

EAST TENNESSEE DEVELOPMENT DISTRICT
Financial Statements and Supplementary Information
Year Ended June 30, 2020



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Financial Statements and Supplementary Information
Year Ended June 30, 2020

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EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Directors and Officials
Year Ended June 30, 2020

Board of Directors

Officers

Chairman: Ron Woody, Roane County Executive
Vice-Chairman: Roland Dykes III, Newport Mayor
Secretary: Mark Potts, Jefferson County Mayor
Treasurer: Joe Brooks, Claiborne County Mayor

Executive Committee Members

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

Tennessee General Assembly

Senator Richard Briggs
Representative Kent Calfee

Minority Members-at-Large

Evelyn Gill

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

Other Members of the Board of Directors

Anderson County

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

Blount County

Mayor Ed Mitchell
Mr. Bryan Daniels
Mayor Andy Lawhorn
Mayor 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 Osbourne
Mr. Johnny Vanover

Claiborne County

Mayor Neal Pucciarelli
Mayor Linda Fultz
Mayor Jerry Beeler
Ms. Anna Bethwalker
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. Leann Sutton

Knox County

Ms. Jane Jolly
Mayor Ron Williams
Mayor Indya Kincannon

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 Patrick Hawkins
Mayor Bob Lovingood
Mayor Glenn Moser

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
Mayor Opal Anderson

Union County

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

Sevier County

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



Independent Auditors' Report

To the Board of Directors
East Tennessee Development District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the East Tennessee Development District (the "District") as of and for the year ended June 30, 2020, 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, 2020, 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 9, 2020 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.

Roderic Moss & Co, PLLC

Knoxville, Tennessee
December 14, 2020

EAST TENNESSEE DEVELOPMENT DISTRICT
Management's Discussion & Analysis
June 30, 2020

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, 2020. 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 \$3,850,145 ("net position") for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$3,735,428.
- Net position consist of the following:
 - 1) Capital assets, net of accumulated depreciation, of \$105,185
 - 2) Net position amounting to \$1,281,224 and \$201,510 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 \$2,262,226 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 \$3,744,960 for the year ended June 30, 2020. This compares to the prior year fund balance of \$3,675,669. Of these amounts, \$1,482,734 and \$1,464,322 were reserved for the EDA RLF Program and the RLF Agriculture Program for the years ended June 30, 2020 and June 30, 2019, respectively.
- Total liabilities of the District's governmental funds at year end increased from \$137,179 to \$613,896. Of the total liabilities, \$353,629 consists of an inner-district liability of the Grants Management Fund payable to the General Fund for the fiscal year ended June 30, 2020.

Overview of Financial Statements

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

Government-wide Financial Statements

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

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

Overview of Financial Statements (Continued)

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

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

Fund Financial Statements

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

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

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the District as a Whole

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

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

Financial Analysis of the District as a Whole (Continued)

The District's net position increased \$114,717 during the fiscal year from a beginning balance of \$3,735,428 to \$3,850,145 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, 2020. The District continues cost control efforts as reflected in our financial statements.

Summary of Net Position

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Current and other assets | \$ 2,968,523 | \$ 2,737,392 |
| Restricted assets | 1,036,704 | 1,006,280 |
| Capital assets | <u>105,185</u> | <u>59,759</u> |
| Total assets | <u>\$ 4,110,412</u> | <u>\$ 3,803,431</u> |
| Current liabilities | <u>\$ 260,267</u> | <u>\$ 68,003</u> |
| Total liabilities | <u>\$ 260,267</u> | <u>\$ 68,003</u> |
| Net Position | | |
| Investment in capital assets | \$ 105,185 | \$ 59,759 |
| Restricted for revolving loan fund | 1,281,224 | 1,264,418 |
| Restricted for Revolving Loan Fund - Agriculture | 201,510 | 200,000 |
| Unrestricted | <u>2,262,226</u> | <u>2,211,251</u> |
| Total net position | <u>\$ 3,850,145</u> | <u>\$ 3,735,428</u> |

The Summary of Net Position table shows an increase in total net position in the current year over the previous year of \$114,717. Even though the total liabilities increased significantly over the past year, so did the current and other assets to more than cover that increase which was mainly the close out of the Emergency Repair Program Grant. In addition to that, we had a loan payoff in the restricted assets and have invested in technology in the capital assets. With both of those and the Emergency Repair Program close make up most of this year's increase in net position.

