

EAST TENNESSEE DEVELOPMENT DISTRICT
Financial Statements and Supplementary Information
Year Ended June 30, 2019



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Financial Statements and Supplementary Information
Year Ended June 30, 2019

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EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Directors and Officials
Year Ended June 30, 2019

Board of Directors

Officers

Chairman: E.L. Morton, Campbell County Mayor
Vice-Chairman: Ron Woody, Roane County Executive
Secretary: Roland Dykes III, Member-at-Large
Treasurer: Mark Potts, Jefferson County Mayor

Executive Committee Members

Terry Frank, Anderson County Mayor
Tom Taylor, Mayor of Maryville
E.L. Morton, Campbell County Mayor
Andy Wallace, Campbell County Development Representative
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 Kent Calfee

Minority Members-at-Large

Roland Dykes, III
Evelyn Gill

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 Tim Sharp
Mayor Chris Mitchell
Mayor Warren Gooch

Blount County

Mayor Ed Mitchell
Mr. Bryan Daniels
Mayor Andy Lawhorn
Mayor Tom Taylor
Mayor Tom Bickers
Mayor Ron Palewski
Mayor Carl Koella
Mayor Odis "Clint" Abbott

Campbell County

Mayor Bobby Stooksbury
Mayor June Forster
Mayor Mike Stanfield
Mayor Dwight Osborn

Claiborne County

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

Cocke County

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

Morgan County

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

Grainger County

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

Hamblen County

Mr. Marshall Ramsey
Mayor Gary Chesney

Jefferson County

Mayor George A. Gantte
Mayor Donna Hernandez
Mayor Glenn Warren Jr.
Mayor Beau Tucker
Mayor Mitch Cain
Ms. Leanne Sutton

Knox County

Ms. Jane Jolly
Mayor Ron Williams
Mayor Madeline Rogero

Loudon County

Mayor Dewayne Birchfield
Mayor Tony Aikens
Mayor Jeff Harris
Mayor Chris Miller
Mr. Jack Qualls

Monroe County

Mr. Richard Kirkland
Mayor Doyle Lowe
Mayor Glenn Moser
Mayor Patrick Hawkins
Mayor Bob Lovingood

Roane County

Mayor Wayne Best
Mayor Omer Cox
Mayor Mike Miller
Mayor Tim Neal

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
Mayor Opal Anderson

Sevier County

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

Union County

Mayor Johnny Merritt
Mayor Marty Smith
Mayor Gary Chandler
Mr. Randy Turner

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, 2019, 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, 2019, 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 11, 2019 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.



Knoxville, Tennessee
December 11, 2019

EAST TENNESSEE DEVELOPMENT DISTRICT
Management's Discussion & Analysis
June 30, 2019

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, 2019. 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 \$3,735,428 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,541,598.
- Net position consist of the following:
 - 1) Capital assets, net of accumulated depreciation, of \$59,759
 - 2) Net position amounting to \$1,264,418 and \$200,000 is restricted for use in the Economic Development Agency Revolving Loan Fund Program ("EDA RLF") and the State of Tennessee Department of Agriculture Revolving Loan Fund Program ("RLF Agriculture"), respectively
 - 3) Unrestricted net position of \$2,211,251 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 \$3,675,669 for the year ended June 30, 2019. This compares to the prior year fund balance of \$3,523,378. Of these amounts, \$1,464,332 and \$1,236,729 were reserved for the EDA RLF Program and the RLF Agriculture Program for the years ended June 30, 2019 and June 30, 2018, respectively.
- Total liabilities of the District's governmental funds at year end decreased \$258,656 to \$137,179. Of the total liabilities, \$69,176 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2019.

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 decreased \$6,170 during the fiscal year. Also during the fiscal year, the District received \$200,000 in funds as a transfer of an endowment grant. This amount was recognized as a change in net position causing net position to increase from \$3,541,598 to \$3,735,428 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, 2019. The District continues cost control efforts as reflected in our financial statements.

Summary of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 2,737,392	\$ 3,033,778
Restricted assets	1,006,280	682,790
Capital assets	<u>59,759</u>	<u>18,220</u>
Total assets	<u>\$ 3,803,431</u>	<u>\$ 3,734,788</u>
Current liabilities	<u>\$ 68,003</u>	<u>\$ 193,190</u>
Total liabilities	<u>\$ 68,003</u>	<u>\$ 193,190</u>
Net Position		
Investment in capital assets	\$ 59,759	\$ 18,220
Restricted for revolving loan fund	1,264,418	1,236,051
Restricted for Revolving Loan Fund - Agriculture	200,000	-
Unrestricted	<u>2,211,251</u>	<u>2,287,327</u>
Total net position	<u>\$ 3,735,428</u>	<u>\$ 3,541,598</u>

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$193,830. The majority of the increase is due to a transfer of funds received for an endowment grant in the current fiscal year.

