

UPPER EAST TENNESSEE HUMAN
DEVELOPMENT AGENCY, INC.

Financial Statements and Additional Information

June 30, 2015

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
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Independent Auditors' Report

To the Board of Directors
Upper East Tennessee Human Development Agency, Inc.
Kingsport, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major governmental funds of Upper East Tennessee Human Development Agency, Inc. "UETHDA" as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise UETHDA'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. 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 entity'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 UETHDA'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 the major governmental funds of UETHDA, as of June 30, 2015, 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, the Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS (Unaudited) and the Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS and Notes to the Required Supplementary Information (Unaudited) as listed in the table of contents, 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 opinions on the financial statements that collectively comprise UETHDA's basic financial statements. The schedule of program activity is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The schedule of program activity and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedule of program activity and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015, on our consideration of UETHDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UETHDA's internal control over financial reporting and compliance.

Rodefer Moss & Co, PLLC

Kingsport, Tennessee
November 19, 2015

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis
Year Ended June 30, 2015

Financial Highlights

UETHDA's expenditures this fiscal year were \$14,530,712 compared to \$14,708,595 for the period July 1, 2013 through June 30, 2014. There was an increase of \$375,734 in the Head Start and decreases of \$253,902 and \$339,932 in the Low-Income Home Energy Assistance Program and Weatherization Assistance Program, respectively, during the year ended June 30, 2015, combined with increases in several other smaller programs administered by UETHDA, resulting in the overall decrease in expenditures of \$177,883.

Additionally:

- UETHDA's overall financial position, as reflected in total net position, decreased by \$15,806.
- In governmental funds, the total fund balance decreased by \$116,941.

Overview of the Financial Statements

The basic financial statements are comprised of (1) UETHDA's government-wide financial statements; (2) fund financial statements that comply with reporting to the Federal Government and other funding sources; and (3) notes to the financial statements. In addition, other information supplementary to the basic financial statements is provided.

UETHDA's Government-Wide Financial Statements

- UETHDA's government-wide financial statements are the statement of net position and the statement of activities. These statements present an aggregate view of UETHDA's finances in a manner similar to private-sector business. Both statements distinguish governmental activities from other types of activities.
- The statement of net position presents information on all of UETHDA's assets and liabilities, with the difference between the two being reported as net position.
- The statement of activities presents information showing how UETHDA's net position changed during the year.
- UETHDA's government-wide financial statements are shown on pages 10 and 11 of this report.
- UETHDA has also presented fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities. UETHDA, like other state and local governments, uses fund accounting to demonstrate compliance with finance-related legal requirements. Fund financial statements generally report operations in more detail than UETHDA's government-wide statements.
- There are two fund financial statements: the balance sheet and the statement of revenue, expenditures, and changes in fund balances.

Fund Financial Statements

- UETHDA has only one kind of fund. The governmental fund includes the following: the general fund and the special revenue fund. The special revenue fund accounts for all federal, state, grant-funded programs, and local contributions designated for specific purposes.
- Financial information is presented separately on both the balance sheet and the statement of revenue, expenditures, and changes in fund balances for the general and special revenue funds as these are considered to be the major funds. Data for funds is combined into a single aggregated column. Data for each federal, state, and local program within the special revenue fund is provided separately as additional information on pages 31 through 34 of this report. The governmental fund financial statements are on pages 12 and 14 of this report.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis (Continued)

Overview of the Financial Statements (Continued)

Fund Financial Statements (Continued)

The major features of UETHDA's financial statements, including the portion of the activities reported and the type of information contained, is shown in the table below.

	UETHDA's Government-Wide Statements	Governmental Funds Statements
Scope	Entire UETHDA.	The programmatic and operating activities of UETHDA, such as child education and energy assistance.
Required Financial Statements	Statement of net position and statement of activities.	Balance sheet and statement of revenue, expenditures, and changes in fund balances.
Basis of Accounting and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting. Current financial resources focus.
Type of Asset and Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally includes assets expected to be used up and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities included.
Type of Inflow and Outflow of Information	All revenue and expenses during the year, regardless of when cash is received or paid.	Revenue for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in UETHDA's government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 16 of this report.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis (Continued)

Financial Analysis

UETHDA as a Whole

Net Position

Table 1 below provides a summary of UETHDA's net position as of June 30, 2015 and 2014.

Table 1
Condensed Statement of Net Position

	<u>Government-wide</u>	
	<u>2015</u>	<u>2014</u>
Current assets	\$ 1,790,627	\$ 2,079,531
Capital assets	865,405	906,851
Noncurrent assets	<u>351,845</u>	<u>-</u>
Total assets	<u>\$ 3,007,877</u>	<u>\$ 2,986,382</u>
Deferred outflow of resources	<u>\$ 488,947</u>	<u>\$ -</u>
Current liabilities	\$ 484,177	\$ 580,272
Long-term liabilities	<u>167,000</u>	<u>247,247</u>
Total liabilities	<u>\$ 651,177</u>	<u>\$ 827,519</u>
Deferred inflow of resources	<u>\$ 670,978</u>	<u>\$ -</u>
Invested in capital assets	\$ 865,405	\$ 906,851
Temporarily restricted to grant purpose	95,871	193,106
Unrestricted	<u>1,213,393</u>	<u>1,058,906</u>
Total net position	<u>\$ 2,174,669</u>	<u>\$ 2,158,863</u>

In governmental activities, total assets increased by \$21,495, this is primarily the net of increases in pension related items of \$351,845 and decreases in receivables of \$312,057. Total liabilities decreased by \$176,342, primarily due to decreases in payables. The change in net position is a decrease of \$15,806.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis (Continued)

Financial Analysis (Continued)

Change in Net Position

Table 2 summarizes the change in net position for the fiscal years ended June 30, 2015 and 2014.

Table 2
Change in Net Position

	<u>2015</u>	<u>Percentage of Funding</u>	<u>2014</u>	<u>Percentage of Funding</u>
Revenue:				
Operating grants and contributions	\$ 14,211,320	98.60%	\$ 14,440,317	98.47%
Capital grants and contributions	181,398	1.26%	205,238	1.40%
Interest and investment earnings	4,550	0.03%	5,704	0.04%
Other	<u>16,503</u>	<u>0.11%</u>	<u>12,748</u>	<u>0.09%</u>
Total revenue	<u>14,413,771</u>	<u>100.00%</u>	<u>14,664,007</u>	<u>100.00%</u>
Expenditures:				
Child education	8,084,169	55.79%	7,701,697	52.49%
Community services programs	1,565,329	10.80%	1,547,371	10.54%
Emergency shelter programs	105,213	0.73%	130,429	0.89%
Nutrition programs	322,887	2.23%	299,548	2.04%
Senior programs	67,960	0.47%	69,070	0.47%
Energy assistance	4,325,434	29.86%	4,922,665	33.54%
Corporate activities	<u>16,321</u>	<u>0.12%</u>	<u>4,520</u>	<u>0.03%</u>
Total expenditures	<u>14,487,313</u>	<u>100.00%</u>	<u>14,675,300</u>	<u>100.00%</u>
Change in net position	<u>\$ (73,542)</u>		<u>\$ (11,293)</u>	

As shown, program revenue in the form of grants and contributions provide over 98% of the funds for governmental activities, which are expended primarily on child education and weatherization/energy assistance.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis (Continued)

Financial Analysis (Continued)

Governmental Activities

Net Cost of Governmental Activities

Table 3 reports the cost of seven major UETHDA activities. The table also shows each activity's net cost (total cost less grants and contribution revenue provided for specific programs). Net revenue in child education was used to acquire grant-funded equipment which has been capitalized in the statement of net position.

