

EAST TENNESSEE DEVELOPMENT DISTRICT  
Financial Statements and Supplementary Information  
Year Ended June 30, 2022



EAST TENNESSEE DEVELOPMENT DISTRICT  
Financial Statements and Supplementary Information  
Year Ended June 30, 2022

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EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Directors and Officials  
Year Ended June 30, 2022

**Board of Directors**

**Officers**

Chairman: Mark Potts, Jefferson County Mayor  
Vice-Chairman: Joe Brooks, Claiborne County Mayor  
Secretary: Jeff Tibbals, Scott County Mayor  
Treasurer: Brian Langley, Morgan County Executive

**Executive Committee Members**

Terry Frank, Anderson County Mayor  
Ed Mitchell, Blount County Mayor  
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**

Claudia Caballero

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

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 Shayne Green  
Mayor Phillip Farmer  
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 Mitch Cain  
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 Ty Blakely  
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**

#### **Opinion**

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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2022, 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.

#### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial

likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 7 - 13 be presented to supplement the basic financial statements. Such information is the responsibility of management, 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.

### **Supplementary 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 are 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.

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor’s report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2022 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.

Rodger Moss & Co, PLLC

Knoxville, Tennessee  
November 9, 2022





EAST TENNESSEE DEVELOPMENT DISTRICT  
Management's Discussion & Analysis  
June 30, 2022

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, 2022. 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 \$4,816,366 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$4,751,195.
- Net position consists of the following:
  - 1) Capital assets, net of accumulated depreciation, of \$39,991.
  - 2) Net position amounting to \$1,309,962, \$756,749 and \$204,555 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 \$2,505,109 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 \$4,776,375 for the year ended June 30, 2022. This compares to the prior year fund balance of \$4,679,867. Of these amounts, \$2,271,266 and \$2,219,329 were reserved for the EDA RLF Program, RLF Covid Program, and the RLF Agriculture Program for the years ended June 30, 2022 and June 30, 2021, respectively.
- Total liabilities of the District's governmental funds at year end increased from \$360,380 to \$779,300. Of the total liabilities, \$471,334 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2022.

**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 \$65,171 during the fiscal year from a beginning balance of \$4,751,195 to \$4,816,366 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, 2022. The District continues cost control efforts as reflected in our financial statements.

Summary of Net Position

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 3,574,096	\$ 3,451,094
Restricted assets	1,510,245	1,311,438
Capital assets	<u>39,991</u>	<u>71,328</u>
Total assets	<u>\$ 5,124,332</u>	<u>\$ 4,833,860</u>
Current liabilities	<u>\$ 307,966</u>	<u>\$ 82,665</u>
Total liabilities	<u>\$ 307,966</u>	<u>\$ 82,665</u>
 Net Position		
Investment in capital assets	\$ 39,991	\$ 71,328
Restricted for revolving loan fund	1,309,962	1,302,058
Restricted for Revolving Loan Fund - Covid	756,749	713,460
Restricted for Revolving Loan Fund - Agriculture	204,555	203,811
Unrestricted	<u>2,505,109</u>	<u>2,460,538</u>
Total net position	<u>\$ 4,816,366</u>	<u>\$ 4,751,195</u>

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$65,171. We had the closeout of two programs, the Emergency Repair Program and the EDA Covid Response. Those two factors account for the majority of the change 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>2022</u>	<u>% of Total</u>	<u>2021</u>	<u>% of Total</u>
<b>Revenues</b>				
Programs revenues:				
Charges for services	\$ 816,966	32.5%	\$ 1,002,811	47.1%
Operating grants	1,635,448	65.0%	1,056,065	49.7%
General revenues:				
Interest earned	<u>64,169</u>	<u>2.5%</u>	<u>64,169</u>	<u>3.0%</u>
Total revenues	<u>\$ 2,516,583</u>	<u>100.0%</u>	<u>\$ 2,123,045</u>	<u>100.0%</u>
<b>Expenses</b>				
General government	\$ 1,510,003	61.6%	\$ 1,193,337	61.8%
Public services	<u>941,409</u>	<u>38.4%</u>	<u>738,194</u>	<u>38.2%</u>
Total expenses	<u>\$ 2,451,412</u>	<u>100.0%</u>	<u>\$ 1,931,531</u>	<u>100.0%</u>
Change in net position	\$ 65,171		\$ 191,514	
Net position at the beginning of the year	4,751,195		3,850,145	
Transfer of endowment grant	<u>-</u>		<u>709,536</u>	
Net position at the end of the year	<u>\$ 4,816,366</u>		<u>\$ 4,751,195</u>	

