

UPPER EAST TENNESSEE HUMAN  
DEVELOPMENT AGENCY, INC.

Financial Statements and Additional Information

June 30, 2017

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Financial Statements and Additional Information  
June 30, 2017

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UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Roster of Officers and Directors  
June 30, 2017

**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  
Alonzo Collins (r)  
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

**Target Sector**

Carolyn Browning  
Margaret Collins  
Phyllis Delph (a)  
Darrell Gillespie  
Jamie Shelton-Sanchez (a)  
Paul Monk  
Daris Morgan  
Susan Payne  
John White (a)  
Rick Shuffler  
Johnnie Swagerty  
Van Dobbins (a)  
Kenneth Treadway  
Becky Magill (a)  
Charles VonCannon  
Barbara Watterson

**Private Sector**

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

(r) Designated Representative  
(a) Alternate



## 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, 2017, 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, 2017, 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 (Unaudited) 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 December 13, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion the effectiveness of UETHDA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UETHDA's internal control over financial reporting and compliance.

*Rodefer Moss & Co, PLLC*

Kingsport, Tennessee  
December 13, 2017

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Management's Discussion and Analysis  
Year Ended June 30, 2017

### **Financial Highlights**

UETHDA's expenditures this fiscal year were \$15,188,362 compared to \$14,219,240 for the period July 1, 2015 through June 30, 2016. This was an overall increase in expenditures of \$969,122. The primary increases in expenditures were in the Head Start Program \$462,073, Weatherization Assistance Program \$273,542, and Low Income Home Energy Assistance Program \$184,168 attributable to increases in the allocations to the programs.

Additionally:

- UETHDA's overall financial position, as reflected in total net position, decreased by \$25,994.
- In governmental funds, the total fund balance decreased by \$372,617.

### **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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between those items 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 funds include 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, 2017 and 2016.

Table 1  
Condensed Statement of Net Position

	<u>Government-wide</u>	
	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,736,562	\$ 1,750,494
Capital assets	<u>745,722</u>	<u>741,543</u>
Total assets	<u>\$ 2,482,284</u>	<u>\$ 2,492,037</u>
Deferred outflow of resources	<u>\$ 996,911</u>	<u>\$ 1,055,560</u>
Current liabilities	\$ 587,979	\$ 459,009
Long-term liabilities	<u>654,902</u>	<u>592,128</u>
Total liabilities	<u>\$ 1,242,881</u>	<u>\$ 1,051,137</u>
Deferred inflow of resources	<u>\$ 269,081</u>	<u>\$ 503,233</u>
Net investment in capital assets	\$ 745,722	\$ 741,543
Temporarily restricted to grant purpose	56,460	46,440
Unrestricted	<u>1,165,051</u>	<u>1,205,244</u>
Total net position	<u>\$ 1,967,233</u>	<u>\$ 1,993,227</u>

In governmental activities, total assets and deferred outflow of resources decreased by \$68,402, this is primarily the net of decreases in pension related items of \$58,649. Total liabilities and deferred inflow of resources decreased by \$42,408, primarily due to a decrease in grant funds received in advance of \$89,534. The change in net position is a decrease of \$25,994.

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, 2017 and 2016.

Table 2  
Change in Net Position

	<u>2017</u>	<u>Percentage of Funding</u>	<u>2016</u>	<u>Percentage of Funding</u>
Revenue:				
Operating grants and contributions	\$ 15,013,243	98.67%	\$ 14,108,933	99.21%
Capital grants and contributions	176,209	1.16%	72,350	0.51%
Interest and investment earnings	2,240	0.01%	2,773	0.02%
Other	<u>24,169</u>	<u>0.16%</u>	<u>37,219</u>	<u>0.26%</u>
 Total revenue	 <u>15,215,861</u>	 <u>100.00%</u>	 <u>14,221,275</u>	 <u>100.00%</u>
Expenditures:				
Child education	8,432,121	55.33%	8,183,283	56.82%
Community services programs	1,647,922	10.81%	1,526,318	10.60%
Emergency shelter programs	142,599	0.94%	141,353	0.98%
Nutrition programs	331,355	2.17%	321,100	2.23%
Senior programs	74,978	0.49%	78,245	0.54%
Weatherization/ energy assistance	4,599,107	30.17%	4,140,723	28.75%
Corporate activities	<u>13,773</u>	<u>0.10%</u>	<u>11,695</u>	<u>0.08%</u>
 Total expenditures	 <u>15,241,855</u>	 <u>100.01%</u>	 <u>14,402,717</u>	 <u>100.00%</u>
 Change in net position	 <u>\$ (25,994)</u>		 <u>\$ (181,442)</u>	