Table 3
Net Cost of Governmental Activities

	<u>2015</u>		<u>2014</u>	
	<u>Total Cost</u>	<u>Net Cost</u>	<u>Total Cost</u>	<u>Net Cost</u>
	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>	<u>of Services</u>
Child education	\$ 8,084,169	\$ 22,977	\$ 7,701,697	\$ 22,174
Community services programs	1,565,329	(106,424)	1,547,371	(44,972)
Emergency shelter programs	105,213	445	130,429	-
Nutrition programs	322,887	(514)	299,548	(1,028)
Senior programs	67,960	(165)	69,070	(1,399)
Energy assistance	4,325,434	3,607	4,922,665	-
Corporate activities	<u>16,321</u>	<u>(14,521)</u>	<u>4,520</u>	<u>(4,520)</u>
Totals	<u>\$ 14,487,313</u>	<u>\$ (94,595)</u>	<u>\$ 14,675,300</u>	<u>\$ (29,745)</u>

Governmental Funds

UETHDA completed the year with a total governmental fund balance of \$1,306,450 of which \$1,043,579 is general fund balance and \$262,871 is special revenue fund balance. This represents a decrease of \$15,327 in general fund balance from \$1,058,906 as of June 30, 2014 and a decrease of \$101,614 in special revenue fund balance from \$364,485 as of June 30, 2014.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis (Continued)

Financial Analysis (Continued)

Capital Asset and Debt Administration

Capital Assets

At the end of the 2015 fiscal year, UETHDA had invested a cumulative amount of \$3,908,425 in a broad range of capital assets, including buildings, capital improvements, vehicles, furniture, and equipment (see Table 4). This amount represents a net increase of \$124,885. Additional information about capital assets can be found in Note 6, page 21. Total accumulated depreciation on these assets was \$3,043,020.

- UETHDA recognized depreciation expense of \$222,844 for governmental activities (see page 15).

Table 4
Capital Assets

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Land	\$ 21,000	\$ 21,000	0.00%
Buildings and capital improvements	966,306	966,306	0.00%
Furniture and equipment	923,402	850,304	8.60%
Vehicles	1,997,717	1,945,930	2.66%
Accumulated depreciation	<u>(3,043,020)</u>	<u>(2,876,689)</u>	5.78%
Totals	<u>\$ 865,405</u>	<u>\$ 906,851</u>	

Factors Bearing on UETHDA's Future

There are no known factors which would impact UETHDA's future.

In-Kind

Two of UETHDA's programs (Head Start; Retired Senior Volunteer Program) require a proportional match of in-kind (nonfederal share). In-kind is property or services that benefit a grant supported project or program and are contributed by nonfederal third parties without charge to the grantee. Head Start requires a 25% match of the total federal funds awarded. Retired Senior Volunteer Program requires a 30% match of the total federal grant award budget.

Cost Allocation

UETHDA accumulates administrative costs in an indirect cost pool and allocates these costs to programs based on each program's total direct expenditures. Administrative costs are those costs incurred for the common benefit of all UETHDA programs that cannot be readily identified with a final cost objective. This plan has been approved by the Tennessee Department of Human Services, the "state cognizant agency" for UETHDA. The Department of Health and Human Services, the "federal cognizant agency" for UETHDA, approved an indirect cost final rate of 4.78% for the year ended June 30, 2014. A rate of 4.78% will apply to subsequent periods as a provisional rate until amended.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis (Continued)

Financial Analysis (Continued)

Commodities

Commodities distributed represent the value of food commodities received from the State of Tennessee, Department of Agriculture and distributed to low income households. The value of commodities (including inventory) is based on valuations provided by the State of Tennessee, Department of Agriculture. Commodity inventory is charged to expense in the period when the commodities are distributed. Those commodities received during the year that had not been distributed are recognized as an asset with a corresponding balance in grant funds received in advance.

Total Revenue

Direct federal grants and federal "flow through" grants with the State of Tennessee account for approximately 99% of UETHDA's total funding. The most significant source of UETHDA's grant revenue, approximately 56% was provided under Head Start and approximately 30% was provided under Low-Income Home Energy Assistance Program. Both of these programs are funded by the U.S. Department of Health and Human Services.

Contacting UETHDA's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of UETHDA's finances and to demonstrate UETHDA's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Timothy Jaynes, Executive Director, Upper East Tennessee Human Development Agency, P.O. Box 46, Kingsport, TN 37662.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

Statement of Net Position

June 30, 2015

ASSETS

Current Assets

Cash	\$ 280,244
Restricted cash	473,696
Receivables	
Due from grantor agencies	805,443
Other accounts receivable	11,735
Investments	63,597
Prepaid expenses	32,924
Inventory - commodity food	122,988

Total current assets	1,790,627
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Capital Assets

Land and building and capital improvements	987,306
Furniture and equipment	923,402
Vehicles	1,997,717

Less accumulated depreciation	3,908,425
	3,043,020

Net capital assets	865,405
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Other Assets

Net pension asset	351,845
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Total assets	\$ 3,007,877
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DEFERRED OUTFLOW OF RESOURCES

Difference between expected and actual experience in pension plan	\$ 316,254
Pension contributions after measurement date	172,693

Total deferred outflow of resources	\$ 488,947
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LIABILITIES

Current Liabilities

Accounts payable	\$ 171,266
Accrued payroll and related expenses	144,478
Grant funds received in advance	168,433

Total current liabilities	484,177
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Long-Term Liabilities

Accrued annual leave	167,000
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Total liabilities	\$ 651,177
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DEFERRED INFLOW OF RESOURCES

Difference between projected and actual earnings on pension plan investments	\$ 670,978
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NET POSITION

Invested in capital assets	\$ 865,405
Temporarily restricted to grant purpose	95,871
Unrestricted	1,213,393