In review of the Summary of Changes in Net Position, there have been a few shifts from the previous year. The charges for services have decreased \$185,845. This is primarily the effect of the Administrative Contracts revenue decrease. The operating grant revenue increased this year by \$579,383. This increase is due to the net effect of increases in revenue from the ERP and EDA Covid Response programs. Both program contracts were closed out at the end of the fiscal year. The ERP program will continue with a new contract, the Covid Response program has concluded.

**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 \$4,776,375. Of this year-end total \$2,505,109 is unassigned indicating availability for continuing District requirements. Restricted fund balances of \$2,271,266 are reserved for the EDA RLF Program \$1,309,962, RLF Covid Program \$756,749, and the RLF Agriculture Program \$204,555. Fund balances increased this year by \$96,508. Total revenue this year increased \$251,777 over last year and total expenses increased \$224,560 over last year with the net effect of an increased fund balance.

**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 (\$148,435) amounted to \$39,991. There were \$0 in additions and disposals during the fiscal year. Depreciation expense for the year amounted to \$31,337.

**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 state economy continues to recover from the pandemic-induced recession. The economy roared back in the first half of 2021, as effective vaccines were distributed, and many consumers returned to in-person services. Fiscal stimulus through the 2021 American Rescue Plan (ARP), which provided a third round of stimulus checks, an extension of enhanced unemployment insurance benefits, and a number of other important COVID-relief measures, also provided a significant boost to economic growth, and helped facilitate a surge in consumer spending. In some cases, however, the supply-side of the market could not keep up with the resurgence in demand. Many businesses that shrunk or closed in 2020 have had trouble hiring enough workers as they have reopened, while other businesses have had difficulty keeping enough inventory on the shelves. These issues are likely temporary, but they have put upward pressure on prices and may have prevented the economy from growing even faster in 2021. Despite these headwinds, expectations are that the Tennessee economy will grow at a strong pace in the near term. Tennessee real GDP has already recovered to pre-pandemic levels and is projected to advance by a very robust 5.6 percent for the 2021 year as a whole, and 4.2 percent in 2022 as the labor market recovers and supply chain issues are resolved in the near term.

