

UPPER EAST TENNESSEE HUMAN
DEVELOPMENT AGENCY, INC.

Financial Statements and Additional Information

June 30, 2016

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Financial Statements and Additional Information
June 30, 2016

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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, 2016, 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 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 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 the entity'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, 2016, 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 Title 2 U.S. *Code of Federal Regulations* 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 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 30, 2016, 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 30, 2016

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Roster of Officers and Directors
June 30, 2016

Officers

Timothy Jaynes	Executive Director
Connie Shockley	Finance Director
Dick Grayson	Board Chairman (Private Sector)
Pat Wolfe	Board Vice-Chair (Public Sector)
Carolyn Browning	Board Secretary / Treasurer (Target Sector)

Board of Directors

Public Sector

Leon Humphrey, Carter County Mayor
David Crum, Greene County Mayor
Thomas Harrison, Hancock County Mayor
Melville Bailey, Hawkins County Mayor
Larry Potter, Johnson County Mayor
Richard Venable, Sullivan County Mayor
Greg Lynch, Unicoi County Mayor
Dan Eldridge, Washington County Mayor
Pat Wolfe (r)
John Clark, Kingsport City Mayor
Morris Baker (r)
Jim Sells, Rogersville City Mayor
Carolyn Byrd (r)
Jon Lundberg, TN State Representative

Private Sector

Mary Alexander
Alma Brown
Debra Bridwell
Truman Clark
Mindy Davis
Dick Grayson
Angela McCamy
Ann McConnell
Glodine Davis (a)
Polly Peterson

Target Sector

Carolyn Browning
Joyce Thomas (a)
Margaret Collins
Phyllis Delph (a)
Val Herod
Terry Hodge (a)
Vanity Hines
Eleanor Light (a)
Mary Lewis
Kathleen Lashley (a)
Paul Monk
Daris Morgan
Mary Parks (a)
Susan Payne
John White (a)
Johnnie Mae Swagerty
Van Dobbins (a)
Kenneth Treadway
Becky Magill (a)
Charles Voncannon
Barbara Watterson

(r) Designated Representative
(a) Alternate

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Management's Discussion and Analysis
Year Ended June 30, 2016

Financial Highlights

UETHDA's expenditures this fiscal year were \$14,219,240 compared to \$14,530,712 for the period July 1, 2014 through June 30, 2015. This was an overall decrease in expenditures of \$311,472. The primary decrease in expenditures was in the Low Income Home Energy Program of \$291,667 attributable to decreases in client allocations to the program. There were also several smaller fluctuations in various other programs administrated by UETHDA.

Additionally:

- UETHDA's overall financial position, as reflected in total net position, decreased by \$181,442.
- In governmental funds, the total fund balance decreased by \$14,965.

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 11 and 12 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 32 through 35 of this report. The governmental fund financial statements are on pages 13 and 15 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 17 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, 2016 and 2015.

Table 1
Condensed Statement of Net Position

	<u>Government-wide</u>	
	<u>2016</u>	<u>2015</u>
Current assets	\$ 1,750,494	\$ 1,790,627
Capital assets	741,543	865,405
Noncurrent assets	<u>-</u>	<u>351,845</u>
Total assets	<u>\$ 2,492,037</u>	<u>\$ 3,007,877</u>
Deferred outflow of resources	<u>\$ 1,055,560</u>	<u>\$ 488,947</u>
Current liabilities	\$ 459,009	\$ 484,177
Long-term liabilities	<u>592,128</u>	<u>167,000</u>
Total liabilities	<u>\$ 1,051,137</u>	<u>\$ 651,177</u>
Deferred inflow of resources	<u>\$ 503,233</u>	<u>\$ 670,978</u>
Net investment in capital assets	\$ 741,543	\$ 865,405
Temporarily restricted to grant purpose	46,440	95,871
Unrestricted	<u>1,205,244</u>	<u>1,213,393</u>
Total net position	<u>\$ 1,993,227</u>	<u>\$ 2,174,669</u>

In governmental activities, total assets decreased by \$515,840, this is primarily the net of decreases in pension related items of \$351,845 and decreases in capital assets of \$123,862. Total liabilities increased by \$399,960, primarily due to increases in pension related items of \$408,819. The change in net position is a decrease of \$181,442.

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, 2016 and 2015.