Total net position	\$ 2,174,669
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UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenue		Net (Expense) Revenue and Changes in Net Position
			Operating Grants and Contributions	Capital Grants and Contributions	
					Governmental Activities
Governmental Activities					
Program activities:					
General government	\$ 600,327	\$ (600,327)	\$ -	\$ -	\$ -
Child education	7,777,015	307,154	7,925,748	181,398	22,977
Community services programs	1,505,490	59,839	1,458,905	-	(106,424)
Emergency shelter programs	100,930	4,283	105,658	-	445
Nutrition programs	305,421	17,466	322,373	-	(514)
Senior programs	65,349	2,611	67,795	-	(165)
Energy assistance	4,116,460	208,974	4,329,041	-	3,607
Total program activities	14,470,992	-	14,209,520	181,398	(80,074)
Support services:					
General government	2,505	(2,505)	-	-	-
Corporate activities	13,816	2,505	1,800	-	(14,521)
Total support services	16,321	-	1,800	-	(14,521)
Total organization	<u>\$ 14,487,313</u>	<u>\$ -</u>	<u>\$ 14,211,320</u>	<u>\$ 181,398</u>	<u>(94,595)</u>
General revenue:					
Miscellaneous					16,503
Interest and investment earnings					4,550
Total general revenue					21,053
Change in net position					(73,542)
Net position, beginning of year - restated					2,248,211
Net position, end of year					<u>\$ 2,174,669</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

Balance Sheet - Governmental Funds

June 30, 2015

	General	Special Revenue	Totals
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash	\$ 958,969	\$ (678,725)	\$ 280,244
Restricted cash	-	473,696	473,696
Receivables:			
Due from grantor agencies	-	805,443	805,443
Other accounts receivable	255	11,480	11,735
Investments	63,597	-	63,597
Prepaid expenses	21,357	11,567	32,924
Inventory - commodity food	-	122,988	122,988
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,044,178</u>	<u>\$ 746,449</u>	<u>\$ 1,790,627</u>
LIABILITIES			
Accounts payable	\$ 599	\$ 170,667	\$ 171,266
Accrued payroll and related expenses	-	144,478	144,478
Grant funds received in advance	-	168,433	168,433
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>599</u>	<u>483,578</u>	<u>484,177</u>
FUND BALANCES			
Nonspendable			
Inventory	-	122,988	122,988
Prepaid expenses	21,357	11,567	32,924
Restricted	-	128,316	128,316
Unassigned	1,022,222	-	1,022,222
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>1,043,579</u>	<u>262,871</u>	<u>1,306,450</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 1,044,178</u>	<u>\$ 746,449</u>	<u>\$ 1,790,627</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position
 June 30, 2015

Total fund balance - governmental funds		\$ 1,306,450
<p>Total net position reported to governmental activities in the statement of net position are different from the amount reported above as total governmental funds balance because:</p> <p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements. Amounts reported for governmental activities in the statement of net position are:</p>		
Governmental capital assets	\$ 3,908,425	
Less governmental accumulated depreciation	<u>3,043,020</u>	
Net capital assets		865,405
<p>Unpaid vacation and personal leave is a liability of the governmental funds only if the employee has resigned or retired. Amounts reported for governmental activities in the statement of net position are:</p>		
Accrued vacation and personal leave		(167,000)
<p>Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years.</p>		
Deferred outflows of resources related to pensions	488,947	
Deferred inflows of resources related to pensions	<u>(670,978)</u>	
Net deferral of resources		(182,031)
Net pension assets of the agency are not current financial resources and therefore are not reported in the governmental funds.		<u>351,845</u>
Total net position - governmental activities		<u>\$ 2,174,669</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2015

	General Fund	Special Revenue Fund	Total
Revenue			
Grants	\$ -	\$ 13,995,030	\$ 13,995,030
Local contributions	1,800	108,213	110,013
Other	1,750	14,753	16,503
Interest income	4,419	131	4,550
Commodities	-	287,675	287,675
Total revenue	<u>7,969</u>	<u>14,405,802</u>	<u>14,413,771</u>
Expenditures			
Salaries	-	4,162,242	4,162,242
Fringe benefits	-	1,540,847	1,540,847
Travel	-	188,491	188,491
Communications	198	162,369	162,567
Utilities	-	44,513	44,513
Office supplies	102	64,010	64,112
Program supplies	2,032	604,600	606,632
Maintenance and repairs	749	281,419	282,168
Rental buildings	-	180,371	180,371
Contractual	-	223,135	223,135
Delegate agencies	-	1,539,987	1,539,987
Equipment rent	-	21,589	21,589
Equipment (sensitive minor)	-	44,909	44,909
Equipment and capital improvements	-	181,398	181,398
Insurance	30	65,873	65,903
Advertising	-	14,445	14,445
Direct client assistance	630	4,190,472	4,191,102
Audit fee	-	36,500	36,500
Other	17,050	33,752	50,802
Training	-	38,492	38,492
Indirect costs	2,505	600,327	602,832
Commodities distributed	-	287,675	287,675
Total expenditures	<u>23,296</u>	<u>14,507,416</u>	<u>14,530,712</u>
Excess (deficiency) of revenue over expenditures	(15,327)	(101,614)	(116,941)
Fund balances, beginning of year	<u>1,058,906</u>	<u>364,485</u>	<u>1,423,391</u>
Fund balances, end of year	<u>\$ 1,043,579</u>	<u>\$ 262,871</u>	<u>\$ 1,306,450</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental
 Funds to the Statement of Activities
 Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$	(116,941)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>The acquisition of capital assets is reported in the governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.</p>		
Capital outlay reported in governmental fund statements	\$ 181,398	
Depreciation expense reported in the statement of activities	<u>(222,844)</u>	
Amount by which depreciation is greater than capital acquisitions in the current period		(41,446)
<p>Vested accrued vacation and personal leave are reported in the government funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.</p>		
Accrued vacation and personal leave earned	(180,635)	
Accrued vacation and personal leave paid	<u>185,014</u>	
Net accrued vacation and personal leave (earned)		4,379
<p>Pension expense is recognized in the governmental funds as current financial resources are utilized. The statement of activities recognizes the pension expense as the deferred outflows and inflows are amortized.</p>		
Pension expense recognized in the statement of activities	(88,038)	
Pension expense recognized in the governmental funds	<u>168,504</u>	
Net difference in the amount of pension expense recognized		<u>80,466</u>
Change in net position - statement of activities	\$	<u><u>(73,542)</u></u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

Notes to Financial Statements

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Upper East Tennessee Human Development Agency, Inc. "UETHDA" was organized as a nonprofit organization in 1973 and incorporated in 1978. UETHDA was formed to develop and provide resources for the purpose of assisting low income individuals in eight counties of upper east Tennessee through a variety of programs. UETHDA's employer identification number is 62-0902005.