While real GDP has fully recovered from the pandemic-related losses, the state's labor market has been slower to recover, and there are still nearly 55,000 fewer workers on Tennessee payrolls than there were prior to the pandemic. This is somewhat expected, as it takes longer for employees and employers to match whereas productivity gains have allowed GDP to recover relatively quickly. However, as discussed in Chapter 4, there are a number of other potential factors contributing to the slower labor market recovery. Nonetheless, Tennessee nonfarm employment is projected to grow by a strong 2.8 percent in 2021, and then accelerate to 3.1 percent growth in 2022 and 2.2 percent in 2023. Furthermore, nonfarm employment in Tennessee is projected to fully recover to pre-pandemic levels by the second quarter of 2022, which is a quarter ahead of the nation's projected labor market recovery. State payrolls will see a boost from the manufacturing sector, where employment is projected to increase by 3.8 percent in 2021, versus only 1.6 percent growth for the nation as a whole. Manufacturing employment in Tennessee will also be bolstered by the state's already strong manufacturing presence, as well as the state's success in attracting new manufacturing operations, which will provide an additional boost to manufacturing payrolls over the forecast horizon. Prime examples are the Ford electric vehicle complex in West Tennessee, Thermo Fisher Scientific's new biopharmaceutical manufacturing facility in Wilson County, and Smith and Wesson's new headquarters in Blount County. As a result, manufacturing employment in Tennessee is now projected to recover to pre-pandemic levels by 2023, whereas national manufacturing employment will remain below pre-pandemic levels through the decade. State payrolls will also be propped up by gains in the service sectors, as sectors gutted during the initial phase of the pandemic continue to recover in the near term. Employment in the professional and business services sector, which has a high proportion of jobs that can be done remotely, has already fully recovered, and will continue to see gains in the near term, growing by 7.5 percent in the fourth quarter of 2021, and 4.3 percent for the 2022 year as a whole. Employment in the leisure and hospitality sector, which faced the brunt of the pandemic-related job losses, will expand by 5.9 percent in 2021 and then accelerate to 10.2 percent growth in 2022, as consumers continue to shift back to in-person services and rising wage rates attract more workers.

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

As a result, leisure and hospitality employment is projected to recover by the end of 2022. By comparison, employment gains in education and health services have stalled as of late, seeing labor force contractions in both the second and third quarters of 2021, and as a result employment will fall by 0.6 percent for the 2021 year as a whole. Expectations are that employment in this sector will be slower to recover, largely due to worker burnout, and will only grow by 2.2 percent in 2022 and 2.8 percent in 2023. As a result, employment in education and health services will not fully recover until 2023. Tennessee's unemployment rate, which rose to 15.8 percent in April 2020, has fallen rapidly as the state economy recovers. The state unemployment rate, which averaged 7.5 percent in 2020, is projected to fall to 3.9 percent in 2022 and 3.7 percent in 2023. However, the labor force participation rate (i.e. the percentage of the adult population that is working or not working but actively looking for work), which sat at 61.8 percent in the fourth quarter of 2019, will be slower to recover, as more people remain out of the workforce. As a result, the labor force participation rate will only reach 60.9 percent in 2022 (annual average) and then inch up to 61.4 percent in 2023. Nominal taxable sales have seen incredibly strong growth during the first half of 2021, growing by an annualized rate of 41.3 percent in the first quarter and 23.4 percent in the second quarter, as fiscal stimulus coupled with the rollout of vaccines led to an increase in consumer confidence and a dramatic surge in consumer spending. State legislative changes that expanded the collections of sales tax on online transactions also led to a strong, and largely permanent, increase in the state's taxable sales base. Following the strong first half of 2021, taxable sales growth was then tempered in the third quarter due to increased prices and the emergence of the more virulent delta variant, which caused some consumers to pivot away from in-person services again. However, as a whole, taxable sales are projected to shoot up by 21.5 percent in 2021 before moderating to 2.2 percent growth in 2022. Finally, nominal personal income will grow by a historically high 7.7 percent in 2021, but income growth will then slow to a projected 2.1 percent in 2022. The strong rate of personal income growth in 2021 is due almost entirely to fiscal stimulus, which pushed Federal transfer payments (e.g. stimulus checks and enhanced unemployment insurance benefits) up by an annualized rate of over 600 percent in the first quarter of 2021. Transfer payments have fallen sharply in the ensuing quarters, as provisions of the ARP have expired, but transfer payments will still grow by 8.0 percent for the 2021 year as a whole. Federal transfer payments will continue to normalize through next year and are projected to fall by 13.4 percent in 2022. Counterbalancing this correction in transfer payments will be strong gains in wages and salaries, driven by both employment growth and increased wages to lower wage workers, as inflationary pressures and labor shortages in some sectors push wages upwards in the short run.

Taken together, Tennessee nominal personal income will increase by a moderate 2.1 percent in 2022 but will still outpace projected national income growth of 1.0 percent. Following this heightened volatility, personal income growth will settle into a more stable trajectory and advance by 5.2 percent in 2023, which is more in line with recent historic growth patterns. (source: 2022 Report to the Governor, TN CBER).