	Table 2 Change in Net Position			
	<u>2016</u>	<u>Percentage of Funding</u>	<u>2015</u>	<u>Percentage of Funding</u>
Revenue:				
Operating grants and contributions	\$ 14,108,933	99.21%	\$ 14,211,320	98.60%
Capital grants and contributions	72,350	0.51%	181,398	1.26%
Interest and investment earnings	2,773	0.02%	4,550	0.03%
Other	<u>37,219</u>	<u>0.26%</u>	<u>16,503</u>	<u>0.11%</u>
Total revenue	<u>14,221,275</u>	<u>100.00%</u>	<u>14,413,771</u>	<u>100.00%</u>
Expenditures:				
Child education	8,183,283	56.83%	8,084,169	55.80%
Community services programs	1,526,318	10.60%	1,565,329	10.80%
Emergency shelter programs	141,353	0.98%	105,213	0.73%
Nutrition programs	321,100	2.23%	322,887	2.23%
Senior programs	78,245	0.54%	67,960	0.47%
Energy assistance	4,140,723	28.75%	4,325,434	29.86%
Corporate activities	<u>11,695</u>	<u>0.09%</u>	<u>16,321</u>	<u>0.11%</u>
Total expenditures	<u>14,402,717</u>	<u>100.02%</u>	<u>14,487,313</u>	<u>100.00%</u>
Change in net position	<u>\$ (181,442)</u>		<u>\$ (73,542)</u>	

As shown, program revenue in the form of grants and contributions provide over 99% 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>2016</u>		<u>2015</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Child education	\$ 8,183,283	\$ (167,469)	\$ 8,084,169	\$ 22,977
Community services programs	1,526,318	(33,703)	1,565,329	(106,424)
Emergency shelter programs	141,353	(104)	105,213	445
Nutrition programs	321,100	(3)	322,887	(514)
Senior programs	78,245	(8,592)	67,960	(165)
Energy assistance	4,140,723	(1,109)	4,325,434	3,607
Corporate activities	<u>11,695</u>	<u>(10,454)</u>	<u>16,321</u>	<u>(14,521)</u>
Totals	<u>\$ 14,402,717</u>	<u>\$ (221,434)</u>	<u>\$ 14,487,313</u>	<u>\$ (94,595)</u>

Governmental Funds

UETHDA completed the year with a total governmental fund balance of \$1,291,485 of which \$1,061,736 is general fund balance and \$229,749 is special revenue fund balance. This represents an increase of \$18,157 in general fund balance from \$1,043,579 as of June 30, 2015 and a decrease of \$33,122 in special revenue fund balance from \$262,871 as of June 30, 2015.

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 2016 fiscal year, UETHDA had invested a cumulative amount of \$3,718,278 in a broad range of capital assets, including buildings, capital improvements, vehicles, furniture, and equipment (see Table 4). This amount represents a net decrease of \$190,147. Additional information about capital assets can be found in Note 6, page 22. Total accumulated depreciation on these assets was \$2,976,735.

- UETHDA recognized depreciation expense of \$196,212 for governmental activities (see page 16).

Table 4
Capital Assets

	<u>2016</u>	<u>2015</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	923,402	0.00%
Vehicles	1,807,570	1,997,717	-9.52%
Accumulated depreciation	<u>(2,976,735)</u>	<u>(3,043,020)</u>	-2.18%
Totals	<u>\$ 741,543</u>	<u>\$ 865,405</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 5.08% for the year ended June 30, 2015. A rate of 5.08% 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 29% 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, 2016

ASSETS

Current Assets

Cash	\$	284,093
Restricted cash		405,346
Receivables		
Due from grantor agencies		821,709
Other accounts receivable		20,321
Investments		63,979
Prepaid expenses		37,467
Inventory - commodity food		117,579
		<u>1,750,494</u>

Total current assets

Capital Assets

Land and building and capital improvements		987,306
Furniture and equipment		923,402
Vehicles		1,807,570
		<u>3,718,278</u>

Less accumulated depreciation

2,976,735

Net capital assets

741,543

Total assets

\$ 2,492,037

DEFERRED OUTFLOW OF RESOURCES

Difference between expected and actual experience in pension plan	\$	885,789
Pension contributions after measurement date		169,771
		<u>1,055,560</u>

Total deferred outflow of resources

\$ 1,055,560

LIABILITIES

Current Liabilities

Accounts payable	\$	179,274
Accrued payroll and related expenses		146,030
Grant funds received in advance		133,705
		<u>459,009</u>

Total current liabilities

Long-Term Liabilities

Accrued annual leave		183,309
Net pension liability		408,819
		<u>592,128</u>

Total long-term liabilities

592,128

Total liabilities

\$ 1,051,137

DEFERRED INFLOW OF RESOURCES

Difference between projected and actual earnings on pension plan investments	\$	503,233
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NET POSITION

Investment in capital assets	\$	741,543
Temporarily restricted to grant purpose		46,440
Unrestricted		1,205,244
		<u>1,993,227</u>