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

Financial Analysis of the District as a Whole (Continued)

The comparative data provided below is a summary of changes in net position for the current and previous fiscal years:

| | <u>2020</u> | <u>% of Total</u> | <u>2019</u> | <u>% of Total</u> |
|---|---------------------|-------------------|---------------------|-------------------|
| Revenues | | | | |
| Programs revenues: | | | | |
| Charges for services | \$ 955,829 | 42.2% | \$ 951,247 | 45.3% |
| Operating grants | 1,245,628 | 55.0% | 1,081,844 | 51.7% |
| General revenues: | | | | |
| Interest earned | <u>63,349</u> | <u>2.8%</u> | <u>61,232</u> | <u>2.9%</u> |
| Total revenues | <u>\$ 2,264,806</u> | <u>100.0%</u> | <u>\$ 2,094,323</u> | <u>100.0%</u> |
| Expenses | | | | |
| General government | \$ 1,287,147 | 59.9% | \$ 1,191,050 | 56.7% |
| Public services | <u>862,942</u> | <u>40.1%</u> | <u>909,443</u> | <u>43.3%</u> |
| Total expenses | <u>\$ 2,150,089</u> | <u>100.0%</u> | <u>\$ 2,100,493</u> | <u>100.0%</u> |
| Change in net position | \$ 114,717 | | \$ (6,170) | |
| Net position at the beginning of the year | 3,735,428 | | 3,541,598 | |
| Transfer of endowment grant | <u>-</u> | | <u>200,000</u> | |
| Net position at the end of the year | <u>\$ 3,850,145</u> | | <u>\$ 3,535,428</u> | |

In review of the Summary of Changes in Net Position, there have been a few shifts from the previous year. The charges for services have increased \$4,582. This is the net effect of the Regional Planning revenue decrease and the Administrative Contracts increase. However, the corresponding net effect in Public Services expenses have increased. The operating grant revenue increased this year by \$163,784. Most of the increase was due to the increase in funds this year in the Emergency Repair Program Grant, but the corresponding expenses decreased.

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 \$3,744,960. Of this year-end total \$2,262,226 is unassigned indicating availability for continuing District requirements. Restricted fund balances of \$1,482,734 are reserved for the EDA RLF Program \$1,281,224, and the RLF Agriculture Program \$201,510. Fund balances increased this year by \$69,291. Total revenue this year increased \$170,500 over last year and total expenses increased \$50,000 over last year with the net effect of an increased fund balance.

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

Proprietary Funds

The District has no proprietary funds.

Capital Asset and Debt Administration

Capital Assets

The District's capital assets, \$188,888, net of accumulated depreciation (\$83,705) amounted to \$105,183. There were \$66,473 in additions during the fiscal year. Disposals made to capital assets during the fiscal year amounted to \$33,475. Depreciation expense for the year amounted to \$21,047.

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

(Several sections of this overview are based upon reports and data that were produced prior to the onset of the COVID-19 pandemic)

Both Tennessee and the U.S. are currently enjoying the longest economic expansion in recorded history, and both saw steady economic growth in 2018 and much of 2019. In Tennessee, inflation-adjusted state gross domestic product (real GDP) advanced at a 2.7 percent rate in 2018, which was slightly slower than nation's 2.9 percent rate of growth. As the already record-long expansion continues to push forward, labor markets at both the state and national level grow tighter and tighter, leaving less room for job growth going forward. As a result, both Tennessee and the U.S. saw nonfarm jobs increase by 1.7 percent in 2018, marking two consecutive years with job gains below 2.0 percent. The first three quarters of 2019 have brought more of the same, as state job growth has ranged from 1.2 to 1.9 percent per quarter. This is still a sign of healthy gains in the labor market. Job growth in the state's service sectors continue to show resiliency, as job growth in professional and business services, educational and health services, and leisure and hospitality services have all seen gains of 3.0 percent or more in the most recent quarter of 2019 (2019Q3). The manufacturing sector has also seen decent job gains recently, despite setbacks for the national economy. In 2018, manufacturing jobs expanded by a modest 1.3 percent, but have fared better in 2019, seeing job growth ranging from 1.4 percent up to 2.7 percent in the first three quarters of 2019. Manufacturing job growth has largely been driven by durable goods manufacturing, which saw gains of 3.6 percent in the most recent quarter of 2019, while jobs in nondurable goods manufacturing expanded by a more moderate 1.1 percent in the third quarter of 2019.

The state's unemployment rate (i.e. the percentage of the adult population that is not working but actively looking for work), has remained incredibly low by historical standards, falling to 3.5 percent for the 2018 year as a whole, and drifting down to 3.2 percent in the first quarter of 2019 before ticking back up to 3.5 percent in the third quarter. These incredibly low unemployment rates are suggestive of a very healthy and very tight labor market. A low labor force participation rate (59.7 percent in 2018) suggests that there is still a large portion of the state's adult population that is not working or actively looking for work. Finding ways to entice these individuals (back) into the labor market could be a potential avenue for future economic growth. Nonetheless, as the labor market continues to tighten, we are finally starting to see signs of income growth. In Tennessee, nominal personal income grew by a healthy 5.3 percent in 2018. This was slightly slower than the 5.6 percent rate of growth registered for the nation as a whole.