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

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

**Financial Analysis (Continued)**

**Governmental Activities**

**Net Cost of Governmental Activities**

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

Table 3  
Net Cost of Governmental Activities

	<u>2017</u>		<u>2016</u>	
	Total Cost <u>of Services</u>	Net Cost <u>of Services</u>	Total Cost <u>of Services</u>	Net Cost <u>of Services</u>
Child education	\$ 8,432,121	\$ (34,169)	\$ 8,183,283	\$ (167,469)
Community services programs	1,647,922	(3,211)	1,526,318	(33,703)
Emergency shelter programs	142,599	(23)	141,353	(104)
Nutrition programs	331,355	(7)	321,100	(3)
Senior programs	74,978	(2,070)	78,245	(8,592)
Weatherization/ energy assistance	4,599,107	(1,897)	4,140,723	(1,109)
Corporate activities	<u>13,773</u>	<u>(13,860)</u>	<u>11,695</u>	<u>(10,454)</u>
Totals	<u>\$ 15,241,855</u>	<u>\$ (55,237)</u>	<u>\$ 14,402,717</u>	<u>\$ (221,434)</u>

**Governmental Funds**

UETHDA completed the year with a total governmental fund balance of \$918,868 of which \$1,065,836 is general fund balance and a deficit of \$146,968 is special revenue fund balance. This represents an increase of \$4,100 in general fund balance from \$1,061,736 as of June 30, 2016 and an decrease of \$376,717 in special revenue fund balance from \$229,749 as of June 30, 2016.

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 2017 fiscal year, UETHDA had invested a cumulative amount of \$3,652,428 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 \$65,850. Additional information about capital assets can be found in Note 6, page 22. Total accumulated depreciation on these assets was \$2,906,706.

- UETHDA recognized depreciation expense of \$177,759 for governmental activities (see page 16).

Table 4  
Capital Assets

	<u>2017</u>	<u>2016</u>	<u>% Change</u>
Land	\$ 21,000	\$ 21,000	0.00%
Buildings and capital improvements	966,306	966,306	0.00%
Furniture and equipment	939,802	923,402	1.78%
Vehicles	1,725,320	1,807,570	-4.55%
Accumulated depreciation	<u>(2,906,706)</u>	<u>(2,976,735)</u>	-2.35%
Totals	<u>\$ 745,722</u>	<u>\$ 741,543</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 5.78% for the year ended June 30, 2016. A rate of 5.78% will apply to subsequent periods as a provisional rate until amended.

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

**Financial Analysis (Continued)**

**Commodities**

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

**Total Revenue**

Direct federal grants and federal "flow through" grants with the State of Tennessee account for approximately 99% of UETHDA's total funding. The most significant source of UETHDA's grant revenue, approximately 57% 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, 2017

## ASSETS

## Current Assets

Cash	\$	5,956
Restricted cash		434,355
Receivables		
Due from grantor agencies		1,133,450
Other accounts receivable		6,105
Investments		64,364
Prepaid expenses		48,161
Inventory - commodity food		44,171

Total current assets		<u>1,736,562</u>
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## Capital Assets, Net

		<u>745,722</u>
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Total assets	\$	<u><u>2,482,284</u></u>
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## DEFERRED OUTFLOW OF RESOURCES

Deferred outflows related to pensions	\$	<u>996,911</u>
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## LIABILITIES

## Current Liabilities

Accounts payable	\$	194,059
Accrued payroll and related expenses		179,348
Accrued annual leave		170,401
Grant funds received in advance		44,171

Total current liabilities		<u>587,979</u>
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## Long-Term Liabilities

Accrued annual leave		26,287
Net pension liability		628,615

Total long-term liabilities		<u>654,902</u>
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Total liabilities	\$	<u><u>1,242,881</u></u>
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## DEFERRED INFLOW OF RESOURCES

Deferred inflows related to pensions	\$	<u>269,081</u>
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## NET POSITION

Investment in capital assets	\$	745,722
Temporarily restricted to grant purpose		56,460
Unrestricted		1,165,051

Total net position	\$	<u><u>1,967,233</u></u>
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## UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.