Total net position

\$ 1,993,227

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

Statement of Activities
Year Ended June 30, 2016

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	\$ 676,994	\$ (676,994)	\$ -	\$ -	\$ -
Child education	7,824,569	358,714	7,960,464	55,350	(167,469)
Community services programs	1,459,362	66,956	1,475,615	17,000	(33,703)
Emergency shelter programs	136,201	5,152	141,249	-	(104)
Nutrition programs	303,294	17,806	321,097	-	(3)
Senior programs	74,680	3,565	69,653	-	(8,592)
Energy assistance	3,915,922	224,801	4,139,614	-	(1,109)
Total program activities	<u>14,391,022</u>	<u>-</u>	<u>14,107,692</u>	<u>72,350</u>	<u>(210,980)</u>
Support services:					
General government	2,100	(2,100)	-	-	-
Corporate activities	9,595	2,100	1,241	-	(10,454)
Total support services	<u>11,695</u>	<u>-</u>	<u>1,241</u>	<u>-</u>	<u>(10,454)</u>
Total organization	<u>\$ 14,402,717</u>	<u>\$ -</u>	<u>\$ 14,108,933</u>	<u>\$ 72,350</u>	<u>(221,434)</u>
General revenue:					
Miscellaneous					37,219
Interest and investment earnings					<u>2,773</u>
Total general revenue					<u>39,992</u>
Change in net position					
Net position, beginning of year					<u>2,174,669</u>
Net position, end of year					<u>\$ 1,993,227</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

Balance Sheet - Governmental Funds

June 30, 2016

	General	Special Revenue	Totals
ASSETS			
Cash	\$ 959,264	\$ (675,171)	\$ 284,093
Restricted cash	-	405,346	405,346
Receivables:			
Due from grantor agencies	-	821,709	821,709
Other accounts receivable	14,010	6,311	20,321
Investments	63,979	-	63,979
Prepaid expenses	25,090	12,377	37,467
Inventory - commodity food	-	117,579	117,579
	<u>-</u>	<u>117,579</u>	<u>117,579</u>
Total assets	<u>\$ 1,062,343</u>	<u>\$ 688,151</u>	<u>\$ 1,750,494</u>
LIABILITIES			
Accounts payable	\$ 607	\$ 178,667	\$ 179,274
Accrued payroll and related expenses	-	146,030	146,030
Grant funds received in advance	-	133,705	133,705
	<u>-</u>	<u>133,705</u>	<u>133,705</u>
Total liabilities	<u>607</u>	<u>458,402</u>	<u>459,009</u>
FUND BALANCES			
Nonspendable			
Inventory	-	117,579	117,579
Prepaid expenses	25,090	12,377	37,467
Restricted	-	99,793	99,793
Unassigned	1,036,646	-	1,036,646
	<u>1,036,646</u>	<u>-</u>	<u>1,036,646</u>
Total fund balances	<u>1,061,736</u>	<u>229,749</u>	<u>1,291,485</u>
Total liabilities and fund balances	<u>\$ 1,062,343</u>	<u>\$ 688,151</u>	<u>\$ 1,750,494</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position
 June 30, 2016

Total fund balance - governmental funds	\$	1,291,485
<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	\$	3,718,278
Less governmental accumulated depreciation		<u>2,976,735</u>
Net capital assets		741,543
<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		(183,309)
<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		1,055,560
Deferred inflows of resources related to pensions		<u>(503,233)</u>
Net deferral of resources		552,327
Net pension liabilities of the agency represent long-term liabilities which will be reported in the governmental funds as they mature.		<u>(408,819)</u>
Total net position - governmental activities	\$	<u><u>1,993,227</u></u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Total
Revenue			
Grants	\$ -	\$ 13,799,461	\$ 13,799,461
Local contributions	1,241	62,850	64,091
Other	23,499	13,720	37,219
Interest income	2,722	51	2,773
Commodities	-	300,731	300,731
Total revenue	<u>27,462</u>	<u>14,176,813</u>	<u>14,204,275</u>
Expenditures			
Salaries	-	4,098,989	4,098,989
Fringe benefits	-	1,495,459	1,495,459
Travel	50	174,145	174,195
Communications	366	159,240	159,606
Utilities	-	47,346	47,346
Office supplies	47	55,448	55,495
Program supplies	4,018	677,846	681,864
Maintenance and repairs	1,074	450,038	451,112
Rental buildings	393	193,884	194,277
Contractual	20	269,669	269,689
Delegate agencies	-	1,459,532	1,459,532
Equipment rent	100	27,173	27,273
Equipment (sensitive minor)	-	96,421	96,421
Equipment and capital improvements	-	55,350	55,350
Insurance	164	66,251	66,415
Advertising	-	13,544	13,544
Direct client assistance	247	3,802,205	3,802,452
Other	726	35,514	36,240
Training	-	54,156	54,156
Indirect costs	2,100	676,994	679,094
Commodities distributed	-	300,731	300,731
Total expenditures	<u>9,305</u>	<u>14,209,935</u>	<u>14,219,240</u>
Excess (deficiency) of revenue over expenditures	18,157	(33,122)	(14,965)
Fund balances, beginning of year	<u>1,043,579</u>	<u>262,871</u>	<u>1,306,450</u>
Fund balances, end of year	<u>\$ 1,061,736</u>	<u>\$ 229,749</u>	<u>\$ 1,291,485</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, 2016