A number of temporary factors have helped stimulate both the state and national economies in recent years, including the 2017 Tax Cut and Jobs Act, which provided temporary stimulus to business and consumer spending, and the 2018 and 2019 Bipartisan Budget Acts which increased government spending. Upward momentum from some of these policies may continue into the first half of 2020 before fading, and then slower economic growth will likely follow.

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

Economic Factors and Next Year's Budget (continued)

In addition, uncertainty surrounding U.S. trade policy and a systemic global economic slowdown could put downward pressure on economic growth in the short term. Thus, our short-term outlook (10 quarters ahead) calls for positive but slower economic growth in the near term. Our forecast does not point to a recession in the near term—though one is always possible—but we do project slower, positive economic growth going forward. In Tennessee, real GDP will fall from 2.7 percent in 2019, to 2.1 percent in 2020, and 1.6 percent in 2021. The state labor market will see moderate growth of 0.9 percent in 2020 and 0.5 percent in 2021. This is closely in line, but slightly slower than the projected national employment growth of 1.2 percent in 2020 and 0.8 percent in 2021. Tennessee's manufacturing sector will see employment growth of 0.6 percent in 2020 but face a contraction of 0.5 percent in 2021. Employment in the state's manufacturing sector will fare better than at the national level, where manufacturing employment will fall by 0.7 percent in 2020 and 1.8 percent in 2021.

Tennessee's unemployment rate will hover around 3.5 percent for the next two years, closely tracking the national unemployment rate, and nominal personal income will continue to show healthy growth (4.6 percent in 2020 and 4.7 percent in 2021). Nominal taxable sales are also projected to grow by 4.8 percent in 2020 and 4.7 percent in 2021. On a fiscal year (FY) basis, taxable sales will advance by 5.3 percent in FY 2019/20 and 4.7 percent in FY2020/21. Taxable sales growth will be higher in FY 2019/20 in part due to the recent U.S. Supreme Court decision in the *South Dakota v. Wayfair Inc.* case, which decided that states can mandate business without a physical presence in the state (e.g. internet merchants) to collect and remit sales and use taxes on transactions made in the state. Tennessee began taxing these online retailers (if their sales to Tennessee consumers exceeded \$500,000 in the previous year) on July 1, 2019, so we are projecting an uptick in sales tax collections in 2019 and 2020.

Over the past ten years, the state economy has been on an extended growth spurt, starting with the end of the Great Recession in the summer of 2009, with no intervening economic contractions. Since 2010 when the economy began to show material signs of improvement, the state economy has created 496,300 jobs reflecting a compound growth rate of 1.8 percent, ahead of the pace of job creation for the nation. Importantly, this historical window captures a rebound in the manufacturing sector which has seen uninterrupted growth since 2011. Job growth has been concentrated in the state's metropolitan areas, especially the Middle Tennessee region centered around Nashville. Rural areas of the state have struggled, and many counties have lost jobs.

One of the most remarkable features of this ongoing expansion has been the unemployment rate. After peaking above 10 percent in 2009, the unemployment rate drifted down and bottomed out in February 2019 at 3.2 percent. While the national rate also fell, Tennessee's current unemployment rate is below the national rate. As with nonfarm job growth, unemployment rates tend to be the lowest in the state's metropolitan areas; unemployment rates in rural Tennessee remain elevated. The disparity between urban and rural is largely a reflection of differences in educational attainment and health status of the population, with both measures showing much greater strength in larger cities.

Tennessee's gross domestic product (GDP) saw compound annual growth of 4.2 percent between 2009 and 2019 compared to 4.0 percent growth for the nation. Output growth in the manufacturing sector has been especially robust, reflecting both hiring gains and improvements in productivity. Tennessee's long-term outlook extends to 2029 and generally reflects ongoing growth for the state economy. However, growth is expected to be muted over the next decade. One reason is that the momentum behind the current expansion is waning as the economy confronts the constraints of full employment, best illustrated by tight labor markets across the state and the nation. Another reason is that the next ten years are expected to produce slower growth in employment due to underlying demographic factors that will constrain labor force growth. Finally, economy-wide productivity gains have been modest, and this is expected to continue for the foreseeable future. Together these factors will hold back overall output growth. Between 2019 and 2029, the state's GDP should be up 1.7 percent on a compound basis, slightly lower than the nation's rate of output growth. Manufacturing is expected to see output growth slow but remain in the black. However, manufacturing sector employment is expected to contract starting early in the 2020s. Overall nonfarm employment will see modest growth of just 0.7 percent (compound annual growth rate) between 2019 and 2029. The unemployment rate should remain very low by historical standards but slowly drift upward, ultimately reaching 4.1 percent. (Source: 2020 Report to the Governor, TN CBER)

Contrary to other sectors of the economy, the Knoxville real estate market might be one of the hottest markets in the country. In just one year's time (February 2019 to March 2020), the local market median home price increased by as much as 7%.