Significant Policies - The financial statements of UETHDA have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board "GASB" is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by UETHDA are described below.

UETHDA is incorporated as a private nonprofit organization; however, based on correspondence from the State of Tennessee, Department of Audit, Division of Municipal Audit, UETHDA will be under the jurisdiction of GASB rather than FASB. Therefore, this organization must follow the same guidelines as other governmental units.

BASIS OF PRESENTATION

Government-Wide Statements - The statement of net position and the statement of activities present financial information about UETHDA's organizational activities. These statements include the financial activities of the organization in its entirety. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally consist of programs funded by grants from federal, state, and local governments.

The statement of activities presents a comparison between direct expenses and program revenue for each function of UETHDA's organizational activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenue includes (a) charges paid by the recipients for goods or services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue, including interest income, is presented as general revenue.

Fund Financial Statements - The fund statements provide information about UETHDA's funds. A separate statement for government fund types is presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

UETHDA reports the following major governmental funds:

General Fund - This is UETHDA's primary operating fund. It accounts for all financial activity that is not required to be accounted for in the special revenue fund. All general receipts that are not allocated by law or contractual agreement to a special revenue fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the general fund.

Special Revenue Fund - This fund accounts for activities associated with providing Head Start, energy assistance, and other social service programs. Sources include grants received primarily from federal, state, and local governments. Excess expenditures of the fund are financed with a transfer from the general fund.

There are no nonmajor governmental funds.

UETHDA's board of directors is the body that would approve any fund balance commitments. However, UETHDA does not have, and does not expect to have, any commitments of fund balance. Also, UETHDA does not have, nor does it expect to have, any assigned fund balance. UETHDA's restricted fund balance consists of the fund balance remaining in its special revenue fund's fund balance after taking into account nonspendable fund balances in the special revenue fund. UETHDA considers restricted amounts to be spent when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which UETHDA gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Interest earnings on temporary investments are recognized in the fiscal period earned.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, UETHDA considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

Grant funds received in advance are reported on the balance sheet when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Grant funds received in advance also arises when resources are received by UETHDA before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when UETHDA has a legal claim to the resources, the liability on the balance sheet is removed and revenue is recognized.

Fund Balances - UETHDA's fund balances consist of the following categories:

Nonspendable 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). Nonspendable 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. UETHDA has no committed fund balances.

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. UETHDA has no assigned fund balances.

Any residual fund balance remaining after all of the other categories of fund balance have been determined is categorized as unassigned fund balance.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in UETHDA's financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and capital improvements	\$ 5,000	Straight-line	7-30
Furniture and equipment	\$ 5,000	Straight-line	3-15
Vehicles	\$ 5,000	Straight-line	5

Federal, State, and Local Agency Grant Funds - Program funds authorized under federal, state, and local agency grants are requisitioned from such agencies primarily for reimbursement of allowable costs incurred up to amounts contracted for under each grant. These funds are accounted for at the time allowable costs are incurred. The grant periods for individual grants do not necessarily coincide with the fiscal year of UETHDA. Since UETHDA receives funds either on an advance basis or on a cost-reimbursement basis, either a receivable (due from grantor agencies) or a liability (grant funds received in advance) may exist at UETHDA's balance sheet date. UETHDA's policy is to expend federal, state, and local agency grant funds which are restricted as to purpose before using unrestricted funds to pay for program expenses.

Inventories - Inventory consists of food commodities received but which have not yet been distributed to eligible households. The value of each commodity item in inventory is provided by the grantor, the State of Tennessee, Department of Agriculture. Commodity inventory is charged to expense in the period when the commodities are distributed. UETHDA uses the first in first out (FIFO) method in determining cost of inventory.

Investments - Investments are recorded at fair value.

Annual Leave - Annual leave is expensed during the period it is earned. UETHDA's policies allow employees to accrue leave time and carry it over into future program years. The liability for annual leave recognized in the balance sheet represents accrued annual leave for all UETHDA employees at June 30, 2015. Grant funds reimburse the special revenue fund as the leave is earned. UETHDA considers all accrued annual leave to be noncurrent.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Upper East Tennessee Human Development Agency's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Upper East Tennessee Human Development Agency's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Income Taxes - UETHDA is a private nonprofit corporation, incorporated under the Tennessee General Corporation Act. UETHDA is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. UETHDA is also exempt from State of Tennessee income taxes. UETHDA evaluates its tax positions in accordance with applicable standards, has evaluated its tax positions, and believes that it has none that are uncertain. UETHDA's Form 990s for the current and three preceding years remain available for possible examination by the Internal Revenue Service.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Accounting - UETHDA receives funds under various grants and contracts which end on various budget cycles. As a result, no formal organization-wide budget is available. Therefore, no budgetary comparison has been included in these financial statements.

Delegate Agencies - UETHDA delegates a portion of the Head Start program to two local school districts. Delegate expenditures totaling \$1,539,987 for the year ended June 30, 2015 have been included in the statement of revenue, expenditures, and changes in fund balances. In accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, these delegate agencies are required to submit an agency-wide audit report. Any modifications to UETHDA's financial records as a result of the delegate agency reports will be reported in the year when the adjustments become known.

Cost Allocation - UETHDA accumulates administrative costs in an indirect cost pool and allocates these costs to programs based on each program's total direct expenditures. Administrative costs are those costs incurred for the common benefit of all UETHDA programs that cannot be readily identified with a final cost objective. This plan has been approved by the Department of Health and Human Services. The approved provisional rate for the year ended June 30, 2015, was 4.78%.

Date of Management's Review - UETHDA's management has evaluated events and transactions occurring subsequent to the statement of financial 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 INVESTMENTS

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, UETHDA's deposits may not be returned to it. UETHDA does not have a deposit policy for custodial credit risk.

UETHDA's bank deposits are maintained in banks participating in the Tennessee Collateral Pool for Public Deposits and, consequently, are fully insured.

Cash at June 30, 2015, consisted of the following:

	Bank Balance	Carrying Value
Cash with financial institutions	\$ 379,397	\$ 280,244
Cash with financial institutions - restricted	406,490	406,490
Bank account restricted to IDA	67,206	67,206
Total cash	\$ 853,093	\$ 753,940

Investments

Interest Rate Risk - UETHDA does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - UETHDA does not have a formal investment policy that limits its choice of investments based on ratings issued by a nationally recognized statistical ratings organization as a means of limiting its risk that an issuer will not fulfill its obligations.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 2 - CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk - UETHDA places no limit on the amount it may invest in any one issuer. All of UETHDA's investments are in either a certificate of deposit or repurchase agreement issued by Citizens Bank.