Net change in fund balances - total governmental funds	\$	(14,965)
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	\$ 72,350	
Depreciation expense reported in the statement of activities	<u>(196,212)</u>	
Amount by which depreciation is greater than capital acquisitions in the current period		(123,862)
<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	(175,388)	
Accrued vacation and personal leave paid	<u>159,079</u>	
Net accrued vacation and personal leave (earned)		(16,309)
<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	(195,702)	
Pension expense recognized in the governmental funds	<u>169,396</u>	
Net difference in the amount of pension expense recognized		<u>(26,306)</u>
Change in net position - statement of activities	\$	<u><u>(181,442)</u></u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Notes to Financial Statements
June 30, 2016

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, 2016. 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 UETHDA's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from UETHDA'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 \$1,459,532 for the year ended June 30, 2016 have been included in the statement of revenue, expenditures, and changes in fund balances. These delegate agencies are required to submit their own agency-wide audit reports. 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, 2016, was 5.08%.

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, 2016, consisted of the following:

	Balance	Value
Cash with financial institutions	\$ 300,669	\$ 284,093
Cash with financial institutions - restricted	373,086	373,086
Bank account restricted to IDA	32,260	32,260
Total cash	\$ 706,015	\$ 689,439

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, 2016, consisted of the following:

	Maturity	Fair Value
Citizens Bank - Certificate of Deposit	10/24/16	\$ 63,979
Total investments reported in statement of net position		\$ 63,979

NOTE 3 - RESTRICTED CASH

UETHDA's restricted cash balance at June 30, 2016, consisted of the following:

Payroll trust fund	\$ 329,338
Various local restricted funds	43,748
IDA grant fund	32,260
Total	\$ 405,346

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, 2016, consisted of the following:

Federal	\$ 187,489
State	634,220
Total	\$ 821,709

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, 2016 was \$117,579.

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, 2016, consisted of the following:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
Governmental activities:				
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	923,402	-	-	923,402
Vehicles	1,997,717	72,350	(262,497)	1,807,570
Total capital assets being depreciated	3,887,425	72,350	(262,497)	3,697,278
Less accumulated depreciation for:				
Buildings and capital improvements	478,553	48,287	-	526,840
Furniture and equipment	768,738	72,956	-	841,694
Vehicles	1,795,729	74,969	(262,497)	1,608,201
Total accumulated depreciation	3,043,020	196,212	(262,497)	2,976,735
Total capital assets being depreciated, net of accumulated depreciation	844,405	(123,862)	-	720,543
Governmental activities capital assets, net of accumulated depreciation	\$ 865,405	\$ (123,862)	\$ -	\$ 741,543

Depreciation expense for the year ended June 30, 2016, was \$196,212. This total is broken out by program as follows: Child education \$193,897 and Community services programs \$2,315.

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, 2016, are as follows:

Individual Development Accounts	\$ 16,126
Temporary Emergency Food Assistance Program	117,579
Totals	\$ 133,705

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, 2016, consisted of the following:

	Beginning Balance	Additions	Reductions	Ending Balance
Accrued annual leave	\$ 167,000	\$ 175,388	\$ (159,079)	\$ 183,309
Net pension liability	-	408,819	-	408,819
Total governmental activities long-term liabilities	\$ 167,000	\$ 584,207	\$ (159,079)	\$ 592,128

NOTE 9 - NET POSITION TEMPORARILY RESTRICTED TO GRANT PURPOSE

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

Community Services Local	\$ 14,729
Housing Local	12,915
Individual Development Accounts (IDA)	16,133
Reading is Fundamental Donations	4,547
Senior Services Local	(1,884)
Total	\$ 46,440

Community Services Local contributions are used to provide services to low income individuals in the community. 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.