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>2019</u>	<u>% of Total</u>	<u>2018</u>	<u>% of Total</u>
Revenues				
Programs revenues:				
Charges for services	\$ 951,247	45.4%	\$ 1,178,560	38.8%
Operating grants	1,081,844	51.7%	1,790,300	59.1%
General revenues:				
Interest earned	<u>61,232</u>	<u>2.9%</u>	<u>60,011</u>	<u>2.0%</u>
Total revenues	<u>\$ 2,094,323</u>	<u>100.0%</u>	<u>\$ 3,028,871</u>	<u>100.0%</u>
Expenses				
General government	\$ 1,191,050	56.7%	\$ 1,362,258	46.7%
Public services	<u>909,443</u>	<u>43.3%</u>	<u>1,555,569</u>	<u>53.3%</u>
Total expenses	<u>\$ 2,100,493</u>	<u>100.0%</u>	<u>\$ 2,917,827</u>	<u>100.0%</u>
Change in net position	\$ (6,170)		\$ 111,044	
Net position at the beginning of the year	3,541,598		3,430,554	
Transfer of endowment grant	<u>200,000</u>		<u>-</u>	
Net position at the end of the year	<u>\$ 3,735,428</u>		<u>\$ 3,541,598</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 \$227,313 mainly due to a decreased number of staff reimbursements from Areawide Development Corporation, which also corresponds to the decrease in public service expenses. The operating grant revenue decreased significantly this year by \$708,456. There are two main areas that caused the decrease. One is the reduction in the number of Emergency Repair Program projects completed this year, and the decreased match requirement for that program. Two is the reduction in the number of pass through grants that we did this year. Both of these areas reduced the corresponding expenses that are also related to these programs.

Financial Analysis of the District's Funds

Governmental Funds

As discussed, governmental funds are reported in the fund statements with a short-term inflow and outflow of expendable 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 \$3,675,669. Of this year-end total \$2,211,347 is unassigned indicating availability for continuing District requirements. Restricted fund balances of \$1,464,322 are reserved for the EDA RLF Program \$1,264,322, and the RLF Agriculture Program \$200,000. Fund balances increased this year by \$152,291. This was primarily due to a transfer of funds received from an endowment grant.

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, \$155,890, net of accumulated depreciation (\$96,131) amounted to \$59,759. There were \$52,480 in additions during the fiscal year. Disposals made to capital assets during the fiscal year amounted to \$69,383. Depreciation expense for the year amounted to \$10,941.

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 continued to show healthy economic growth through 2017, as inflation-adjusted gross domestic product (GDP) advanced by 2.1 percent for the year, only slightly behind the 2.2 percent growth registered for the nation as a whole. The state's labor market has been especially buoyant as of late. After growing by a modest 1.5 percent in 2017, nonfarm jobs in Tennessee have expanded by over 2.0 percent per quarter in each of the first three quarters of 2018. Tennessee's manufacturing sector has also shown resiliency, recording employment gains of 1.4 percent in 2017 which was well above the national growth rate of 0.7 percent. However, manufacturing job growth in Tennessee will slow to 1.0 percent in 2018 due in large part to a sluggish first quarter. The state unemployment rate averaged an incredibly low 3.7 percent in 2017 and is on pace to fall to 3.5 percent in 2018. The low unemployment rate in combination with strong job growth points to an economy that is cruising along at or near "full employment" (the idea that everyone who is willing and able to work is employed). While this is a good sign, it does suggest that there is limited room for future growth. In addition, simulative effects from the 2017 tax cuts and 2018 budget act are already baked into the growth rates from those years and as those effects dissipate, weaker economic growth will likely follow. This prospect of slower economic growth is reflected in the short-term forecast, with weaker growth in 2020. This is not a call for a recession, just slower, positive economic growth. Inflation-adjusted GDP is projected to increase by 2.7 percent in 2018 and 2.6 percent in 2019, before slowing to 1.9 percent in 2020. Nonfarm employment will grow by 1.4 percent in 2019 and 0.9 percent in 2020, closely in line with but slightly below the projections for national employment growth of 1.5 percent in 2019 and 1.1 percent in 2020. Tennessee's unemployment rate will rest around the 3.5-3.6 percent range for the rest of the decade and the start of the next decade, before rising towards 4.0 percent and above after 2022. Due to upward pressure from an already tight labor market, nominal personal income will continue to grow at a healthy clip, advancing by 4.3 percent in 2019 and 4.5 percent in 2020. However, income growth will soften in later years as job growth slows. Nominal taxable sales are projected to rise by 4.1 percent in 2019 and 3.9 percent in 2020. On a fiscal year basis, taxable sales will increase by 4.6 percent in fiscal year 2018/19 and 4.0 percent in 2019/20.