UETHDA's investment balances at June 30, 2015, consisted of the following:

	Maturity	Fair Value
Citizens Bank - Certificate of Deposit	10/24/15	\$ 63,597
Total investments reported in statement of net position		\$ 63,597

NOTE 3 - RESTRICTED CASH

UETHDA's restricted cash balance at June 30, 2015, consisted of the following:

Payroll trust fund	\$ 311,478
Various local restricted funds	75,609
IDA grant fund	67,206
FEMA grant fund	15,452
RSVP grant fund	3,951
Total	\$ 473,696

The payroll trust fund consists of funds received from various grantor agencies to cover the cost of payroll taxes and benefits, including vacation, which are accrued as the underlying wages are earned.

The IDA grant fund restricted cash balance is required to be maintained in a separate bank account.

NOTE 4 - RECEIVABLE - DUE FROM GRANTOR AGENCIES

Receivables from grantor agencies at June 30, 2015, consisted of the following:

Federal	\$ 346,668
State	458,775
Total	\$ 805,443

NOTE 5 - COMMODITIES

UETHDA receives commodity supplement food from the State of Tennessee, Department of Agriculture for distribution to low income households. Those commodities received during the year that had not been distributed are recognized as inventory with a corresponding balance in grant funds received in advance. The value of commodity inventory at June 30, 2015 was \$122,988.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 6 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2015, consisted of the following:

Governmental activities:	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Capital assets being depreciated:				
Buildings and capital improvements	966,306	-	-	966,306
Furniture and equipment	850,304	73,098	-	923,402
Vehicles	<u>1,945,930</u>	<u>108,300</u>	<u>(56,513)</u>	<u>1,997,717</u>
Total capital assets being depreciated	<u>3,762,540</u>	<u>181,398</u>	<u>(56,513)</u>	<u>3,887,425</u>
Less accumulated depreciation for:				
Buildings and capital improvements	427,383	51,170	-	478,553
Furniture and equipment	690,357	78,381	-	768,738
Vehicles	<u>1,758,949</u>	<u>93,293</u>	<u>(56,513)</u>	<u>1,795,729</u>
Total accumulated depreciation	<u>2,876,689</u>	<u>222,844</u>	<u>(56,513)</u>	<u>3,043,020</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>885,851</u>	<u>(41,446)</u>	<u>-</u>	<u>844,405</u>
Governmental activities capital assets, net of accumulated depreciation	<u>\$ 906,851</u>	<u>\$ (41,446)</u>	<u>\$ -</u>	<u>\$ 865,405</u>

Depreciation expense for the year ended June 30, 2015, was \$222,844. This total is broken out by program as follows: Child education \$210,510; Community services programs \$11,820; Nutrition programs \$514.

NOTE 7 - GRANT FUNDS RECEIVED IN ADVANCE

Grant funds received in advance consist of cash received from the grantors in advance of actual expenditures at the end of the fiscal year. Grant funds received in advance as of June 30, 2015, are as follows:

Individual Development Accounts	\$ 33,199
Emergency Food and Shelter Program	12,246
Temporary Emergency Food Assistance Program	<u>122,988</u>
Totals	<u>\$ 168,433</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability balances and activity for the year ended June 30, 2015, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance
Accrued annual leave	\$ 171,379	\$ 180,635	\$ (185,014)	\$ 167,000
Advance payable	75,868	-	(75,868)	-
Total governmental activities long-term liabilities	<u>\$ 247,247</u>	<u>\$ 180,635</u>	<u>\$ (260,882)</u>	<u>\$ 167,000</u>

NOTE 9 - NET POSITION TEMPORARILY RESTRICTED TO GRANT PURPOSE

Net position temporarily restricted to grant purpose consisted of the following:

Community Services Local	\$ 21,597
Weatherizing Local	2,556
Housing Local	27,511
Individual Development Accounts (IDA)	33,206
Reading is Fundamental Donations	4,547
Senior Services Local	6,454
Total	<u>\$ 95,871</u>

Community Services Local contributions are used to provide services to low income individuals in the community. Weatherizing Local contributions are used for the weatherization of homes in the Kingsport Power service area. Housing Local contributions support IDA and other projects in the community. The IDA fund balance represents unexpended donations for the IDA program (see Note 3). The Reading is Fundamental donations are to be used to purchase books for children. Senior Services Local uses contributions to support the RSVP program.

NOTE 10 - RETIREMENT PLAN

General Information About the Pension Plan

Plan Description - Employees of UETHDA are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 10 - RETIREMENT PLAN (Continued)

Benefits Provided - Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms - At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	59
Inactive employees entitled to but not yet receiving benefits	289
Active employees	196
	544

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. UETHDA makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for UETHDA were \$172,693 based on a rate of 4% percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept UETHDA's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

UETHDA's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 10 - RETIREMENT PLAN (Continued)

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from UETHDA will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 10 - RETIREMENT PLAN (Continued)

Changes in Net Pension Liability (Asset)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
Balance at June 30, 2013	\$ 9,389,617	\$ 9,170,915	\$ 218,702
Changes for the year:			
Service cost	337,222	-	337,222
Interest	713,169	-	713,169
Expected vs. actual experience	395,318	-	395,318
Contributions - Employer	-	303,861	(303,861)
Contributions - Employee	-	191,350	(191,350)
Net investment income	-	1,528,488	(1,528,488)
Benefit payments, including refunds	(435,857)	(435,857)	-
Administrative expense	-	(7,443)	7,443
Net changes	<u>1,009,852</u>	<u>1,580,399</u>	<u>(570,547)</u>
Balance at June 30, 2014	<u>\$ 10,399,469</u>	<u>\$ 10,751,314</u>	<u>\$ (351,845)</u>

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents the net pension liability (asset) of UETHDA calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1 - percentage-point higher (8.5 percent) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability (Asset)	1,105,760	(351,845)	(1,533,852)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension Expense - For the year ended June 30, 2015, UETHDA recognized pension expense of \$88,038.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30 2015, UETHDA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Expected vs. actual experience	\$ 316,254	\$ -
Projected vs. actual earnings on investments	-	670,978
Contributions subsequent to the measurement date of June 30, 2014	<u>172,693</u>	<u>-</u>
	<u>\$ 488,947</u>	<u>\$ 670,978</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 10 - RETIREMENT PLAN (Continued)

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014, will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (88,681)
2017	(88,681)
2018	(88,681)
2019	(88,681)
2020	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2015, UETHDA reported a payable of \$28,287 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

NOTE 11 - CONCENTRATIONS

Approximately 99% of UETHDA's revenues consist of direct federal grants and being a subrecipient of federal grants administered by the State of Tennessee. Approximately 56% of revenues were Head Start monies received under a grant from the U.S. Department of Health and Human Services. The other 43% consists of monies received for UETHDA's other programs in their position of being a subrecipient of federal grants administered by the State of Tennessee.

