co PLLC

Knoxville, Tennessee  
December 18, 2018



EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2018

**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