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

Economic Factors and Next Year's Budget (continued)

During the same time period, median value increased less than 4% on average in the United States. However, the median home value remains considerably less than the national average, \$200,60 versus \$248,857. It should be noted, however, that the programs that have been instituted to combat the impacts of the Coronavirus are temporary and more of a band aid fix than a permanent solution. Once these programs expire, the Knoxville market will most likely see an influx of foreclosures over the next 12 to 18 months. (Source: Knoxville Housing Market and Trends, Fortunebuilder 2020)

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, unemployment rates remain at very high levels and businesses at every level continue to struggle with reduced demand for consumer products in many sectors. When added to the pre-existing 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 and relief packages will continue to cause timing and content problems with funding at the federal level. In June of 2020, ETDD submitted an application with the Economic Development Administration that requested 2 years of supplemental funding at a level of \$200,000 per year. The application for funding was approved and the funding became available on July 1, 2020. The Appalachian Regional Commission – perhaps the most important long-term funding agency for ETDD – committed to provide \$132,986 in calendar year 2020, the same amount that ETDD received in calendar year 2019. Although the local and state revenue collection climate is suppressed due to COVID-19, the CARES Act and other federal relief appropriations have provided ETDD with a substantial amount of supplemental funding for FY 2021.

At the state level, ETDD has received commitments from various state departments to fund most of ETDD's existing state funded activities for FY 2021. TDOT will continue to fund the two Rural Transportation Organizations at substantially increased funding, estimated at \$135,000 in 2021. TACIR will continue to fund the infrastructure survey at level funding and the THDA will maintain its \$20,000 commitment for housing advocacy. This year the Historical Commission maintained its increased ETDD's historic preservation funding at the \$42,000 level. Unfortunately, funding from TDEC for the regional solid waste program was eliminated in FY 2021. Also, the annual appropriation from the Tennessee General Assembly was reduced to \$174,988 for ETDD in FY 2021, an amount that is approximately \$6,000 below the FY 2020 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 2021 should be slightly higher than the FY 2020 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 most of the District's current programs. All indications are that the Federal Government and the State of Tennessee will continue to fund the District's programs at current or slightly higher levels for the foreseeable future. This expectation leaves the District in a somewhat favorable position for the coming year, given the current fiscal climate. Although the rural portions of the region are still experiencing relatively high poverty rates, growth in the construction and housing sectors remains robust and significant increases in business investment are evident throughout the region. The economic outlook for the State of Tennessee for 2021 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 below above average in fiscal year 2021 but on the upswing.

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, 2020

ASSETS

Current Assets - Unrestricted

| | |
|-------------------------------|--------------|
| Cash and cash equivalents | \$ 2,009,210 |
| Accounts receivable | 153,528 |
| Intergovernmental receivables | 353,629 |
| Prepaid expenses | <u>2,919</u> |

Total current assets - unrestricted \$ 2,519,286

Current Assets - Restricted

| | |
|---|---------------|
| Cash and cash equivalents | 995,752 |
| Revolving Loan Fund - Agriculture, current maturities | 9,965 |
| Revolving Loan Fund, current maturities | <u>30,987</u> |

Total current assets - restricted 1,036,704

Total current assets 3,555,990

Capital assets, net of accumulated depreciation

105,185

Revolving Loan Fund - Agriculture, less current maturities

47,163

Revolving Loan Fund, less current maturities

402,074

Total assets \$ 4,110,412

LIABILITIES

Current Liabilities

| | |
|---------------------------|--------------|
| Accounts payable | \$ 193,890 |
| Accrued leave | 64,992 |
| Other current liabilities | <u>1,385</u> |

Total liabilities \$ 260,267

NET POSITION

Investment in capital assets \$ 105,185

Restricted

Restricted for Revolving Loan Fund 1,281,224

Restricted for Revolving Loan Fund - Agriculture 201,510

Unrestricted

2,262,226

Total net position \$ 3,850,145

EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Activities
Year Ended June 30, 2020

| Function / Programs | Expenses | Program Revenues | | |
|---|---------------------|-------------------------|---------------------|---------------------|
| | | Charges for Services | Operating Grants | Net Revenue |
| Governmental activities | | | | |
| General government | \$ 1,287,147 | \$ 955,829 | \$ - | \$ (331,318) |
| Public service | <u>862,942</u> | <u>-</u> | <u>1,245,628</u> | <u>382,686</u> |
| Total governmental activities | <u>\$ 2,150,089</u> | <u>\$ 955,829</u> | <u>\$ 1,245,628</u> | 51,368 |
| General revenues | | | | |
| Interest earned | | | | 36,038 |
| Public service revenue | | | | |
| Interest earned | | | | <u>27,311</u> |
| Increase in net position | | | | 114,717 |
| Net position at the beginning of the year | | | | <u>3,735,428</u> |
| Net position at the end of the year | | | | <u>\$ 3,850,145</u> |