NOTE 12 - IN-KIND REVENUES

UETHDA is required to obtain local support of the total cost of the Head Start and Retired Senior Volunteer programs in the form of in-kind contributions. This can be in the form of rent-free use of space in school classrooms, manpower provided by parents of Head Start children, and other forms of non-cash contributions. The amount of in-kind revenue is also recognized as expense so that the effect on the UETHDA's operations is zero. In-kind revenue and expenses are not included in the basic financial statements. Program expenditures in the Schedule of Program Activity include in-kind revenues and expenses. The final page of the Schedule of Program Activity is a reconciliation of total revenues and expenses, which include in-kind, to the amounts reported in the statement of revenues, expenditures, and changes in fund balances.

NOTE 13 - OPERATING LEASE AGREEMENTS

UETHDA leases various facilities for operation of its programs. Rentals paid for real estate for the year ended June 30, 2015 totaled \$121,409. All of UETHDA's real estate and equipment leases are cancelable with thirty days notice in the event that UETHDA loses federal funding for any program which utilizes leased property.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements (Continued)

NOTE 14 - RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 15 - RESTATEMENT OF NET POSITION

As described in Note 1, UETHDA adopted GASB 68 in the current year. The cumulative effect of applying this new accounting standard has been reported as a restatement of the beginning net position in accordance with transition guidance provided by the Governmental Accounting Standards Board. The adjustment made is as follows:

Net position at June 30, 2014, as previously reported	\$ 2,158,863
Prior period adjustment for adoption of GASB 68	<u>89,348</u>
Net position at June 30, 2014, as restated	<u>\$ 2,248,211</u>

Required Supplementary Information

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee
Pension Plan of TCRS (Unaudited)
Year Ended June 30, 2015

Last Fiscal Year Ended June 30

	<u>2014</u>
Total pension liability	
Service cost	\$ 337,222
Interest	713,169
Differences between actual and expected experience	395,318
Benefit payments, including refunds of employee contributions	<u>(435,857)</u>
Net change in total pension liability	1,009,852
Total pension liability- beginning	<u>9,389,617</u>
Total pension liability- ending	<u>\$ 10,399,469</u>
Plan fiduciary net position	
Contributions- employer	\$ 303,861
Contributions- employee	191,350
Net investment income	1,528,488
Benefit payments, including refunds of employee contributions	(435,857)
Administrative expense	<u>(7,443)</u>
Net change in plan fiduciary net position	1,580,399
Plan fiduciary net position- beginning	<u>9,170,915</u>
Plan fiduciary net position- ending	<u>\$ 10,751,314</u>
Net pension liability (asset)	\$ (351,845)
Plan fiduciary net position as a percentage of total pension liability	103.38%
Covered-employee payroll	\$ 3,826,968
Net pension asset as a percentage of covered-employee payroll	9.19%

* This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future fiscal years until 10 years of information is available.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS (Unaudited)
 Year Ended June 30, 2015

Last Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 303,861	\$ 172,693
Contributions in relation to the actuarially determined contribution	<u>303,861</u>	<u>172,693</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,826,968	\$ 4,317,321
Contributions as a percentage of covered-employee payroll	7.94%	4.00%

* This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future fiscal years until 10 years of information is available.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to the Required Supplementary Information
June 30, 2015

NOTE 1 - VALUATION DATE

Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial Cost Method	Frozen initial liability
Amortization Method	Level dollar, closed (not to exceed 20 years)
Remaining Amortization Period	1 year
Asset Valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary Increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, net of investment expense, including inflation
Retirement Age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of Living Adjustments	2.5 percent

Additional Information

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Schedule of Program Activity
 Year Ended June 30, 2015

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	06/30/14 Receivable (Grant Funds Received in Advance)	2014/2015 Receipts	2014/2015 Other Revenue	Expenditures	Excess of Expenditures Over Revenue	06/30/15 Grant Funds Received in Advance	06/30/15 Receivable
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE												
Department of Agriculture												
10.569	N/A	The Emerg. Food Assist. Prog. (Noncash assistance)	Tennessee Department of Agriculture	07/01/14-06/30/15	N/A	\$ (94,650)	\$ 316,013	\$ -	\$ 287,675	\$ -	\$ 122,988	\$ -
10.558	14-03-47-55965-00-9	Child and Adult Care Food Program (CCFP)	Tennessee Department of Human Services	10/01/13-09/30/14	N/A	1,329	52,159	-	50,830	-	-	-
10.558	15-03-47-55965-00-9	Child and Adult Care Food Program (CCFP)	Tennessee Department of Human Services	10/01/14-09/30/15	N/A	-	270,308	-	271,543	-	-	1,235
		Subtotal 10.558				1,329	322,467	-	322,373	-	-	1,235
10.568	35752	Emergency Food Assistance Program	Tennessee Department of Agriculture	10/01/13-09/30/14	96,000	17,505	38,818	-	21,313	-	-	-
10.568	45929	Emergency Food Assistance Program	Tennessee Department of Agriculture	10/01/14-09/30/15	95,000	-	47,964	-	71,447	-	-	23,483
		Subtotal 10.568				17,505	86,782	-	92,760	-	-	23,483
81.042	WAP-12-14	Weatherization Assistance for Low-Income Persons	Tennessee Housing Development Agency	12/01/12-06/30/14	366,086	143,727	143,727	-	-	-	-	-
	WAP-14-15	Weatherization Assistance for Low-Income Persons	Tennessee Housing Development Agency	11/01/14-06/30/16	389,903	-	-	-	313	-	-	313
		Subtotal 81.042				143,727	143,727	-	313	-	-	313
Department of Health and Human Services												
93.558	N/A	Temporary Assistance for Needy Families (Child Care Certificate)	Tennessee Department of Human Services	01/01/14-12/31/14	N/A	-	32,464	4,112	36,576	-	-	-
93.558	N/A	Temporary Assistance for Needy Families (Child Care Certificate)	Tennessee Department of Human Services	01/01/15-12/31/15	N/A	-	36,290	3,944	40,234	-	-	-
		Subtotal 93.558				-	68,754	8,056	76,810	-	-	-
93.568	LIHEAP-14-19	Low-Income Home Energy Assistance Program	Tennessee Department of Human Services	09/30/13-09/29/14	5,049,705	569,971	1,176,871	-	606,900	-	-	-
93.568	LIHEAP-15-19	Low-Income Home Energy Assistance Program	Tennessee Housing Development Agency	09/30/14-09/29/15	5,005,305	-	3,394,630	-	3,721,828	-	-	327,198
		Subtotal 93.568				569,971	4,571,501	-	4,328,728	-	-	327,198
93.569	Z-14-49120	Community Services Block Grant	Tennessee Department of Human Services	07/01/13-06/30/14	1,144,000	154,555	154,555	-	-	-	-	-
93.569	Z-15-49120	Community Services Block Grant	Tennessee Department of Human Services	07/01/14-06/30/15	1,225,651	-	913,123	5,246	1,023,593	-	-	105,224
		Subtotal 93.569				154,555	1,067,678	5,246	1,023,593	-	-	105,224