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, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	77
Inactive employees entitled to but not yet receiving benefits	298
Active employees	202
	577

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 was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability as of June 30, 2015 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, 2015 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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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%
		<u>100%</u>

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, 2014	\$ 10,399,469	\$ 10,751,314	\$ (351,845)
Changes for the year:			
Service cost	342,550	-	342,550
Interest	787,308	-	787,308
Expected vs. actual experience	338,444	-	338,444
Contributions - Employer	-	172,693	(172,693)
Contributions - Employee	-	215,869	(215,869)
Net investment income	-	329,866	(329,866)
Benefit payments, including refunds	(489,162)	(489,162)	-
Administrative expense	-	(10,790)	10,790
Net changes	<u>979,140</u>	<u>218,476</u>	<u>760,664</u>
Balance at June 30, 2015	<u>\$ 11,378,609</u>	<u>\$ 10,969,790</u>	<u>\$ 408,819</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)	2,006,610	408,819	(888,242)

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

Pension Expense - For the year ended June 30, 2016, UETHDA recognized pension expense of \$195,702.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30 2016, 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	\$ 507,945	\$ -
Projected vs. actual earnings on investments	377,844	503,233
Contributions subsequent to the measurement date of June 30, 2015	<u>169,771</u>	<u>-</u>
	<u>\$ 1,055,560</u>	<u>\$ 503,233</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, 2015, 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:	
2017	\$ 73,469
2018	73,469
2019	73,469
2020	162,150
2021	-
Thereafter	-

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, 2016, UETHDA reported a payable of \$32,197 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

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, 2016 totaled \$124,958. 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.

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, 2016

Last Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 337,222	\$ 342,550
Interest	713,169	787,308
Differences between actual and expected experience	395,318	338,444
Benefit payments, including refunds of employee contributions	<u>(435,857)</u>	<u>(489,162)</u>
Net change in total pension liability	1,009,852	979,140
Total pension liability- beginning	<u>9,389,617</u>	<u>10,399,469</u>
Total pension liability- ending	<u>\$ 10,399,469</u>	<u>\$ 11,378,609</u>
Plan fiduciary net position		
Contributions- employer	\$ 303,861	\$ 172,693
Contributions- employee	191,350	215,869
Net investment income	1,528,488	329,866
Benefit payments, including refunds of employee contributions	(435,857)	(489,162)
Administrative expense	<u>(7,443)</u>	<u>(10,790)</u>
Net change in plan fiduciary net position	1,580,399	218,476
Plan fiduciary net position- beginning	<u>9,170,915</u>	<u>10,751,314</u>
Plan fiduciary net position- ending	<u>\$ 10,751,314</u>	<u>\$ 10,969,790</u>
Net pension (asset) liability	<u>\$ (351,845)</u>	<u>\$ 408,819</u>
Plan fiduciary net position as a percentage of total pension liability	103.38%	96.41%
Covered-employee payroll	\$ 3,826,968	\$ 4,347,588
Net pension (asset) liability as a percentage of covered-employee payroll	-9.19%	9.40%

* 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, 2016

Last Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 303,861	\$ 172,693	\$ 169,771
Contributions in relation to the actuarially determined contribution	<u>303,861</u>	<u>172,693</u>	<u>169,771</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,826,968	\$ 4,317,321	\$ 4,244,291
Contributions as a percentage of covered-employee payroll	7.94%	4.00%	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, 2016

NOTE 1 - VALUATION DATE

Actuarially determined contribution rates for 2016 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
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, 2016

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	06/30/15 Receivable (Grant Funds Received in Advance)	2015/2016 Receipts	2015/2016 Other Revenue	Expenditures	Excess of Expenditures Over Revenue	06/30/16 Grant Funds Received in Advance	06/30/16 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	07/01/15-06/30/16	N/A	\$ (122,988)	\$ 295,322	\$ -	\$ 300,731	\$ -	\$ 117,579	\$ -
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	1,235	64,502	-	63,267	-	-	-
10.558	16-03-47-55965-00-9	Child and Adult Care Food Program (CCFP)	Tennessee Department of Human Services	10/01/15-09/30/16	N/A	-	220,045	-	257,830	-	-	37,785
		Subtotal 10.558				1,235	284,547	-	321,097	-	-	37,785
10.568	45929	Emergency Food Assistance Program	Tennessee Department of Agriculture	10/01/14-09/30/15	95,000	23,483	47,036	-	23,553	-	-	-
10.568	54390	Emergency Food Assistance Program	Tennessee Department of Agriculture	10/01/15-08/31/16	94,000	-	47,499	-	80,149	-	-	32,650
		Subtotal 10.568				23,483	94,535	-	103,702	-	-	32,650
81.042	WAP-14-15	Weatherization Assistance for Low-Income Persons	Tennessee Housing Development Agency	11/01/14-08/31/16	389,903	313	26,175	-	102,553	-	-	76,691
Department of Health and Human Services												
93.558	N/A	Temporary Assistance for Needy Families (Child Care Certificate)	Tennessee Department of Human Services	01/01/15-12/31/15	N/A	-	39,057	4,569	43,626	-	-	-
93.558	N/A	Temporary Assistance for Needy Families (Child Care Certificate)	Tennessee Department of Human Services	01/01/16-12/31/16	N/A	-	41,468	4,635	46,103	-	-	-
		Subtotal 93.558				-	80,525	9,204	89,729	-	-	-
93.568	LIHEAP-15-19	Low-Income Home Energy Assistance Program	Tennessee Department of Human Services	09/30/14-09/29/15	5,005,305	327,198	935,646	-	608,448	-	-	-
93.568	LIHEAP-16-19	Low-Income Home Energy Assistance Program	Tennessee Housing Development Agency	09/30/15-09/29/16	3,460,321	-	3,079,454	-	3,405,187	-	-	325,733
93.568	LWx-16-15	Low-Income Home Energy Assistance Program Weatherization	Tennessee Housing Development Agency	01/31/16-09/30/16	209,825	-	-	-	23,426	-	-	23,426
		Subtotal 93.568				327,198	4,015,100	-	4,037,061	-	-	349,159
93.569	Z-15-49120	Community Services Block Grant	Tennessee Department of Human Services	07/01/14-06/30/15	1,225,651	105,224	105,224	-	-	-	-	-
93.569	Z-16-49120	Community Services Block Grant	Tennessee Department of Human Services	07/01/15-06/30/16	1,265,610	-	953,171	6,678	1,097,784	-	-	137,935
93.569	N/A	In-Kind Contributions	N/A	07/01/15-06/30/16	N/A	-	-	17,000	17,000	-	-	-
		Subtotal 93.569				105,224	1,058,395	23,678	1,114,784	-	-	137,935