EAST TENNESSEE DEVELOPMENT DISTRICT
Balance Sheet - Governmental Funds
June 30, 2020

| | General | Grants Management | Total Governmental Funds |
|--|---------------------|----------------------|--------------------------------|
| ASSETS | | | |
| Current Assets - Unrestricted | | | |
| Cash and cash equivalents | \$ 2,009,210 | \$ - | \$ 2,009,210 |
| Accounts receivable | 153,528 | - | 153,528 |
| Due from other funds | 353,629 | - | 353,629 |
| Intergovernmental receivables | - | 353,629 | 353,629 |
| Prepaid expenses | 2,919 | - | 2,919 |
| Total current assets - unrestricted | <u>2,519,286</u> | <u>353,629</u> | <u>2,872,915</u> |
| Restricted assets | | | |
| Cash and cash equivalents | 995,752 | - | 995,752 |
| Revolving Loan Fund - Agriculture, current maturities | 9,965 | - | 9,965 |
| Revolving Loan Fund, current maturities | 30,987 | - | 30,987 |
| Total current assets - restricted | <u>1,036,704</u> | <u>-</u> | <u>1,036,704</u> |
| Total current assets | 3,555,990 | 353,629 | 3,909,619 |
| Revolving Loan Fund - Agriculture, less current maturities | 47,163 | - | 47,163 |
| Revolving Loan Fund, less current maturities | <u>402,074</u> | <u>-</u> | <u>402,074</u> |
| Total assets | <u>\$ 4,005,227</u> | <u>\$ 353,629</u> | <u>\$ 4,358,856</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 193,890 | \$ - | \$ 193,890 |
| Accrued leave | 64,992 | - | 64,992 |
| Other current liabilities | 1,385 | - | 1,385 |
| Due to other funds | - | 353,629 | 353,629 |
| Total current liabilities | <u>260,267</u> | <u>353,629</u> | <u>613,896</u> |
| Fund balances | | | |
| Restricted for | | | |
| Revolving Loan Fund | 1,281,224 | - | 1,281,224 |
| Revolving Loan Fund - Agriculture | 201,510 | - | 201,510 |
| Unassigned | <u>2,262,226</u> | <u>-</u> | <u>2,262,226</u> |
| Total fund balances | <u>3,744,960</u> | <u>-</u> | <u>3,744,960</u> |
| Total liabilities and fund balances | <u>\$ 4,005,227</u> | <u>\$ 353,629</u> | <u>\$ 4,358,856</u> |

EAST TENNESSEE DEVELOPMENT DISTRICT
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2020

| | |
|--|---------------------|
| Total fund balance - total governmental funds | \$ 3,744,960 |
| Amounts reported for government activities in the statement of net position are different because: | |
| Capital assets of \$188,888 net of accumulated depreciation of \$83,703 are not financial resources and therefore are not reported in the funds. See Note 4. | <u>105,185</u> |
| Net position of governmental activities | <u>\$ 3,850,145</u> |



EAST TENNESSEE DEVELOPMENT DISTRICT
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Governmental Funds
Year Ended June 30, 2020

| | Grants | | Total |
|--|---------------------|------------------|---------------------|
| | General Fund | Management | |
| Revenue | | | |
| Grantor contributions | \$ - | \$ 1,188,766 | \$ 1,188,766 |
| Local contracts | 294,442 | - | 294,442 |
| Regional planning | 286,434 | - | 286,434 |
| Local assessments | 188,165 | - | 188,165 |
| Administrative contracts | 186,350 | - | 186,350 |
| Interest income | 63,349 | - | 63,349 |
| Contributions - in-kind | - | 56,862 | 56,862 |
| Other revenue | 438 | - | 438 |
| | <u>1,019,178</u> | <u>1,245,628</u> | <u>2,264,806</u> |
| Total revenue | | | |
| Expenditures | | | |
| Salaries | 574,126 | 365,523 | 939,649 |
| Grant | 260,911 | 166,112 | 427,023 |
| Fringe benefits | 251,028 | 159,819 | 410,847 |
| Rent - office, storage, and equipment | 51,925 | 33,059 | 84,984 |
| Capital purchases | 40,615 | 25,858 | 66,473 |
| Planning | 35,922 | 22,870 | 58,792 |
| Grant - in-kind | - | 56,862 | 56,862 |
| Equipment repairs and maintenance | 20,668 | 13,159 | 33,827 |
| Travel | 10,044 | 6,395 | 16,439 |
| Memberships and publications | 10,042 | 6,394 | 16,436 |
| Insurance premiums | 9,599 | 6,112 | 15,711 |
| Conferences and meetings | 9,070 | 5,775 | 14,845 |
| Audit | 7,026 | 4,474 | 11,500 |
| Materials and supplies | 4,869 | 3,100 | 7,969 |
| Other | 4,745 | 3,021 | 7,766 |
| Automobile | 4,452 | 2,834 | 7,286 |
| Printing and postage | 3,954 | 2,517 | 6,471 |
| Telephone and e-mail services | 3,580 | 2,280 | 5,860 |
| Consultant's fees | 2,549 | 1,623 | 4,172 |
| Non-capital purchases | 1,336 | 851 | 2,187 |
| Contracted services | 254 | 162 | 416 |
| | <u>1,306,715</u> | <u>888,800</u> | <u>2,195,515</u> |
| Total expenditures | | | |
| Excess of expenditures over revenues | (287,537) | 356,828 | 69,291 |
| Other financing sources (uses) | | | |
| Transfers from other funds | 356,828 | - | 356,828 |
| Transfers to other funds | - | (356,828) | (356,828) |
| | <u>356,828</u> | <u>(356,828)</u> | <u>-</u> |
| Net other financing sources (uses) | | | |
| Net increase in fund balance | 69,291 | - | 69,291 |
| Fund balances at the beginning of the year | <u>3,675,669</u> | <u>-</u> | <u>3,675,669</u> |
| Fund balances at the end of the year | <u>\$ 3,744,960</u> | <u>\$ -</u> | <u>\$ 3,744,960</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, 2020