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Schedule of Program Activity
 Year Ended June 30, 2015

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	06/30/14 Receivable (Grant Funds Received in Advance)	2014/2015 Receipts	2014/2015 Other Revenue	Expenditures	Excess of Expenditures Over Revenue	06/30/15 Grant Funds Received in Advance	06/30/15 Receivable
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (Continued)												
Department of Health and Human Services (Continued)												
93.600	04CH4688/01	Head Start Full-Year, Part-Day	U.S. Dept. of Health and Human Services	01/01/14-12/31/14	\$ 7,851,924	\$ 222,485	\$ 4,526,317	\$ 2,015	\$ 4,305,847	\$ -	\$ -	\$ -
93.600	04CH4688/01	Head Start Training and Technical Assistance	U.S. Dept. of Health and Human Services	01/01/14-12/31/14	90,372	-	49,204	-	49,204	-	-	-
93.600	N/A	In-Kind Contributions	N/A	01/01/14-12/31/14	1,999,112	-	-	1,032,318	1,032,318	-	-	-
93.600	04CH4688/02	Head Start Full-Year, Part-Day	U.S. Dept. of Health and Human Services	01/01/15-12/31/15	7,960,224	-	3,283,692	200	3,627,702	-	-	343,810
93.600	04CH4688/02	Head Start Training and Technical Assistance	U.S. Dept. of Health and Human Services	01/01/15-12/31/15	90,372	-	57,090	-	57,090	-	-	-
93.600	N/A	In-Kind Contributions	N/A	01/01/15-12/31/15	2,012,649	-	-	1,001,468	1,001,468	-	-	-
		Subtotal 93.600				222,485	7,916,303	2,036,001	10,073,629	-	-	343,810
93.602	90EI0759/01	Assets for Independence Individual Development Accounts	U.S. Dept. of Health and Human Services	07/01/12-06/30/17	100,000	(69,330)	23	54	36,208	-	33,199	-
		Subtotal 93.602				(69,330)	23	54	36,208	-	33,199	-
Corporation for National and Community Service												
94.002	13SRSTN002	Retired Senior Volunteer Program	Corp. for National and Community Service	04/01/14-03/31/15	54,812	2,832	41,936	-	39,104	-	-	-
94.002	N/A	In-Kind Contributions	N/A	04/01/14-03/31/15	13,682	-	-	10,262	10,262	-	-	-
94.002	13SRSTN002	Retired Senior Volunteer Program	Corp. for National and Community Service	04/01/15-03/31/16	57,812	-	13,063	-	15,921	-	-	2,858
94.002	N/A	In-Kind Contributions	N/A	04/01/15-03/31/16	13,682	-	-	3,420	3,420	-	-	-
		Subtotal 94.002				2,832	54,999	13,682	68,707	-	-	2,858
Department of Homeland Security												
97.024	31-763400-005	Emergency Food & Shelter	United Way National Board - Carter Co.	04/01/13-03/31/14	10,189	5,095	5,095	-	-	-	-	-
97.024	32-763400-005	Emergency Food & Shelter	United Way National Board - Carter Co.	11/01/14-10/31/15	11,863	-	5,931	-	4,269	-	1,662	-
97.024	32-768600-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Hancock Co.	10/01/13-10/31/15	2,800	-	-	-	-	-	-	-
97.024	32-769200-004	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Hawkins Co.	06/01/14-10/31/15	18,524	-	9,262	-	-	-	9,262	-
97.024	32-771000-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Johnson Co.	06/01/14-08/31/15	8,777	-	4,388	-	5,710	-	-	1,322
97.024	32-779800-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Unicoi Co.	06/01/14-10/31/15	8,481	-	4,241	-	2,919	-	1,322	-
		Subtotal 97.024				5,095	28,917	-	12,898	-	12,246	1,322
		Total Federal Financial Assistance				953,519	14,577,164	2,063,039	16,323,694	-	168,433	805,443

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Program Activity
Year Ended June 30, 2015

<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Name</u>	<u>Grantor Agency</u>	<u>Program Period</u>	<u>Program or Award Amount</u>	<u>06/30/14 Receivable (Grant Funds Received in Advance)</u>	<u>2014/2015 Receipts</u>	<u>2014/2015 Other Revenue</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Revenue</u>	<u>06/30/15 Grant Funds Received in Advance</u>	<u>06/30/15 Receivable</u>
OTHER ASSISTANCE												
N/A	N/A	State Appropriated	State of TN	07/01/14-06/30/15	\$ 22,050	\$ -	\$ 22,050	\$ -	\$ 22,050	\$ -	\$ -	\$ -
N/A	N/A	IDA Contribution - #4	Donations	07/01/12-06/30/17	N/A	-	-	77	36,208	(36,131)	-	-
N/A	N/A	Housing	Donations	07/01/14-06/30/15	N/A	-	-	20,000	15,676	4,324	-	-
		Total Other Assistance				-	22,050	20,077	73,934	(31,807)	-	-
		Total - Special Revenue Fund				953,519	14,599,214	2,083,116	16,397,628	(31,807)	168,433	805,443
GENERAL AND LOCAL FUND ACTIVITY												
		Agency Operations	Donations, Interest Income			-	-	95,418	180,552	(85,134)	-	-
		TOTALS				\$ 953,519	\$ 14,599,214	\$ 2,178,534	\$ 16,578,180	\$ (116,941)	\$ 168,433	\$ 805,443

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Program Activity
Year Ended June 30, 2015

Note: Included in other revenue is in-kind contributions required by grant awards. In-kind is recorded at market value and is recognized in the period received. The in-kind recorded relates primarily to the Head Start program and consists of volunteer services, donated facilities, and donated materials. In-kind is not recorded in the combined statement of revenue, expenditures and changes in fund balances.