## Balance Sheet - Governmental Funds

June 30, 2017

	General	Special Revenue	Totals
<b>ASSETS</b>			
Cash	\$ 5,956	\$ -	\$ 5,956
Restricted cash	-	434,355	434,355
Receivables:			
Due from grantor agencies	-	1,133,450	1,133,450
Other accounts receivable	1,516	4,589	6,105
Due from other funds	959,423	-	959,423
Investments	64,364	-	64,364
Prepaid expenses	35,055	13,106	48,161
Inventory - commodity food	-	44,171	44,171
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,066,314</u>	<u>\$ 1,629,671</u>	<u>\$ 2,695,985</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 478	\$ 193,581	\$ 194,059
Accrued payroll and related expenses	-	179,348	179,348
Due to other funds	-	959,423	959,423
Deferred revenues	-	400,116	400,116
Grant funds received in advance	-	44,171	44,171
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>478</u>	<u>1,776,639</u>	<u>1,777,117</u>
<b>FUND BALANCES</b>			
Nonspendable			
Inventory	-	44,171	44,171
Prepaid expenses	35,055	13,106	48,161
Restricted	-	195,871	195,871
Unassigned	<u>1,030,781</u>	<u>(400,116)</u>	<u>630,665</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>1,065,836</u>	<u>(146,968)</u>	<u>918,868</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 1,066,314</u>	<u>\$ 1,629,671</u>	<u>\$ 2,695,985</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
 Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Position  
 June 30, 2017

Total fund balance - governmental funds	\$	918,868
<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	\$	3,652,428
Less governmental accumulated depreciation		<u>2,906,706</u>
Net capital assets		745,722
<p>Revenues in the statement of activities that do not provide current financial are deferred in the governmental funds. Amounts reported in the statement of net position but deferred in the governmental funds are:</p>		
Due from grantor agencies		400,116
<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		(196,688)
<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		996,911
Deferred inflows of resources related to pensions		<u>(269,081)</u>
Net deferral of resources		727,830
Net pension liabilities of the agency represent long-term liabilities which will be reported in the governmental funds as they mature.		<u>(628,615)</u>
Total net position - governmental activities	\$	<u><u>1,967,233</u></u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds  
Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Total
<b>Revenue</b>			
Grants	\$ -	\$ 14,339,012	\$ 14,339,012
Local contributions	159	94,772	94,931
Other	16,782	7,387	24,169
Interest income	2,238	2	2,240
Commodities	-	355,393	355,393
Total revenue	<u>19,179</u>	<u>14,796,566</u>	<u>14,815,745</u>
<b>Expenditures</b>			
Salaries	-	4,268,539	4,268,539
Fringe benefits	2,265	1,579,786	1,582,051
Travel	-	191,736	191,736
Communications	925	156,559	157,484
Utilities	114	51,928	52,042
Office supplies	(5,456)	55,254	49,798
Program supplies	3,374	1,175,529	1,178,903
Maintenance and repairs	1,701	330,169	331,870
Rental buildings	-	216,752	216,752
Contractual	591	316,960	317,551
Delegate agencies	-	1,604,844	1,604,844
Equipment rent	399	35,545	35,944
Equipment (sensitive minor)	-	76,626	76,626
Equipment and capital improvements	5,729	176,209	181,938
Insurance	26	63,239	63,265
Advertising	605	12,908	13,513
Direct client assistance	1,475	3,697,638	3,699,113
Other	652	32,863	33,515
Training	400	55,923	56,323
Indirect costs	2,279	718,883	721,162
Commodities distributed	-	355,393	355,393
Total expenditures	<u>15,079</u>	<u>15,173,283</u>	<u>15,188,362</u>
Excess (deficiency) of revenue over expenditures	4,100	(376,717)	(372,617)
Fund balances, beginning of year	<u>1,061,736</u>	<u>229,749</u>	<u>1,291,485</u>
Fund balances, end of year	<u>\$ 1,065,836</u>	<u>\$ (146,968)</u>	<u>\$ 918,868</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, 2017

Net change in fund balances - total governmental funds	\$	(372,617)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>The acquisition of capital assets is reported in the governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.</p>		
Capital outlay reported in governmental fund statements	\$	181,938
Depreciation expense reported in the statement of activities		<u>(177,759)</u>
Amount by which depreciation is less than capital acquisitions in the current period		4,179
<p>Receivables are reported in the governmental funds if they provide current financial resources to liquidate liabilities of the current period. The statement of activities reports the receivables earned during the year.</p>		
Deferred revenues		400,116
<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		(183,781)
Accrued vacation and personal leave paid		<u>170,401</u>
Net accrued vacation and personal leave (earned)		(13,380)
<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		(306,172)
Pension expense recognized in the governmental funds		<u>261,880</u>
Net difference in the amount of pension expense recognized		<u>(44,292)</u>
Change in net position - statement of activities	\$	<u>(25,994)</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Notes to Financial Statements  
June 30, 2017

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>
Land	\$ 5,000	None	N/A
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 statement of net position represents accrued annual leave for all UETHDA employees at June 30, 2017. Grant funds reimburse the special revenue fund as the leave is earned.

**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 \$1,604,844 for the year ended June 30, 2017 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, 2017, was 5.78%.