In Tennessee, nominal personal income grew by 4.7 percent in 2017, which was slightly faster than the 4.4 percent growth rate recorded for the nation as a whole. Growth in personal income was largely driven by gains in proprietors' income, which increased by 8.1 percent, and rent, interest, and dividends, which expanded by 5.3 percent. Other labor income also expanded by 4.7 percent, wages and salary income, which is the largest component of personal income, grew by 4.4 percent, while transfer payments increased by a modest 2.9 percent. Nominal personal income per capita grew to \$45,554 in 2017, representing a 3.7 percent increase over 2016. At \$46,773 per person, Tennessee ranks third in the region, only behind Florida (\$49,236 per person) and Virginia (\$56,830 per person). Per capita income in Tennessee was slightly above the southeast average of \$46,605, but well below the national average of \$53,342 per person. Per capita income was lowest in Mississippi (\$37,903), followed by West Virginia (\$39,920). The per capita income figures are highly correlated with the educational attainment of the states' population. (Source: 2019 Economic Report to the Governor, Boyd Center for Business and Economic Research)

Economic Factors and Next Year's Budget (continued)

The housing sector continues its sustained expansion as low cost financing and availability within all price ranges have combined to bolster existing home sales levels. However, development of new inventory has decreased somewhat from 2017 levels, and is substantially lower than the record pace set in 2006. In 2018, 2828 new units were added to the market, somewhat lower than the 3321 units that were added in 2017 and much lower than the 2016 total of 4384. While robust housing construction and sales activity certainly are a boon to the local economy, affordability concerns are beginning to have an impact on the long term housing outlook. The average price for a home in early 2019 is \$225,000 a 15.9% increase over 2018 levels. Still, 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 9,183 persons, representing a 3% increase from 2017.

The federal fiscal policy environment remains somewhat uncertain for the near term. Although the national economy continues to perform well and unemployment remains at record low levels, concerns over the national debt level, trade conflicts with China and the EU, and fears of an impending recession may impact consumer spending patterns in the near term. 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 submitted an application with the Economic Development Administration that requested 3 years of funding at a level of \$70,000 per year. The application for funding was approved and the funding became available in early 2019. The Appalachian Regional Commission – perhaps the most important long term funding agency for ETDD – provided \$132,986 in calendar year 2019, the same amount that ETDD received in calendar year 2018. 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 for FY 2020. TDOT will continue to fund the two Rural Transportation Organizations at substantially increased funding, moving from \$100,000 in 2019 to over \$276,000 in 2020. TACIR will continue to fund the infrastructure survey at level funding and the THDA will maintain its \$20,000 commitment for housing advocacy. This year the Historical Commission increased ETDD's historic preservation funding to \$42,000. Funding from TDEC for the regional solid waste program was increased significantly in FY 2020 in approximately \$90,000. The Tennessee General Assembly appropriated \$180,666 for ETDD in FY 2002, an amount that is approximately \$19,333 below the FY 2019 funding level. Beyond these variations, ETDD's funding from the State of Tennessee remains stable and reliable.

Internally, ETDD expects to continue to garner grant administration revenue from the Community Development Block Grant Program, the FastTrack Infrastructure Development Program and the US Economic Development Administration. Total annual revenues from these programs in FY 2020 should be slightly higher than the FY 2019 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 2020 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 2020.