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Schedule of Program Activity
 Year Ended June 30, 2016

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	06/30/15 Receivable (Grant Funds Received in Advance)	2015/2016 Receipts	2015/2016 Other Revenue	Expenditures	Excess of Expenditures Over Revenue	06/30/16 Grant Funds Received in Advance	06/30/16 Receivable
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (Continued)												
Department of Health and Human Services (Continued)												
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	\$ 343,810	\$ 4,672,566	\$ 1,099	\$ 4,329,855	\$ -	\$ -	\$ -
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	-	33,282	-	33,282	-	-	-
93.600	N/A	In-Kind Contributions	N/A	01/01/15-12/31/15	2,012,649	-	-	1,011,181	1,011,181	-	-	-
93.600	04CH4688/03	Head Start Full-Year, Part-Day	U.S. Dept. of Health and Human Services	01/01/16-12/31/16	8,048,383	-	3,333,910	4,288	3,523,584	-	-	185,386
93.600	04CH4688/03	Head Start Training and Technical Assistance	U.S. Dept. of Health and Human Services	01/01/16-12/31/16	90,372	-	48,568	-	48,568	-	-	-
93.600	N/A	In-Kind Contributions	N/A	01/01/16-12/31/16	2,034,690	-	-	958,714	958,714	-	-	-
		Subtotal 93.600				<u>343,810</u>	<u>8,088,326</u>	<u>1,975,282</u>	<u>9,905,184</u>	<u>-</u>	<u>-</u>	<u>185,386</u>
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	(33,199)	(13)	32	17,092	-	16,126	-
Corporation for National and Community Service												
94.002	13SRSTN002	Retired Senior Volunteer Program	Corp. for National and Community Service	04/01/15-03/31/16	57,812	2,858	44,749	-	41,891	-	-	-
94.002	N/A	In-Kind Contributions	N/A	04/01/15-03/31/16	13,682	-	-	10,823	10,823	-	-	-
94.002	16SRSTN002	Retired Senior Volunteer Program	Corp. for National and Community Service	04/01/16-03/31/17	52,312	-	12,864	-	14,967	-	-	2,103
94.002	N/A	In-Kind Contributions	N/A	04/01/16-03/31/17	15,054	-	-	3,754	3,754	-	-	-
		Subtotal 94.002				<u>2,858</u>	<u>57,613</u>	<u>14,577</u>	<u>71,435</u>	<u>-</u>	<u>-</u>	<u>2,103</u>
Department of Homeland Security												
97.024	32-763400-005	Emergency Food & Shelter	United Way National Board - Carter Co.	11/01/14-10/31/15	11,863	(1,662)	5,932	-	7,594	-	-	-
97.024	32-768600-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Hancock Co.	10/01/13-10/31/15	2,800	-	2,800	-	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	-	18,524	-	-	-
97.024	32-771000-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Johnson Co.	06/01/14-08/31/15	8,777	1,322	4,389	-	3,067	-	-	-
97.024	32-779800-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Unicoi Co.	06/01/14-10/31/15	8,481	(1,322)	4,240	-	5,562	-	-	-
		Subtotal 97.024				<u>(10,924)</u>	<u>26,623</u>	<u>-</u>	<u>37,547</u>	<u>-</u>	<u>-</u>	<u>-</u>
		Total Federal Financial Assistance				<u>637,010</u>	<u>14,027,148</u>	<u>2,022,773</u>	<u>16,100,915</u>	<u>-</u>	<u>133,705</u>	<u>821,709</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Program Activity
Year Ended June 30, 2016