The median home sales price in the Knoxville / Knox County area was \$310,500 this year, an increase of 19.4% from one year ago. Housing inventories remain tight nationally, regionally, and locally. In the Knoxville area, total inventory remains down around 41% from a year ago and more than 68% from pre-pandemic levels. Half of homes sold in the Knoxville area were on the market for 5 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 still 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. 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 continued through June of 2022. That grant helped the agency and the regions through the pandemic. The Appalachian Regional Commission – perhaps the most important long-term funding agency for ETDD – committed to provide \$169,351 in calendar year 2022, which is an increase of \$36,365 from what ETDD received in calendar year 2021. 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 2023.

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

At the state level, ETDD has received commitments from various state departments to fund most of ETDD's existing state funded activities for FY 2023. TDOT will continue to fund the two Rural Transportation Organizations at substantially increased funding, estimated at \$135,000 in 2023. TACIR will continue to fund the infrastructure survey at level funding and the THDA will maintain its 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 will remain level at \$200,000 for ETDD in FY 2023. TDEC Solid Waste Technical Assistance grant is back this year after not being funded for the past two years. 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. Total annual revenues from these programs in FY 2023 should be higher than the FY 2022 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 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, 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 2023 is for steady economic recovery and very conservation revenue spending protocols are in place. Given these factors, along with historic low interest rates and increasing consumer confidence and spending, economic activity in our region is expected to be above average in fiscal year 2023.

**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, 2022

ASSETS

Current Assets - Unrestricted	
Cash and cash equivalents	\$ 2,300,958
Accounts receivable	43,360
Intergovernmental receivables	471,334
Prepaid expenses	<u>2,339</u>
Total current assets - unrestricted	\$ 2,817,991
Current Assets - Restricted	
Cash and cash equivalents	1,431,986
Revolving Loan Fund - Agriculture, current maturities	14,997
Revolving Loan Fund - Covid, current maturities	51,291
Revolving Loan Fund, current maturities	<u>11,971</u>
Total current assets - restricted	<u>1,510,245</u>
Total current assets	4,328,236
Capital assets, net of accumulated depreciation	39,991
Revolving Loan Fund - Agriculture, less current maturities	26,012
Revolving Loan Fund - Covid, less current maturities	595,631
Revolving Loan Fund, less current maturities	<u>134,462</u>
Total assets	<u>\$ 5,124,332</u>

LIABILITIES

Current Liabilities	
Accounts payable	\$ 213,545
Accrued leave	93,766
Other current liabilities	<u>655</u>
Total liabilities	<u>\$ 307,966</u>

NET POSITION

Investment in capital assets	\$ 39,991
Restricted	
Restricted for Revolving Loan Fund	1,309,962
Restricted for Revolving Loan Fund - Agriculture	204,555
Restricted for Revolving Loan Fund - Covid	756,749
Unrestricted	<u>2,505,109</u>
Total net position	<u>\$ 4,816,366</u>



EAST TENNESSEE DEVELOPMENT DISTRICT  
Statement of Activities  
Year Ended June 30, 2022

Function / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Net Revenue
Governmental activities				
General government	\$ 1,510,003	\$ 843,586	\$ -	\$ (666,417)
Public service	<u>941,409</u>	<u>-</u>	<u>1,635,448</u>	<u>694,039</u>
Total governmental activities	<u>\$ 2,451,412</u>	<u>\$ 843,586</u>	<u>\$ 1,635,448</u>	27,622
General revenues				
Interest earned				2,606
Public service revenue				
Interest earned				<u>34,943</u>
Increase in net position				65,171
Net position at the beginning of the year				<u>4,751,195</u>
Net position at the end of the year				<u>\$ 4,816,366</u>

EAST TENNESSEE DEVELOPMENT DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2022