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, 2019

ASSETS

Current Assets - Unrestricted

Cash and cash equivalents	\$ 2,081,874	
Accounts receivable	122,574	
Intergovernmental receivables	69,176	
Prepaid expenses	<u>5,578</u>	
Total current assets - unrestricted		\$ 2,279,202

Current Assets - Restricted

Cash and cash equivalents	952,632	
Revolving Loan Fund - Agriculture, current maturities	5,684	
Revolving Loan Fund, current maturities	<u>47,964</u>	
Total current assets - restricted		<u>1,006,280</u>
Total current assets		3,285,482

Capital assets, net of accumulated depreciation

59,759

Revolving Loan Fund - Agriculture, less current maturities

25,128

Revolving Loan Fund, less current maturities

433,062

Total assets

\$ 3,803,431

LIABILITIES

Current Liabilities

Accounts payable	\$ 1,062
Accrued leave	64,992
Other current liabilities	<u>1,949</u>

Total liabilities

\$ 68,003

NET POSITION

Investment in capital assets

\$ 59,759

Restricted

Restricted for Revolving Loan Fund 1,264,418

Restricted for Revolving Loan Fund - Agriculture 200,000

Unrestricted

2,211,251

Total net position

\$ 3,735,428

EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Activities
Year Ended June 30, 2019

Function / Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Net Revenue
Governmental activities				
General government	\$ 1,191,050	\$ 951,247	\$ -	\$ (239,803)
Public service	<u>909,443</u>	<u>-</u>	<u>1,081,844</u>	<u>172,401</u>
Total governmental activities	<u>\$ 2,100,493</u>	<u>\$ 951,247</u>	<u>\$ 1,081,844</u>	(67,402)
General revenues				
Interest earned				29,407
Public service revenue				
Interest earned				<u>31,825</u>
Decrease in net position				(6,170)
Net position at the beginning of the year				3,541,598
Transfer of endowment grant				<u>200,000</u>
Net position at the end of the year				<u>\$ 3,735,428</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Balance Sheet - Governmental Funds
June 30, 2019

	General	Grants Management	Total Governmental Funds
ASSETS			
Current Assets - Unrestricted			
Cash and cash equivalents	\$ 2,081,874	\$ -	\$ 2,081,874
Accounts receivable	122,574	-	122,574
Due from other funds	69,176	-	69,176
Intergovernmental receivables	-	69,176	69,176
Prepaid expenses	<u>5,578</u>	<u>-</u>	<u>5,578</u>
Total current assets - unrestricted	<u>2,279,202</u>	<u>69,176</u>	<u>2,348,378</u>
Restricted assets			
Cash and cash equivalents	952,632	-	952,632
Revolving Loan Fund - Agriculture, current maturities	5,684	-	5,684
Revolving Loan Fund, current maturities	<u>47,964</u>	<u>-</u>	<u>47,964</u>
Total current assets - restricted	<u>1,006,280</u>	<u>-</u>	<u>1,006,280</u>
Total current assets	3,285,482	69,176	3,354,658
Revolving Loan Fund - Agriculture, less current maturities	25,128	-	25,128
Revolving Loan Fund, less current maturities	<u>433,062</u>	<u>-</u>	<u>433,062</u>
Total assets	<u>\$ 3,743,672</u>	<u>\$ 69,176</u>	<u>\$ 3,812,848</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 1,062	\$ -	\$ 1,062
Accrued leave	64,992	-	64,992
Other current liabilities	1,949	-	1,949
Due to other funds	<u>-</u>	<u>69,176</u>	<u>69,176</u>
Total current liabilities	<u>68,003</u>	<u>69,176</u>	<u>137,179</u>
Fund balances			
Restricted for			
Revolving Loan Fund	1,264,322	-	1,264,322
Revolving Loan Fund - Agriculture	200,000	-	200,000
Unassigned	<u>2,211,347</u>	<u>-</u>	<u>2,211,347</u>
Total fund balances	<u>3,675,669</u>	<u>-</u>	<u>3,675,669</u>
Total liabilities and fund balances	<u>\$ 3,743,672</u>	<u>\$ 69,176</u>	<u>\$ 3,812,848</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2019

Total fund balance - total governmental funds \$ 3,675,669

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

Capital assets of \$155,890 net of accumulated depreciation of \$96,131 are not financial resources and therefore are not reported in the funds. See Note 4. 59,759

Net position of governmental activities \$ 3,735,428

EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Funds
Year Ended June 30, 2019