<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>06/30/15 Receivable (Grant Funds Received in Advance)</u>	<u>2015/2016 Receipts</u>	<u>2015/2016 Other Revenue</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Revenue</u>	<u>06/30/16 Grant Funds Received in Advance</u>	<u>06/30/16 Receivable</u>
OTHER ASSISTANCE												
N/A	N/A	State Appropriated	State of TN	07/01/15-06/30/16	\$ 22,050	\$ -	\$ 22,050	\$ -	\$ 22,050	\$ -	\$ -	\$ -
N/A	N/A	IDA Contribution - #4	Donations	07/01/12-06/30/17	N/A	-	-	19	17,092	(17,073)	-	-
N/A	N/A		Donations	07/01/15-06/30/16	N/A	-	-	-	14,596	(14,596)	-	-
		Total Other Assistance				-	22,050	19	53,738	(31,669)	-	-
		Total - Special Revenue Fund				637,010	14,049,198	2,022,792	16,154,653	(31,669)	133,705	821,709
GENERAL AND LOCAL FUND ACTIVITY												
		Agency Operations	Donations, Interest Income			-	-	82,763	66,059	16,704	-	-
		TOTALS				\$ 637,010	\$ 14,049,198	\$ 2,105,555	\$ 16,220,712	\$ (14,965)	\$ 133,705	\$ 821,709

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Schedule of Program Activity
 Year Ended June 30, 2016

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	\$ (637,010)	Expenditures	\$ 16,220,712
Current grant receipts	14,049,198	In-kind contributions	<u>(2,001,472)</u>
Current grant funds received in advance	(133,705)		
Current grant receivable	<u>821,709</u>		
Net grant and commodity revenue	14,100,192		
Other revenue	2,105,555		
In-kind	<u>(2,001,472)</u>		
 Total revenue per combined statement of revenue, expenditures, and changes in fund balances (see page 15)	 <u><u>\$ 14,204,275</u></u>	 Total expenditures per combined statement of revenue, expenditures, and changes in fund balances (see page 15)	 <u><u>\$ 14,219,240</u></u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

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>300,731</u>
(Passed-Through Tennessee Department of Human Services)		
Child and Adult Care Food Program	10.558	63,267
Child and Adult Care Food Program	10.558	<u>257,830</u>
Subtotal 10.558		<u>321,097</u>
(Passed-Through Tennessee Department of Agriculture)		
The Emergency Food Assistance Program	10.568	23,553
The Emergency Food Assistance Program	10.568	<u>80,149</u>
Subtotal 10.568		<u>103,702</u>
U.S. DEPARTMENT OF ENERGY		
(Passed-Through Tennessee Housing Development Agency)		
Weatherization Assistance for Low-Income Persons	81.042	<u>102,553</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	39,057
Temporary Assistance for Needy Families (Child Care Certificate Program)	93.558	<u>41,468</u>
Subtotal 93.558		<u>80,525</u>
(Passed-Through Tennessee Housing Development Agency)		
Low-Income Home Energy Assistance Program	93.568	608,448
Low-Income Home Energy Assistance Program	93.568	3,405,187
Low-Income Home Energy Assistance Program Weatherization	93.568	<u>23,426</u>
Subtotal 93.568		<u>4,037,061</u>
(Passed-Through Tennessee Department of Human Services)		
Community Services Block Grant	93.569	<u>1,091,106</u>
Direct Grant		
Head Start Full-Year, Part-Day (includes delegate expenses of \$802,413)	93.600	4,328,756
Head Start Training and Technical Assistance (includes delegate expenses of \$9,693)	93.600	33,282
Head Start Full-Year, Part-Day (includes delegate expenses of \$638,988)	93.600	3,519,296
Head Start Training and Technical Assistance (includes delegate expenses of \$8,438)	93.600	<u>48,568</u>
Subtotal 93.600		<u>7,929,902</u>
Direct Grant		
Assets for Independence Demonstration Program (Individual Development Accounts)	93.602	<u>17,060</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	\$ 41,891
Retired Senior Volunteer Program	94.002	<u>14,967</u>
Subtotal 94.002		<u>56,858</u>
DEPARTMENT OF HOMELAND SECURITY		
Direct Grant		
Emergency Food and Shelter	97.024	2,800
Emergency Food and Shelter	97.024	18,524
Emergency Food and Shelter	97.024	3,067
Emergency Food and Shelter	97.024	5,562
(Passed-Through United Way National)		
Emergency Food and Shelter	97.024	<u>7,594</u>
Subtotal 97.024		<u>37,547</u>
TOTAL FEDERAL PROGRAMS		<u>\$ 14,078,142</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, 2016

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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. 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, 2015, to June 30, 2016. The federal expenditures on this schedule represent the amount of federal grant monies expended.