Increase in Fund Balances - Governmental Funds \$ 69,291

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 \$21,047. There were \$66,473 in net capital purchases.

45,426

Increase in Net Position - Governmental Activities \$ 114,717



EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements
June 30, 2020

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, 2020, 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, 2020, 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, 2020, 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 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 \$56,862 for the year ended June 30, 2020.

Expenditures/Expenses - In the government-wide financial statements, expenses are classified by function for government type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds - By Character: Current (further classified by function)

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers - Permanent reallocation of resources between funds of the reporting entity, are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual government funds have been eliminated.

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Financial Statements (Continued)

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

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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

NOTE 2 - CASH AND CASH EQUIVALENTS

The District's bank deposits at year-end were entirely covered by federal depository insurance and collateral held in the District's name in the Bank Collateral Pool monitored by the State of Tennessee Treasury Department.

NOTE 3 - ADMINISTRATIVE COSTS

The District contracts to provide accounting and administrative services to Areawide Development Corporation Reimbursement. Accounting and administrative costs totaled \$289,542 (included in local contract revenue) for the year ended June 30, 2020.

NOTE 4 - CAPITAL ASSETS

Changes in capital assets are summarized as follows:

| | Balance as of 7/1/2019 | Additions | Retirements | Balance as of 6/30/2020 |
|---|---------------------------|------------------|------------------|----------------------------|
| Governmental activities | | | | |
| Furniture and equipment | \$ 63,373 | \$ 40,173 | \$ 14,442 | \$ 89,104 |
| Automobile | 92,517 | 26,300 | 19,033 | 99,784 |
| | <u>\$ 155,890</u> | <u>\$ 66,473</u> | <u>\$ 33,475</u> | <u>\$ 188,888</u> |
| Accumulated depreciation | | | | |
| Furniture and equipment | \$ 64,569 | \$ 2,404 | \$ 14,442 | \$ 52,531 |
| Automobiles | 31,562 | 18,643 | 19,033 | 31,172 |
| | <u>\$ 96,131</u> | <u>\$ 21,047</u> | <u>\$ 33,475</u> | <u>\$ 83,703</u> |
| Governmental activities capital assets, net | <u>\$ 59,759</u> | <u>\$ 45,426</u> | <u>\$ -</u> | <u>\$ 105,185</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------|------------------|
| General government | \$ 3,757 |
| Public services | 17,290 |
| Total depreciation expense | <u>\$ 21,047</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, 2020, was \$84,984. Operating lease requirements under these agreements for the next five years and thereafter will be approximately as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|---------------------|
| 2021 | \$ 85,800 |
| 2022 | 85,800 |
| 2023 | 85,800 |
| 2024 | 85,800 |
| 2025 | 85,800 |
| Thereafter | <u>1,780,350</u> |
| | <u>\$ 2,209,350</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 Compensations 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 \$60,360 and the District’s match was \$42,021 for the year ended June 30, 2020. 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 \$939,649 in 2020. The District contributed \$142,099 to the Plan for the year ended June 30, 2020.

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, 2020 balance of \$433,061 in notes receivable consists of loans to three entities. The notes bear, at a minimum, a rate of interest of prime (as defined) minus 1%, are collateralized by certain equipment, and mature through 2032. Current interest rates range from 4.75% to 6.00%.