	General	Grants Management	Total Governmental Funds
<b>ASSETS</b>			
Current Assets - Unrestricted			
Cash and cash equivalents	\$ 2,300,958	\$ -	\$ 2,300,958
Accounts receivable	43,360	-	43,360
Due from other funds	471,334	-	471,334
Intergovernmental receivables	-	471,334	471,334
Prepaid expenses	2,339	-	2,339
Total current assets - unrestricted	<u>2,817,991</u>	<u>471,334</u>	<u>3,289,325</u>
Restricted assets			
Cash and cash equivalents	1,431,986	-	1,431,986
Revolving Loan Fund - Agriculture, current maturities	14,997	-	14,997
Revolving Loan Fund - Covid, current maturities	51,291	-	51,291
Revolving Loan Fund, current maturities	11,971	-	11,971
Total current assets - restricted	<u>1,510,245</u>	<u>-</u>	<u>1,510,245</u>
Total current assets	4,328,236	471,334	4,799,570
Revolving Loan Fund - Agriculture, less current maturities	26,012	-	26,012
Revolving Loan Fund - Covid, less current maturities	595,631	-	595,631
Revolving Loan Fund, less current maturities	134,462	-	134,462
Total assets	<u>\$ 5,084,341</u>	<u>\$ 471,334</u>	<u>\$ 5,555,675</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Current Liabilities			
Accounts payable	\$ 213,545	\$ -	\$ 213,545
Accrued leave	93,766	-	93,766
Other current liabilities	655	-	655
Due to other funds	-	471,334	471,334
Total current liabilities	<u>307,966</u>	<u>471,334</u>	<u>779,300</u>
Fund balances			
Restricted for			
Revolving Loan Fund	1,309,962	-	1,309,962
Revolving Loan Fund - Agriculture	204,555	-	204,555
Restricted for Revolving Loan Fund - Covid	756,749	-	756,749
Unassigned	2,505,109	-	2,505,109
Total fund balances	<u>4,776,375</u>	<u>-</u>	<u>4,776,375</u>
Total liabilities and fund balances	<u>\$ 5,084,341</u>	<u>\$ 471,334</u>	<u>\$ 5,555,675</u>

EAST TENNESSEE DEVELOPMENT DISTRICT  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
June 30, 2022

Total fund balance - total governmental funds	\$ 4,776,375
Amounts reported for government activities in the statement of net position are different because:	
Capital assets of \$188,426 net of accumulated depreciation of \$148,435 are not financial resources and therefore are not reported in the funds. See Note 4.	<u>39,991</u>
Net position of governmental activities	<u>\$ 4,816,366</u>



EAST TENNESSEE DEVELOPMENT DISTRICT  
Statement of Revenues, Expenditures, and Changes in  
Fund Balance - Governmental Funds  
Year Ended June 30, 2022

	Grants		Total
	General Fund	Management	
Revenue			
Grantor contributions	\$ -	\$ 1,635,448	\$ 1,635,448
Local contracts	284,944	-	284,944
Regional planning	295,596	-	295,596
Local assessments	188,165	-	188,165
Administrative contracts	31,275	-	31,275
Interest income	37,549	-	37,549
Other revenue	43,606	-	43,606
Total revenue	881,135	1,635,448	2,516,583
Expenditures			
Salaries	560,702	356,978	917,680
Grant	468,698	298,402	767,100
Fringe benefits	253,374	161,313	414,687
Rent - office, storage, and equipment	52,965	33,720	86,685
Planning	32,892	20,941	53,833
Equipment repairs and maintenance	23,824	15,168	38,992
Travel	17,776	11,318	29,094
Conferences and meetings	13,818	8,798	22,616
Memberships and publications	11,184	7,121	18,305
Insurance premiums	9,509	6,054	15,563
Audit	7,027	4,473	11,500
Telephone and e-mail services	6,062	3,859	9,921
Printing and postage	5,055	3,218	8,273
Automobile	4,797	3,054	7,851
Materials and supplies	4,265	2,715	6,980
Other	3,690	2,349	6,039
Contracted services	1,918	1,221	3,139
Workers' compensation	1,110	707	1,817
Total expenditures	1,478,666	941,409	2,420,075
Excess of expenditures (over) under revenues	(597,531)	694,039	96,508
Other financing sources (uses)			
Transfers from other funds	694,039	-	694,039
Transfers to other funds	-	(694,039)	(694,039)
Net other financing sources (uses)	694,039	(694,039)	-
Net increase in fund balance	96,508	-	96,508
Fund balances at the beginning of the year	4,679,867	-	4,679,867
Fund balances at the end of the year	\$ 4,776,375	\$ -	\$ 4,776,375