NOTE 3 - INDIRECT COSTS

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, 2016, was 5.08%.

NOTE 4 - 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, 2016, are as follows:

Delegate Agency	Federal Head Start
Carter County Head Start	\$ 918,770
Johnson County Board of Education	540,762
Total	\$ 1,459,532

NOTE 5 - 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	04CH4688/02	04CH4688/03	Total
Carter County Head Start	\$ 83,890	\$ 150,733	\$ 234,623
Johnson County Board of Education	71,133	90,694	161,827
Subtotal	155,023	241,427	396,450
UETHDA	856,158	717,287	1,573,445
Total Head Start in-kind	\$ 1,011,181	\$ 958,714	\$ 1,969,895

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 Upper East Tennessee Human Development Agency, Inc. "UETHDA", as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise UETHDA's basic financial statements and have issued our report thereon dated November 30, 2016.

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 the entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2016-01 and 2016-02, that we consider to be significant deficiencies.

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*.

UETHDA's Response to Findings

UETHDA's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. UETHDA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rodefer Moss & Co, PLLC

Kingsport, Tennessee
November 30, 2016

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
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 Compliance Supplement* that could have a direct and material effect on each of UETHDA's major federal programs for the year ended June 30, 2016. UETHDA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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; 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 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, 2016.

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 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-01 and 2016-02, that we consider to be significant deficiencies.

UETHDA's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. UETHDA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Rodefer Moss & Co, PLLC

Kingsport, Tennessee
November 30, 2016

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2016

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	UNMODIFIED	
Internal control over financial reporting:	YES	NO
Material weakness identified?		X
Significant deficiencies identified that are not considered to be a material weakness?	X	
Non-compliance material to financial statements noted?		X

Federal Awards

Type of auditors' report issued for major federal programs:	UNMODIFIED	
Internal control over major programs:	YES	NO
Material weakness identified?		X
Significant deficiencies identified that is not considered to be a material weakness?	X	
Auditee qualified as a low-risk auditee?	X	
Dollar threshold used to distinguish between Type A and Type B Programs:		<u>\$ 750,000</u>

Major federal programs for Upper East Tennessee Human Development Agency, Inc. for the fiscal year ended June 30, 2016 are:

Program Name	CFDA
Low Income Home Energy Assistance Program (LIHEAP)	93.567
Community Service Block Grant (CSBG)	93.569

II. Findings and Questioned Costs - Financial Statement Audit

There were no questioned costs identified during the year ended June 30, 2016.

The findings identified in the Major Programs section of this schedule are also deemed to be significant deficiencies in internal control relative to the financial statements.

II. Findings and Questioned Costs - Major Programs

There were no questioned costs identified during the year ended June 30, 2016.

There was one finding deemed to be a significant deficiency in internal control relative to each of the major programs.

There were no findings of noncompliance relative to either of the major programs.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2016

III. Detailed Findings

Finding 2016-01 Significant Deficiency – LIHEAP

Criteria: The entity should have a system of internal control over eligibility as necessary to ensure that only eligible individuals obtain federal assistance.

Condition: Some client files did not have evidence that a review of eligibility data had been performed.

Cause: The entity does not have a process in place to verify that the required review has taken place and is documented.

Potential Effect: A non-eligible person could obtain assistance.

Questioned Cost: None

Perspective Information: Three of forty-eight files tested lacked evidence of review.

Repeat Finding: No

Auditors' Recommendation: The entity should develop a process which ensures that all eligibility information has undergone review.

View of Responsible Officials: We agree with the finding.

Corrective Action Plan: We have implemented a verification process as of the date of this report.

Finding 2016-02 Significant Deficiency – CSBG

Criteria: The entity should have a system of internal control over eligibility as necessary to ensure that only eligible individuals obtain federal assistance.

Condition: The entity did not have a process in place to review eligibility documentation for this program.

Cause: Lack of adequate training.

Potential Effect: A non-eligible person could obtain assistance.

Questioned Cost: None

Perspective Information: No process was in place.

Repeat Finding: No

Auditors' Recommendation: The entity should develop a process of review and verification for the CSBG program. Subsequently, training on the new process should be provided to all applicable staff.

View of Responsible Officials: We agree with the finding.

Corrective Action Plan: We have implemented a review and verification process as of the date of this report. Further, all applicable staff have received training on the new process.

IV. Prior Year Findings

None