Maturities of the notes receivable are summarized as follows:

| <u>Year ending June 30,</u> | |
|-----------------------------|-------------------|
| 2021 | \$ 30,987 |
| 2022 | 32,732 |
| 2023 | 34,576 |
| 2024 | 36,527 |
| 2025 | 39,540 |
| Thereafter | <u>258,699</u> |
| | <u>\$ 433,061</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, 2020 balance of \$57,128 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> | |
|-----------------------------|------------------|
| 2021 | \$ 9,965 |
| 2022 | 10,366 |
| 2023 | 10,784 |
| 2024 | 11,217 |
| 2025 | 4,740 |
| Thereafter | <u>10,056</u> |
| | <u>\$ 57,128</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, 2020, management does not deem an allowance necessary.

NOTE 8 - RISK MANAGEMENT

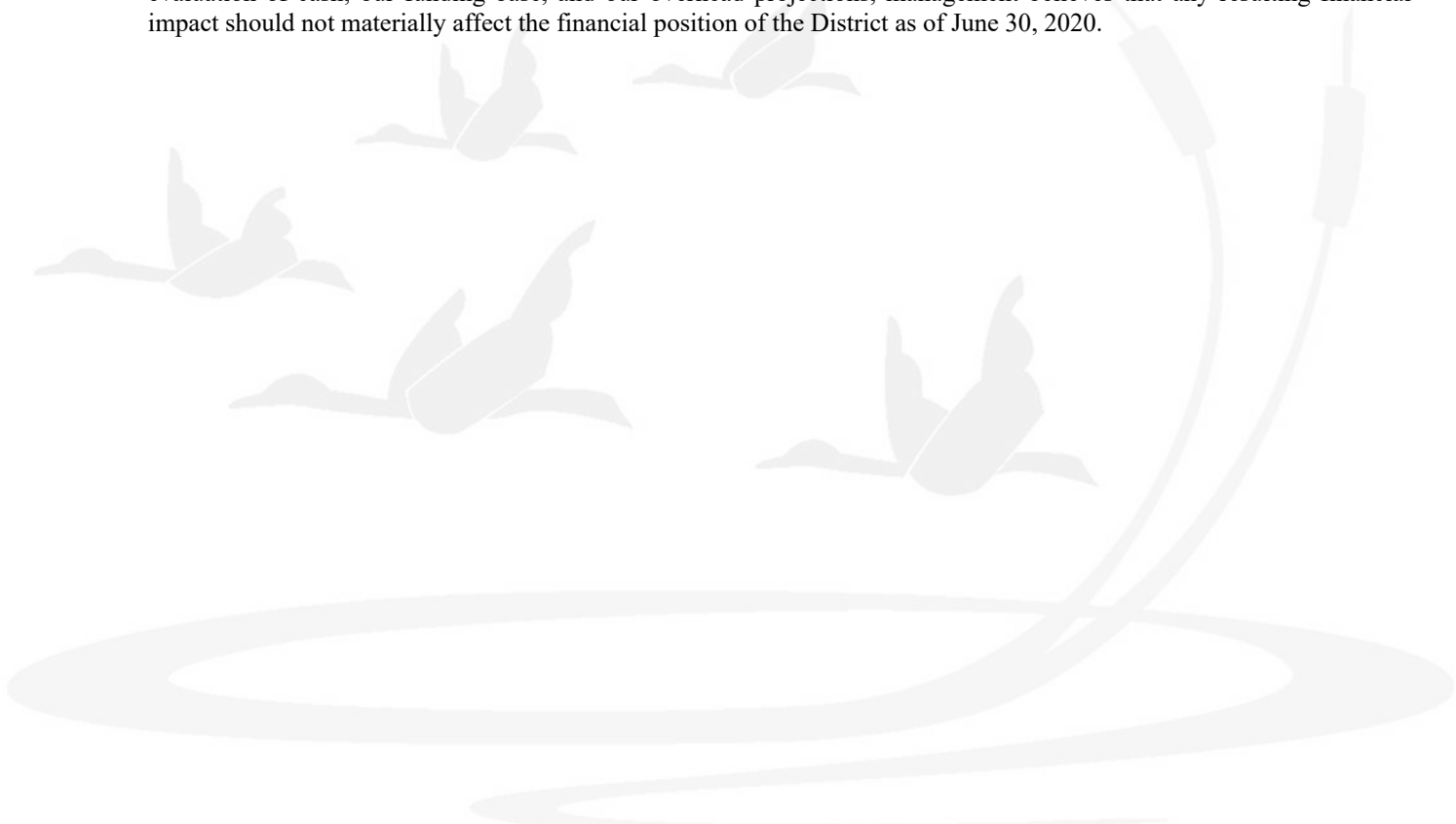
The District carries commercial insurance for risks of loss including general liability, property, casualty, directors' and officers' liability, automobile, and crime. There were no claims in any of the past three fiscal years.