EAST TENNESSEE DEVELOPMENT DISTRICT  
Reconciliation of the Governmental Funds Statement  
Fund Balance to the Statement of Activities  
Year Ended June 30, 2022

Increase in Fund Balances - Governmental Funds \$ 96,508

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 \$31,337.

(31,337)

Increase in Net Position - Governmental Activities \$ 65,171



EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements  
June 30, 2022

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, 2022, 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, 2022, 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, 2022, accrued annual leave amounted to \$93,766. 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, 2022.

**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 independence auditors' 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 \$284,944 (included in local contract revenue) for the year ended June 30, 2022.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

	Balance as of 7/1/2021	Additions	Retirements	Balance as of 6/30/2022
Governmental activities				
Furniture and equipment	\$ 88,643	\$ -	\$ -	\$ 88,643
Automobile	99,783	-	-	99,783
	<u>188,426</u>	<u>-</u>	<u>-</u>	<u>188,426</u>
Accumulated depreciation				
Furniture and equipment	62,978	13,391	-	76,369
Automobiles	54,120	17,946	-	72,066
	<u>117,098</u>	<u>31,337</u>	<u>-</u>	<u>148,435</u>
Governmental activities capital assets, net	<u>\$ 71,328</u>	<u>\$ (31,337)</u>	<u>\$ -</u>	<u>\$ 39,991</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 3,757
Public services	<u>27,580</u>
Total depreciation expense	<u>\$ 31,337</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, 2022, was \$86,685. Operating lease requirements under these agreements for the next five years and thereafter will be approximately as follows:

<u>Year ending June 30,</u>	
2023	\$ 85,800
2024	85,800
2025	85,800
2026	85,800
2027	85,800
Thereafter	<u>1,608,750</u>
	<u>\$ 2,037,750</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 \$76,351 and the District’s match was \$37,182 for the year ended June 30, 2022. 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 \$917,680 in 2022. The District contributed \$138,131 to the Plan for the year ended June 30, 2022.

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, 2022 balance of \$146,433 in note receivable consists of loans to one entity. The note bears, at a minimum, a rate of interest of prime (as defined) minus 1%, is collateralized by certain equipment, and matures in 2032. Current interest rate is 4.75%.

Maturities of the note receivable are summarized as follows:

<u>Year ending June 30,</u>	
2023	\$ 11,971
2024	12,552
2025	13,161
2026	13,800
2027	14,470
Thereafter	<u>80,479</u>
	<u>\$ 146,433</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, 2022 balance of \$41,009 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>	
2023	\$ 14,997
2024	11,217
2025	4,740
2026	4,929
2027	<u>5,126</u>
	<u>\$ 41,009</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, 2022 balance of \$646,922 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>	
2023	\$ 49,407
2024	51,291
2025	53,262
2026	55,323
2027	57,479
Thereafter	<u>380,160</u>
	<u>\$ 646,922</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, 2022, 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 UNCERTANITIES

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, 2022.