**New Accounting Pronouncements** - During the fiscal year ended June 30, 2017, UETHDA adopted GASB Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 82 clarifies certain issues that have been raised on financial accounting and reporting of pension plans. The adoption of this GASB statement did not result in a restatement of UETHDA's beginning net position. Other GASB statements became effective for the year ended June 30, 2017; however they were not applicable to UETHDA's operations and therefore had no effect on UETHDA's financial accounting and reporting.

**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, 2017, consisted of the following:

	Bank Balance	Carrying Value
Cash with financial institutions	\$ 75,642	\$ 5,956
Cash with financial institutions - restricted	434,355	434,355
Total cash	\$ 509,997	\$ 440,311

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

NOTE 2 - CASH AND INVESTMENTS (Continued)

**Investments**

**Prevailing Law** - State statutes authorize UETHDA to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; certificates of deposit or other evidence of deposit at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurers' Investment Pool; and bonds of any state or political subdivision subject to qualification.

**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.

**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.

**Concentration of Credit Risk** - UETHDA places no limit on the amount it may invest in any one issuer. UETHDA's only investment at June 30, 2017 was a certificate of deposit issued by Citizens Bank which matures October 24, 2018.

NOTE 3 - RESTRICTED CASH

UETHDA's restricted cash balance at June 30, 2017, consisted of the following:

Payroll trust fund	\$ 376,036
Various local restricted funds	<u>58,319</u>
Total	<u>\$ 434,355</u>

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.

NOTE 4 - RECEIVABLE - DUE FROM GRANTOR AGENCIES

Receivables from grantor agencies at June 30, 2017, consisted of the following:

Federal	\$ 247,468
State	<u>885,982</u>
Total	<u>\$ 1,133,450</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

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

NOTE 4 - RECEIVABLE - DUE FROM GRANTOR AGENCIES (Continued)

At the end of the current fiscal year, the components of deferred revenue and unearned revenue reported in the Special Revenue fund were as follows:

Type of Revenue	(Available)		
	Unavailable	Unearned	Deferred
State grant funding	\$ 400,116	\$ -	\$ 400,116
Federal grant funding	(44,171)	44,171	-
Government-wide unearned revenues		\$ 44,171	
Special revenue fund deferred revenues			\$ 400,116

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, 2017 was \$44,171.

NOTE 6 - CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017, 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	16,400		939,802
Vehicles	1,807,570	165,538	(247,788)	1,725,320
Total capital assets being depreciated	3,697,278	181,938	(247,788)	3,631,428
Less accumulated depreciation for:				
Buildings and capital improvements	526,840	46,845	-	573,685
Furniture and equipment	841,694	60,699	-	902,393
Vehicles	1,608,201	70,215	(247,788)	1,430,628
Total accumulated depreciation	2,976,735	177,759	(247,788)	2,906,706
Total capital assets being depreciated, net of accumulated depreciation	720,543	4,179	-	724,722
Governmental activities capital assets, net of accumulated depreciation	\$ 741,543	\$ 4,179	\$ -	\$ 745,722

Depreciation expense for the year ended June 30, 2017, was \$177,759. This total is broken out by program as follows: Child education \$173,794, Community services programs \$3,400, and Local \$565.

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

NOTE 7 - LONG-TERM LIABILITIES

Long-term liability balances and activity for the year ended June 30, 2017, consisted of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Accrued annual leave	\$ 183,309	\$ 13,379	\$ (170,401)	\$ 26,287
Net pension liability	<u>408,819</u>	<u>219,796</u>	<u>-</u>	<u>628,615</u>
 Total governmental activities long-term liabilities	 <u>\$ 592,128</u>	 <u>\$ 233,175</u>	 <u>\$ (170,401)</u>	 <u>\$ 654,902</u>

NOTE 8 - NET POSITION TEMPORARILY RESTRICTED TO GRANT PURPOSE

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

Community Services Local	\$ 32,935
Housing Local	18,977
Reading is Fundamental Donations	<u>4,548</u>
 Total	 <u>\$ 56,460</u>

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 Reading is Fundamental donations are to be used to purchase books for children. Senior Services Local uses contributions to support the RSVP program.

NOTE 9 - 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](http://www.treasury.tn.gov/tcrs).