	General Fund	Grants Management	Total
Revenue			
Grantor contributions	\$ -	\$ 923,732	\$ 923,732
Local contracts	295,906	-	295,906
Regional planning	309,071	-	309,071
Administrative contracts	155,619	-	155,619
Local assessments	188,165	-	188,165
Contributions - in-kind	-	158,112	158,112
Interest income	30,782	-	30,782
Other revenue	<u>32,936</u>	<u>-</u>	<u>32,936</u>
Total revenue	<u>1,012,479</u>	<u>1,081,844</u>	<u>2,094,323</u>
Expenditures			
Salaries	563,677	358,871	922,548
Fringe benefits	259,098	164,958	424,056
Grant	155,308	98,879	254,187
Grant - in-kind	-	158,112	158,112
Rent - office, storage, and equipment	53,296	33,931	87,227
Planning	49,484	31,505	80,989
Capital purchases	32,065	20,415	52,480
Equipment repairs and maintenance	23,807	15,157	38,964
Travel	13,527	8,612	22,139
Conferences and meetings	13,070	8,321	21,391
Insurance premiums	9,164	5,834	14,998
Memberships and publications	7,574	4,822	12,396
Audit	7,027	4,474	11,500
Automobile	6,522	4,153	10,675
Materials and supplies	4,706	2,996	7,702
Telephone and e-mail services	4,521	2,878	7,399
Printing and postage	4,237	2,698	6,935
Other	3,457	2,202	5,659
Contracted services	880	560	1,440
Non-capital purchases	611	389	1,000
Consultant's fees	<u>143</u>	<u>91</u>	<u>234</u>
Total expenditures	<u>1,212,174</u>	<u>929,858</u>	<u>2,142,032</u>
Excess of expenditures over revenues	<u>(199,695)</u>	<u>151,986</u>	<u>(47,709)</u>
Other financing sources (uses)			
Transfers from other funds	151,986	-	151,986
Transfers to other funds	<u>-</u>	<u>(151,986)</u>	<u>(151,986)</u>
Net other financing sources (uses)	<u>151,986</u>	<u>(151,986)</u>	<u>-</u>
Net decrease in fund balance	(47,709)	-	(47,709)
Fund balances at the beginning of the year	3,523,378	-	3,523,378
Transfer of endowment grant	<u>200,000</u>	<u>-</u>	<u>200,000</u>
Fund balances at the end of the year	<u>\$ 3,675,669</u>	<u>\$ -</u>	<u>\$ 3,675,669</u>

See notes to financial statements.

EAST TENNESSEE DEVELOPMENT DISTRICT
Reconciliation of the Governmental Funds Statement
Fund Balance to the Statement of Activities
Year Ended June 30, 2019

Decrease in Fund Balances - Governmental Funds \$ (47,709)

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and recorded as depreciation expense. Depreciation expense in the current period was \$10,941. There were \$52,480 in net capital purchases.

41,539

Decrease in Net Position - Governmental Activities \$ (6,170)

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements
June 30, 2019

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
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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, 2019, 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, 2019, 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, 2019, 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 \$158,112 for the year ended June 30, 2019.

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 \$284,994 (included in local contract revenue) for the year ended June 30, 2019.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

	Balance as of 7/1/2018	Additions	Retirements	Balance as of 6/30/2019
Governmental activities				
Furniture and equipment	\$ 93,106	\$ -	\$ 29,733	\$ 63,373
Automobile	<u>79,687</u>	<u>52,480</u>	<u>39,650</u>	<u>92,517</u>
	<u>\$ 172,793</u>	<u>\$ 52,480</u>	<u>\$ 69,383</u>	<u>\$ 155,890</u>
Accumulated depreciation				
Furniture and equipment	\$ 92,582	\$ 1,720	\$ 29,733	\$ 64,569
Automobiles	<u>61,991</u>	<u>9,221</u>	<u>39,650</u>	<u>31,562</u>
	<u>\$ 154,573</u>	<u>\$ 10,941</u>	<u>\$ 69,383</u>	<u>\$ 96,131</u>
Governmental activities capital assets, net	<u>\$ 18,220</u>	<u>\$ 41,539</u>	<u>\$ -</u>	<u>\$ 59,759</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 3,757
Public services	<u>7,184</u>
Total depreciation expense	<u>\$ 10,941</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, 2019, was \$87,227. Operating lease requirements under these agreements for the next five years and thereafter will be approximately as follows:

<u>Year ending June 30,</u>	
2020	\$ 85,800
2021	85,800
2022	85,800
2023	85,800
2024	85,800
Thereafter	<u>1,866,150</u>
	<u>\$ 2,295,150</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, 2019. Employee contributions were \$74,567 and the District's match was \$43,164 for the year ended June 30, 2019. 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 \$922,548 in 2019. The District contributed \$139,956 to the Plan for the year ended June 30, 2019.