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, 2020.



SUPPLEMENTARY INFORMATION



EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

| 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 | \$ 12,799 | \$ 12,799 | \$ - | \$ - | \$ - |
| Federal Highway Administration Passed- Through to State of Tennessee, Dept. of Transportation | Rural Transportation (S) CFDA # 20.205 | 50688 | 13,414 | 13,414 | - | - | - |
| Federal Highway Administration Passed- Through to State of Tennessee, Dept. of Transportation | Rural Transportation CFDA # 20.205 | 61906 | - | 92,187 | 119,035 | 26,848 | - |
| Total Program 20.205 | | | 26,213 | 118,400 | 119,035 | 26,848 | - |
| U.S. Department of Commerce - Economic Development Administration | Revolving Loan Fund CFDA #11.307 | 04-39-03208 | - | 970,062 | 970,062 | - | 433,061 |
| Appalachian Regional Commission | District Assistance CFDA #23.009 | TN-710-B-C49-19 TN-710-B-C50-20 | - | 66,493 | 66,493 | - | - |
| U.S. Department of Commerce - Economic Development Administration | District Planning CFDA #11.302 | EDA16ATL3030005 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 | 59866 63659 | 6,842 | 6,842 | - | - | - |
| | | | - | 24,958 | 27,070 | 2,112 | - |
| Environmental Protection Agency Office Water Passed-Through to the State of Tennessee, Dept. of Environment and Conservation | BMP Implementation CFDA #66.454 | 64153 | - | 1,740 | 8,418 | 6,678 | - |
| Total Expenditures of Federal Awards | | | \$ 50,555 | \$ 1,324,988 | \$ 1,327,571 | \$ 53,138 | \$ 433,061 |

See accompanying independent auditors' report.

EAST TENNESSEE DEVELOPMENT DISTRICT
Schedule of Expenditures of State Awards
Year Ended June 30, 2020

| Grantor Agency | Program Name and CFDA Number | Contract Number | Beginning Receivable | Cash Receipts | Expenditures | Ending Receivable | Subrecipients |
|--|---------------------------------|----------------------------|-------------------------|-------------------|-------------------|----------------------|---------------|
| Tennessee Advisory Commission on Intergovernmental Relations | Infrastructure Program | 62607 | \$ - | \$ 50,932 | \$ 72,738 | \$ 21,806 | \$ - |
| Tennessee Department of Environment and Conservation | Solid Waste Grant | 58388 62434 | 9,439 - | 9,439 38,429 | - 90,781 | - 52,352 | - - |
| Tennessee Department of Economic and Community Development | Matching Fund Grant | 63728 | - | 180,667 | 180,667 | - | - |
| Tennessee Housing Development Authority | Technical Assistance Grant | 31620-00483 31620-00520 | 5,942 - | 5,942 576 | - 13,401 | - 12,825 | - - |
| Tennessee Housing Development Authority | Emergency Repair Program | ERP-19-01 | - | 248,639 | 458,790 | 210,151 | - |
| Department of Transportation | Rural Transportation (S) | 50688 | 1,658 | 1,658 | - | - | - |
| Department of Transportation | Rural Transportation (N) | 50671 | 1,582 | 1,582 | - | - | - |
| Department of Transportation | Rural Transportation | 61906 | - | 11,523 | 14,879 | 3,356 | - |
| Total Expenditures of State Awards | | | <u>\$ 18,621</u> | <u>\$ 549,387</u> | <u>\$ 831,256</u> | <u>\$ 300,490</u> | <u>\$ -</u> |

EAST TENNESSEE DEVELOPMENT DISTRICT
Notes to Schedules of Federal and State Awards
June 30, 2020

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, 2020. 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, 2020 are summarized as follows:

| | |
|-----------------------------|-------------------|
| Revolving Loan Fund Program | |
| Loans Disbursement | <u>\$ 433,061</u> |

Expenditure calculation for this program was as follows:

| | |
|---------------------------|-------------------|
| Cash | \$ 851,370 |
| Outstanding loan balances | 433,061 |
| Administrative costs | <u>8,985</u> |
| | 1,293,416 |
| Federal share | <u>75%</u> |
| Federal awards expended | <u>\$ 970,062</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, 2020, 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 9, 2020.

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.

Roderic Mess & Co, PLLC

Knoxville, Tennessee
December 14, 2020



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, 2020. 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, 2020.

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.

Roderic Moss & Co, PLLC

Knoxville, Tennessee
December 14, 2020



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

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number(s)

11.307

Name of Federal Program or Cluster

Revolving Loan Fund

Dollar threshold used to distinguish between type A and type B programs: \$750,000
Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None noted

Section III - Federal Award Findings and Questioned Costs

None noted

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

Financial Statement Findings

There were no prior findings reported.

Federal Award Findings and Questioned Costs

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