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

NOTE 9 - 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, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	76
Inactive employees entitled to but not yet receiving benefits	309
Active employees	216
	601

**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, 2017, employer contributions for UETHDA were \$264,771 based on a rate of 5.93% 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, 2016, 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, 2016 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 9 - 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, 2016 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 9 - 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, 2015	\$ 11,378,609	\$ 10,969,790	\$ 408,819
Changes for the year:			
Service cost	364,632	-	364,632
Interest	862,261	-	862,261
Expected vs. actual experience	(336,351)	-	(336,351)
Contributions- employer	-	169,772	(169,772)
Contributions- employee	-	212,217	(212,217)
Net investment income	-	289,724	(289,724)
Benefit payments, including refunds	(492,857)	(492,857)	-
Administrative expense	-	(15,605)	15,605
Other changes	-	14,638	(14,638)
Net changes	<u>397,685</u>	<u>177,889</u>	<u>219,796</u>
Balance at June 30, 2016	<u>\$ 11,776,294</u>	<u>\$ 11,147,679</u>	<u>\$ 628,615</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)	\$ 2,284,300	\$ 628,615	\$ (714,750)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

**Pension Expense** - For the year ended June 30, 2017, UETHDA recognized pension expense of \$306,172.

**Deferred Outflows of Resources and Deferred Inflows of Resources** - For the year ended June 30, 2017, 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	\$ 361,192	\$ (269,081)
Projected vs. actual earnings on investments	370,948	-
Contributions subsequent to the measurement date of June 30, 2016	<u>264,771</u>	<u>-</u>
	<u>\$ 996,911</u>	<u>\$ (269,081)</u>

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

NOTE 9 - RETIREMENT PLAN (Continued)

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2016”, 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:	
2018	\$ 111,962
2019	111,962
2020	200,643
2021	38,492
2022	-
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, 2017, UETHDA reported a payable of \$35,046 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

NOTE 10 - 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 57% of revenues were Head Start monies received under a grant from the U.S. Department of Health and Human Services. The other 42% 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 11 - 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 12 - OPERATING LEASE AGREEMENTS

UETHDA leases various facilities for operation of its programs. Rentals paid for real estate for the year ended June 30, 2017 totaled \$135,422. 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 13 - 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, 2017

Last Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total pension liability			
Service cost	\$ 337,222	\$ 342,550	\$ 364,632
Interest	713,169	787,308	862,261
Differences between actual and expected experience	395,318	338,444	(336,351)
Benefit payments, including refunds of employee contributions	<u>(435,857)</u>	<u>(489,162)</u>	<u>(492,857)</u>
Net change in total pension liability	1,009,852	979,140	397,685
Total pension liability- beginning	<u>9,389,617</u>	<u>10,399,469</u>	<u>11,378,609</u>
Total pension liability- ending	<u>\$ 10,399,469</u>	<u>\$ 11,378,609</u>	<u>\$ 11,776,294</u>
Plan fiduciary net position			
Contributions- employer	\$ 303,861	\$ 172,693	\$ 169,772
Contributions- employee	191,350	215,869	212,217
Net investment income	1,528,488	329,866	289,724
Benefit payments, including refunds of employee contributions	(435,857)	(489,162)	(492,857)
Administrative expense	(7,443)	(10,790)	(15,605)
Other changes	<u>-</u>	<u>-</u>	<u>14,638</u>
Net change in plan fiduciary net position	1,580,399	218,476	177,889
Plan fiduciary net position- beginning	<u>9,170,915</u>	<u>10,751,314</u>	<u>10,969,790</u>
Plan fiduciary net position- ending	<u>\$ 10,751,314</u>	<u>\$ 10,969,790</u>	<u>\$ 11,147,679</u>
Net pension (asset) liability	<u>\$ (351,845)</u>	<u>\$ 408,819</u>	<u>\$ 628,615</u>
Plan fiduciary net position as a percentage of total pension liability	103.38%	96.41%	94.66%
Covered-employee payroll	\$ 3,826,968	\$ 4,317,321	\$ 4,244,291
Net pension (asset) liability as a percentage of covered-employee payroll	-9.19%	9.47%	14.81%

\* 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.

See independent auditors' report.

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, 2017

Last Fiscal Year Ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Actuarially determined contribution	\$ 303,861	\$ 172,693	\$ 169,771	\$ 264,771
Contributions in relation to the actuarially determined contribution	<u>303,861</u>	<u>172,693</u>	<u>169,771</u>	<u>264,771</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,826,968	\$ 4,317,321	\$ 4,244,291	\$ 4,464,928
Contributions as a percentage of covered-employee payroll	7.94%	4.00%	4.00%	5.93%

\* 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.

See independent auditors' report.