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, 2019 balance of \$481,026 in notes receivable consists of loans to four 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 2020 through 2032. Current interest rates range from 4.75% to 6.00%.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2020	\$ 47,964
2021	30,987
2022	32,732
2023	34,576
2024	36,527
Thereafter	<u>298,240</u>
	<u>\$ 481,026</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, 2019 balance of \$30,812 consists of a loan made to one entity. The note bears an interest rate of 4.00%, collateralized by equipment, maturing in January, 2024.

Maturities of the notes receivable are summarized as follows:

<u>Year ending June 30,</u>	
2020	\$ 5,684
2021	5,912
2022	6,153
2023	6,401
2024	<u>6,662</u>
	<u>\$ 30,812</u>

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

NOTE 7 - REVOLVING LOAN FUND - (Continued)

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, 2019, 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. Settled claims have not exceeded insurance coverage 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.



SUPPLEMENTARY INFORMATION



EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

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	\$ 9,993 -	\$ 9,993 28,003	\$ - 40,802	\$ - 12,799	\$ - -
Federal Highway Administration Passed- Through to State of Tennessee, Dept. of Transportation	Rural Transportation (S) CFDA # 20.205	50688 50688	12,102 -	12,102 30,100	- 43,514	- 13,414	- -
Total Program 20.205			22,095	80,198	84,316	26,213	-
U.S. Department of Commerce - Economic Development Administration	Revolving Loan Fund CFDA #11.307	04-39-03208	-	950,834	950,834	-	481,026
U.S. Department of Commerce - Economic Development Administration	POWER Implementation CFDA #11.307	04-79-07107	-	35,000	35,000	-	-
Total Program 11.307			-	985,834	985,834	-	481,026
Appalachian Regional Commission	District Assistance CFDA #23.009	TN-710-B-C48-R1-18 TN-710-B-C49-19	- -	66,493 66,493	66,493 66,493	- -	- -
U.S. Department of Commerce - Economic Development Administration	District Planning CFDA #11.302	ED16ATL3030005	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	55772 59866	7,785 -	7,785 26,616	- 33,458	- 6,842	- -
Total Expenditures of Federal Awards			\$ 47,380	\$ 1,303,419	\$ 1,306,594	\$ 50,555	\$ 481,026

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of State Awards
Year Ended June 30, 2019

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	58221	\$ -	\$ 72,311	\$ 72,311	\$ -	\$ -
Tennessee Department of Environment and Conservation	Solid Waste Grant	53748 58388	19,109 -	19,109 31,640	- 41,079	- 9,439	- -
Tennessee Department of Economic and Community Development	Matching Fund Grant	59617	-	200,000	200,000	-	-
Tennessee Housing Development Authority	Technical Assistance Grant	31620-00405 31620-00483	8,578 -	8,578 3,961	- 9,903	- 5,942	- -
Tennessee Housing Development Authority	Elderly Repair Program	ERP-17-01 ERP-19-01	124,847 -	124,847 234,258	- 234,258	- -	- -
Tennessee Department of Agriculture	Revolving loan program	32506-00819	-	200,000	200,000	-	30,812
Department of Transportation	Rural Transportation (S)	50688 50688	1,496 -	1,496 3,720	- 5,378	- 1,658	- -
Department of Transportation	Rural Transportation (N)	50671 50671	1,235 -	1,235 3,461	- 5,043	- 1,582	-
Total Expenditures of State Awards			<u>\$ 155,265</u>	<u>\$ 904,616</u>	<u>\$ 767,972</u>	<u>\$ 18,621</u>	<u>\$ 30,812</u>

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Schedules of Federal and State Awards
June 30, 2019

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, 2019. 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, 2019 are summarized as follows:

Revolving Loan Fund Program	
Loans Disbursement	\$ <u>481,026</u>

Expenditure calculation for this program was as follows:

Cash	\$ 783,295
Outstanding loan balances	481,026
Administrative costs	<u>3,458</u>
	1,267,779
Federal share	<u>75%</u>
Federal awards expended	\$ <u>950,834</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, 2019, 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, 2019.

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 11, 2019



Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance
Required by the Uniform Guidance

To the Board of Directors
East Tennessee Development District

Report on Compliance for Each Major Federal Program

We have audited East Tennessee Development District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2019. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

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 11, 2019



EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
 Material weakness(es) identified? yes X no
 Significant deficiency(ies) identified? yes X none reported
Noncompliance material to financial statements noted? yes X no

Federal Awards

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.307	Revolving Loan Fund
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<u>X</u> 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, 2019

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.