The revenue and expenditures are as follows:

REVENUE		EXPENDITURES	
(Prior year grant receivable) funds received in advance	\$ (953,519)	Expenditures	\$ 16,578,180
Current grant receipts	14,599,214	In-kind contributions	<u>(2,047,468)</u>
Current grant funds received in advance	(168,433)		
Current grant receivable	<u>805,443</u>		
Net grant and commodity revenue	14,282,705		
Other revenue	2,178,534		
In-kind	<u>(2,047,468)</u>		
 Total revenue per combined statement of revenue, expenditures, and changes in fund balances (see page 14)	 <u>\$ 14,413,771</u>	 Total expenditures per combined statement of revenue, expenditures, and changes in fund balances (see page 14)	 <u>\$ 14,530,712</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
(Passed-Through Tennessee Department of Agriculture)		
The Emergency Food Assistance Program (Food Commodities) (Noncash assistance)	10.569	\$ <u>287,675</u>
(Passed-Through Tennessee Department of Human Services)		
Child and Adult Care Food Program	10.558	50,830
Child and Adult Care Food Program	10.558	<u>271,543</u>
Subtotal 10.558		<u>322,373</u>
(Passed-Through Tennessee Department of Agriculture)		
The Emergency Food Assistance Program	10.568	21,313
The Emergency Food Assistance Program	10.568	<u>71,447</u>
Subtotal 10.568		<u>92,760</u>
U.S. DEPARTMENT OF ENERGY		
(Passed-Through Tennessee Housing Development Agency)		
Weatherization Assistance for Low-Income Persons	81.042	<u>313</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
(Passed-Through Tennessee Department of Human Services)		
Temporary Assistance for Needy Families (Child Care Certificate Program)	93.558	32,464
Temporary Assistance for Needy Families (Child Care Certificate Program)	93.558	<u>36,290</u>
Subtotal 93.558		<u>68,754</u>
(Passed-Through Tennessee Department of Human Services)		
Low-Income Home Energy Assistance Program	93.568	606,900
(Passed-Through Tennessee Housing Development Agency)		
Low-Income Home Energy Assistance Program	93.568	<u>3,721,828</u>
Subtotal 93.568		<u>4,328,728</u>
(Passed-Through Tennessee Department of Human Services)		
Community Services Block Grant	93.569	<u>1,018,347</u>
Direct Grant		
Head Start Full-Year, Part-Day (includes delegate expenses of \$825,772)	93.600	4,303,832
Head Start Training and Technical Assistance (includes delegate expenses of \$14,539)	93.600	49,204
Head Start Full-Year, Part-Day (includes delegate expenses of \$689,905)	93.600	3,627,502
Head Start Training and Technical Assistance (includes delegate expenses of \$9,771)	93.600	<u>57,090</u>
Subtotal 93.600		<u>8,037,628</u>
Direct Grant		
Assets for Independence Demonstration Program (Individual Development Accounts)	93.602	<u>36,154</u>

See independent auditors' report.

See notes to schedule of expenditures of federal awards.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Expenditures of Federal Awards (Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Direct Grant		
Retired Senior Volunteer Program	94.002	\$ 39,104
Retired Senior Volunteer Program	94.002	<u>15,921</u>
Subtotal 94.002		<u>55,025</u>
DEPARTMENT OF HOMELAND SECURITY		
Direct Grant		
Emergency Food and Shelter	97.024	5,710
Emergency Food and Shelter	97.024	2,919
(Passed-Through United Way National)		
Emergency Food and Shelter	97.024	<u>4,269</u>
Subtotal 97.024		<u>12,898</u>
TOTAL FEDERAL PROGRAMS		<u>\$ 14,260,655</u>

See independent auditors' report.
See notes to schedule of expenditures of federal awards.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2015

NOTE 1 - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The schedule of expenditures of federal awards includes the federal grant activity of UETHDA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - SCHEDULE OF PROGRAM ACTIVITY

The expenses included in the schedule of program activity include both federal and nonfederal expenditures for the period July 1, 2014, to June 30, 2015. The federal expenditures on this schedule represent the amount of federal grant monies expended.

NOTE 3 - DELEGATE AGENCIES

UETHDA delegates a portion of their federal Head Start program to two local school districts. Expenses reported by the delegates for the year ended June 30, 2015, are as follows:

Delegate Agency	Federal Head Start
Carter County Head Start	\$ 989,232
Johnson County Board of Education	550,755
Total	\$ 1,539,987

NOTE 4 - IN-KIND

The Head Start program, funded by the Department of Health and Human Services, requires that the program receive a nonfederal share equal to 25% of total federal expenditures. The nonfederal in-kind contributions were received by UETHDA and delegate agencies as follows:

Delegates/UETHDA	04CH4688/01	04CH4688/02	Total
Carter County Head Start	\$ 95,241	\$ 159,713	\$ 254,954
Johnson County Board of Education	77,924	64,202	142,126
Subtotal	173,165	223,915	397,080
UETHDA	859,153	777,553	1,636,706
Total Head Start in-kind	\$ 1,032,318	\$ 1,001,468	\$ 2,033,786



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
Upper East Tennessee Human Development Agency, Inc.

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 major governmental funds of the Upper East Tennessee Human Development Agency, Inc. "UETHDA", as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise UETHDA's basic financial statements, and have issued our report thereon dated November 19, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered UETHDA'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 UETHDA's internal control. Accordingly, we do not express an opinion on the effectiveness of UETHDA'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 UETHDA'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 UETHDA'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 UETHDA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UETHDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Kingsport, Tennessee
November 19, 2015

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control
Over Compliance Required by OMB Circular A-133

To the Board of Directors
Upper East Tennessee Human Development Agency, Inc.

Report on Compliance for Each Major Federal Program

We have audited Upper East Tennessee Human Development Agency, Inc.'s "UETHDA" compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of UETHDA's major federal programs for the year ended June 30, 2015. UETHDA's major federal programs are 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 UETHDA'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 UETHDA'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 UETHDA's compliance.

Opinion on Each Major Federal Program

In our opinion, UETHDA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of UETHDA 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 UETHDA'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 OMB Circular A-133, 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 UETHDA'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Kingsport, Tennessee
November 19, 2015

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Upper East Tennessee Human Development Agency, Inc.
2. There were no significant deficiencies relating to the financial statements reported in the 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*.
3. No instances of material noncompliance to the financial statements of Upper East Tennessee Human Development Agency, Inc. were discovered during the audit.
4. No significant deficiencies relating to the audit of major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs of Upper East Tennessee Human Development Agency, Inc. expresses an unqualified opinion.
6. There were no findings relative to the major federal award programs of Upper East Tennessee Human Development Agency, Inc.
7. The program tested as a major program was:
 CFDA 93.600 Head Start
8. The threshold for distinguishing Type A and B programs was \$427,820.
9. Upper East Tennessee Human Development Agency, Inc. was determined to be a low-risk auditee.

Current Year Findings - Financial Statement Audit

None

Current Year Findings and Questioned Costs - Major Federal Award Programs Audit

Findings:	None
Questioned Costs:	None

Prior Year Findings - Financial Statement Audit

None

Prior Year Findings and Questioned Costs - Major Federal Award Programs Audit

Findings:	None
Questioned Costs:	None