30 See notes to the required supplementary information.

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Notes to the Required Supplementary Information  
June 30, 2017

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	Varies by 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, if provided

## Additional Information

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Schedule of Program Activity  
Year Ended June 30, 2017

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	06/30/16 Receivable (Grant Funds Received in Advance)	2016/2017 Receipts	2016/2017 Other Revenue	Expenditures	Excess of Expenditures Over Revenue	06/30/17 Grant Funds Received in Advance	06/30/17 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	07/01/16-06/30/17	N/A	\$ (117,579)	\$ 281,985	\$ -	\$ 355,393	\$ -	\$ 44,171	\$ -
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	37,785	115,565	-	77,780	-	-	-
10.558	17-03-47-55965-00-9	Child and Adult Care Food Program (CCFP)	Tennessee Department of Human Services	10/01/16-09/30/17	N/A	-	237,624	-	253,568	-	-	15,944
		Subtotal 10.558				37,785	353,189	-	331,348	-	-	15,944
10.568	54390	Emergency Food Assistance Program	Tennessee Department of Agriculture	10/01/15-08/31/16	94,000	32,650	39,068	-	6,418	-	-	-
10.568	62453	Emergency Food Assistance Program	Tennessee Department of Agriculture	09/01/16-09/30/16	7,433	-	7,433	-	7,433	-	-	-
10.568	62675	Emergency Food Assistance Program	Tennessee Department of Agriculture	10/01/16-08/31/17	92,000	-	19,217	50	78,889	-	-	59,622
		Subtotal 10.568				32,650	65,718	50	92,740	-	-	59,622
81.042	WAP-14-15	Weatherization Assistance for Low-Income Persons	Tennessee Housing Development Agency	11/01/14-08/31/16	389,903	76,691	150,067	-	73,376	-	-	-
81.042	WAP-14-15	Weatherization Assistance for Low-Income Persons	Tennessee Housing Development Agency	07/01/16-06/30/17	454,014	-	131,507	-	302,719	-	-	171,212
		Subtotal 81.042				76,691	281,574	-	376,095	-	-	171,212
Department of Health and Human Services												
93.558	N/A	Temporary Assistance for Needy Families (Child Care Certificate)	Tennessee Department of Human Services	01/01/17-12/31/17	N/A	-	3,367	438	3,805	-	-	-
93.568	LIHEAP-16-19	Low-Income Home Energy Assistance Program	Tennessee Department of Human Services	09/30/15-09/29/16	3,460,321	325,733	346,995	-	21,262	-	-	-
93.568	LIHEAP-16B-19	Low-Income Home Energy Assistance Program	Tennessee Housing Development Agency	07/01/16-06/30/17	4,129,942	-	3,617,411	-	3,870,845	-	-	253,434
93.568	LWx-16-15	Low-Income Home Energy Assistance Program	Tennessee Housing Development Agency	01/01/16-09/30/17	469,014	23,426	205,688	-	329,122	-	-	146,860
		Subtotal 93.568				349,159	4,170,094	-	4,221,229	-	-	400,294
93.569	Z-16-49120	Community Services Block Grant	Tennessee Department of Human Services	07/01/15-06/30/16	1,265,610	137,935	137,935	-	-	-	-	-
93.569	Z-17-49120	Community Services Block Grant	Tennessee Department of Human Services	07/01/16-06/30/17	1,229,301	-	935,006	7,136	1,181,052	-	-	238,910
		Subtotal 93.569				137,935	1,072,941	7,136	1,181,052	-	-	238,910

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
 Schedule of Program Activity  
 Year Ended June 30, 2017