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Financial Statements (Continued)

NOTE 11 - CARES ACT

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law. 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, 2022

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)	\$ 188,117 -	\$ 188,117 108,464	\$ - 150,528	\$ - 42,064	\$ - -
Total Program 20.205			188,117	296,581	150,528	42,064	-
U.S. Department of Commerce - Economic Development Administration	Revolving Loan Fund RLF Covid CFDA #11.307	04-39-03208 04-79-07526	- -	984,073 776,309	984,073 776,309	- -	146,433 646,922
U.S. Department of Commerce - Economic Development Administration	COVID Response CFDA #11.307	ED20ATL3070100 (2yr)	44,096	197,209	224,067	70,954	41,009
Total Program 11.307			44,096	1,957,591	1,984,449	70,954	834,364
Appalachian Regional Commission	District Assistance CFDA #23.009	TN-710-B-C51-21 TN-710-B-C52-22	- -	66,493 84,676	66,493 84,676	- -	- -
Appalachian Regional Commission	Power Grant CFDA #23.002	PW-19728-IM-19	-	90,548	90,548	-	-
Total Appalachian Regional Commission			-	241,717	241,717	-	-
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	67090-1 71490	7,801 -	7,801 15,398	- 27,644	- 12,246	- -
U.S. Environmental Protectional Agency	Brownfield Coalition Assessment CFDA #66.81	BF02D08421	-	49,096	80,717	31,621	-
Environmental Protection Agency Office Water Passed-Through to the State of Tennessee, Dept. of Environment and Conservation	BMP Implementation CFDA #66.454	72639	-	-	3,207	3,207	-
Total Expenditures of Federal Awards			\$ 257,514	\$ 2,879,901	\$ 2,558,262	\$ 177,592	\$ 834,364

See accompanying independent auditors' report.



EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Expenditures of State Awards  
Year Ended June 30, 2022

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	70955	\$ -	\$ 51,262	\$ 73,231	\$ 21,969	\$ -
Tennessee Department of Economic and Community Development	Matching Fund Grant	73715	-	200,000	200,000	-	-
Tennessee Housing Development Authority	Technical Assistance Grant	31620-00586 TA-22-01	7,900 -	7,900 13,300	- 13,300	- -	- -
Tennessee Housing Development Authority	Emergency Repair Program	ERP-21-01 ERP-21-01 amended	13,733 -	13,733 287,404	- 544,533	- 257,129	- -
Department of Transportation	Rural Transportation	61906	24,872 -	24,872 14,546	- 19,804	- 5,258	- -
Total Expenditures of State Awards			<u>\$ 46,505</u>	<u>\$ 613,017</u>	<u>\$ 850,868</u>	<u>\$ 284,356</u>	<u>\$ -</u>

EAST TENNESSEE DEVELOPMENT DISTRICT  
Notes to Schedules of Federal and State Awards  
June 30, 2022

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, 2022. 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, 2022 are summarized as follows:

Revolving Loan Fund Program	
Loans Disbursement	<u>\$ 793,355</u>

Expenditure calculation for the Revolving Loan Fund program was as follows:

Cash	\$ 1,163,529
Outstanding loan balances	146,433
Administrative costs	<u>2,135</u>
	1,312,097
Federal share	<u>75%</u>
Federal awards expended	<u>\$ 984,073</u>

Expenditure calculation for the Revolving Loan Fund - COVID-19 program was as follows:

Cash	\$ 104,911
Outstanding loan balances	646,922
Administrative costs	<u>24,476</u>
	776,309
Federal share	<u>100%</u>
Federal awards expended	<u>\$ 776,309</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, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 9, 2022.

**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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

**Report on 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  
November 9, 2022



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**

**Opinion on Each Major Federal Program**

We have audited East Tennessee Development District's (the "District") compliance with the types of compliance requirements identified as subject to audit 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, 2022. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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, 2022.

**Basis for Opinion on Each Major Federal Program**

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

**Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable

user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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  
November 9, 2022

EAST TENNESSEE DEVELOPMENT DISTRICT  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2022

**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, 2021

**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.