CFDA Number	Grant Number	Program Name	Grantor Agency	Program Period	Program or Award Amount	06/30/16 Receivable (Grant Funds Received in Advance)	2016/2017 Receipts	2016/2017 Other Revenue	Expenditures	Excess of Expenditures Over Revenue	06/30/17 Grant Funds Received in Advance	06/30/17 Receivable
ASSISTANCE PROGRAMS AS IDENTIFIED IN THE CATALOG OF FEDERAL DOMESTIC ASSISTANCE (Continued)												
Department of Health and Human Services (Continued)												
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	\$ 185,386	\$ 4,714,473	\$ 2,254	\$ 4,531,341	\$ -	\$ -	\$ -
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	-	41,804	-	41,804	-	-	-
93.600	N/A	In-Kind Contributions	N/A	01/01/16-12/31/16	2,034,690	-	-	1,075,976	1,075,976	-	-	-
93.600	04CH4688/04	Head Start Full-Year, Part-Day	U.S. Dept. of Health and Human Services	01/01/17-12/31/17	9,212,773	-	3,552,391	900	3,775,344	-	-	222,053
93.600	04CH4688/04	Head Start Training and Technical Assistance	U.S. Dept. of Health and Human Services	01/01/17-12/31/17	90,372	-	48,873	-	48,873	-	-	-
93.600	N/A	In-Kind Contributions	N/A	01/01/17-12/31/17	2,325,787	-	-	972,425	972,425	-	-	-
		Subtotal 93.600				185,386	8,357,541	2,051,555	10,445,763	-	-	222,053
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	(16,126)	2	-	16,128	-	-	-
Corporation for National and Community Service												
94.002	16SRSTN002	Retired Senior Volunteer Program	Corp. for National and Community Service	04/01/16-03/31/17	52,312	2,103	40,485	-	38,382	-	-	-
94.002	N/A	In-Kind Contributions	N/A	04/01/16-03/31/17	15,054	-	-	11,290	11,290	-	-	-
94.002	16SRSTN002	Retired Senior Volunteer Program	Corp. for National and Community Service	04/01/17-03/31/18	52,312	-	14,223	-	16,877	-	-	2,654
94.002	N/A	In-Kind Contributions	N/A	04/01/17-03/31/18	15,054	-	-	3,764	3,764	-	-	-
		Subtotal 94.002				2,103	54,708	15,054	70,313	-	-	2,654
Department of Homeland Security												
97.024	33-763400-005	Emergency Food & Shelter	United Way National Board - Carter Co.	11/01/15-05/31/17	11,800	-	5,900	-	11,800	-	-	5,900
97.024	33-768600-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Hancock Co.	11/01/15-03/31/17	4,317	-	4,317	-	4,317	-	-	-
97.024	33-769200-004	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Hawkins Co.	11/01/15-03/31/17	17,288	-	8,644	-	17,288	-	-	8,644
97.024	33-771000-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Johnson Co.	09/01/15-03/31/17	7,571	-	3,785	-	7,571	-	-	3,786
97.024	33-779800-001	Emergency Food & Shelter	U.S. Dept. of Homeland Security-Unicoi Co.	11/01/15-03/31/17	8,862	-	4,431	-	8,862	-	-	4,431
		Subtotal 97.024				-	27,077	-	49,838	-	-	22,761
		Total Federal Financial Assistance				688,004	14,668,196	2,074,233	17,143,704	-	44,171	1,133,450

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Schedule of Program Activity  
Year Ended June 30, 2017

<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>06/30/16 Receivable (Grant Funds Received in Advance)</u>	<u>2016/2017 Receipts</u>	<u>2016/2017 Other Revenue</u>	<u>Expenditures</u>	<u>Excess of Expenditures Over Revenue</u>	<u>06/30/17 Grant Funds Received in Advance</u>	<u>06/30/17 Receivable</u>
OTHER ASSISTANCE												
N/A	N/A	State Appropriated	State of TN	07/01/16-06/30/17	\$ 25,050	\$ -	\$ 25,050	\$ -	\$ 25,050	\$ -	\$ -	\$ -
N/A	N/A	IDA Contribution - #4	Donations	07/01/12-06/30/17	N/A	-	-	2	16,135	(16,133)	-	-
N/A	N/A	Housing	Donations	07/01/16-06/30/17	N/A	-	-	20,000	13,938	6,062	-	-
		Total Other Assistance				-	25,050	20,002	55,123	(10,071)	-	-
		Total - Special Revenue Fund				688,004	14,693,246	2,094,235	17,198,827	(10,071)	44,171	1,133,450
GENERAL AND LOCAL FUND ACTIVITY												
		Agency Operations	Donations, Interest Income			-	-	90,560	52,990	37,570	-	-
		TOTALS				\$ 688,004	\$ 14,693,246	\$ 2,184,795	\$ 17,251,817	\$ 27,499	\$ 44,171	\$ 1,133,450

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
 Schedule of Program Activity  
 Year Ended June 30, 2017

Note: Included in other revenue is in-kind contributions required by grant awards. In-kind is recorded at fair 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	\$ (688,004)	Expenditures	\$ 17,251,817
Current grant receipts	14,693,246	In-kind contributions	<u>(2,063,455)</u>
Current grant funds received in advance	(44,171)		
Current grant receivable	1,133,450		
Deferred revenues	<u>(400,116)</u>		
Net grant and commodity revenue	14,694,405		
Other revenue	2,184,795		
In-kind	<u>(2,063,455)</u>		
 Total revenue per combined statement of revenue, expenditures, and changes in fund balances (see page 15)	 <u>\$ 14,815,745</u>	 Total expenditures per combined statement of revenue, expenditures, and changes in fund balances (see page 15)	 <u>\$ 15,188,362</u>

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Federal Expenditures
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
Food Distribution Cluster		
(Passed-Through Tennessee Department of Agriculture)		
The Emergency Food Assistance Program (Food Commodities) (Noncash assistance)	10.569	\$ <u>355,393</u>
(Passed-Through Tennessee Department of Agriculture)		
The Emergency Food Assistance Program	10.568	6,418
The Emergency Food Assistance Program	10.568	7,433
The Emergency Food Assistance Program	10.568	<u>78,839</u>
Subtotal 10.568		<u>92,690</u>
Subtotal Food Distribution Cluster		<u>448,083</u>
(Passed-Through Tennessee Department of Human Services)		
Child and Adult Care Food Program	10.558	77,780
Child and Adult Care Food Program	10.558	<u>253,568</u>
Subtotal 10.558		<u>331,348</u>
<b>U.S. DEPARTMENT OF ENERGY</b>		
(Passed-Through Tennessee Housing Development Agency)		
Weatherization Assistance for Low-Income Persons	81.042	73,376
Weatherization Assistance for Low-Income Persons	81.042	<u>302,719</u>
Subtotal 81.042		<u>376,095</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>		
(Passed-Through Tennessee Department of Human Services)		
Temporary Assistance for Needy Families (Child Care Certificate Program)	93.558	<u>3,367</u>
(Passed-Through Tennessee Housing Development Agency)		
Low-Income Home Energy Assistance Program	93.568	21,262
Low-Income Home Energy Assistance Program	93.568	3,870,845
Low-Income Home Energy Assistance Program	93.568	<u>329,122</u>
Subtotal 93.568		<u>4,221,229</u>
(Passed-Through Tennessee Department of Human Services)		
Community Services Block Grant	93.569	<u>1,173,916</u>
Direct Grant		
Head Start Full-Year, Part-Day (includes delegate expenses of \$884,230)	93.600	4,529,087
Head Start Training and Technical Assistance (includes delegate expenses of \$11,028)	93.600	41,804
Head Start Full-Year, Part-Day (includes delegate expenses of \$700,906)	93.600	3,774,444
Head Start Training and Technical Assistance (includes delegate expenses of \$8,680)	93.600	<u>48,873</u>
Subtotal 93.600		<u>8,394,208</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
Direct Grant		
Assets for Independence Demonstration Program (Individual Development Accounts)	93.602	<u>16,128</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Direct Grant		
Retired Senior Volunteer Program	94.002	\$ 38,382
Retired Senior Volunteer Program	94.002	<u>16,877</u>
Subtotal 94.002		<u>55,259</u>
DEPARTMENT OF HOMELAND SECURITY		
Direct Grant		
Emergency Food and Shelter	97.024	4,317
Emergency Food and Shelter	97.024	17,288
Emergency Food and Shelter	97.024	7,571
Emergency Food and Shelter	97.024	8,862
(Passed-Through United Way National)		
Emergency Food and Shelter	97.024	<u>11,800</u>
Subtotal 97.024		<u>49,838</u>
TOTAL FEDERAL PROGRAMS		<u>\$ 15,069,471</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, 2017

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, 2016 to June 30, 2017. 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, 2017 was 5.78%.

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	\$ 1,041,894
Johnson County Board of Education	562,950
Total	\$ 1,604,844

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	04CH4688/03	04CH4688/04	Total
Carter County Head Start	\$ 97,198	\$ 153,176	\$ 250,374
Johnson County Board of Education	47,046	88,258	135,304
Subtotal	144,244	241,434	385,678
UETHDA	931,732	730,991	1,662,723
Total Head Start in-kind	\$ 1,075,976	\$ 972,425	\$ 2,048,401

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, 2017, and the related notes to the financial statements, which collectively comprise UETHDA's basic financial statements and have issued our report thereon dated December 13, 2017.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UETHDA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **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  
December 13, 2017

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 UETHDA's major federal program for the year ended June 30, 2017. UETHDA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with 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 UETHDA's major federal program 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 the 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 its major federal program for the year ended June 30, 2017.

**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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Rodefer Mosse & Co, PLLC*

Kingsport, Tennessee  
December 13, 2017

UPPER EAST TENNESSEE HUMAN DEVELOPMENT AGENCY, INC.  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2017

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: UNMODIFIED

	YES	NO
Internal control over financial reporting:		
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

	YES	NO
Internal control over major programs:		
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:		\$ 750,000

The major federal program for Upper East Tennessee Human Development Agency, Inc. for the fiscal year ended June 30, 2017 is:

Program Name	CFDA
Head Start	93.600

II. Findings and Questioned Costs - Financial Statement Audit

There were no questioned costs identified during the year ended June 30, 2017.

There were no findings deemed to be material weaknesses or significant deficiencies in internal control relative to financial reporting.

II. Findings and Questioned Costs - Major Programs

There were no questioned costs identified during the year ended June 30, 2017.

There were no findings deemed to be material weaknesses or significant deficiencies in internal control relative to the major program.

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