

CLINCH-POWELL RESOURCE CONSERVATION
& DEVELOPMENT COUNCIL, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
YEAR ENDED SEPTEMBER 30, 2017

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CLINCH-POWELL RESOURCE CONSERVATION
& DEVELOPMENT COUNCIL, INC.

ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF

AS OF SEPTEMBER 30, 2017

BOARD OF DIRECTORS

Cherry Acuff	Chairperson
Nancy Barker	Board Member
Cody Brown	Board Member
Gloria Lee	Board Member
David Lietzke	Board Member
Sheldon Livesay	Vice Chairperson
Joe McNew	Board Member
Stewart Oakes	Board Member
Floyd Rhea	Secretary/Treasurer
Bob Ripley	Board Member
Steve Roark	Board Member
Doug Smith	Board Member
Kira Smith-Ludwig	Board Member
Perry Stevens	Board Member
John Vasquez	Board Member

EXECUTIVE STAFF

Lindy Turner	Executive Director
Sara Knight	Financial Supervisor

Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

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Member of the AICPA Peer Review
Program
Member of the Tennessee Society
of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clinch-Powell Resource Conservation
& Development Council, Inc.
Rutledge, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Clinch-Powell Resource Conservation & Development Council, Inc., a nonprofit organization, and its wholly owned for profit subsidiary Clinch Powell Construction Company, which comprise the consolidated statement of financial position as of September 30, 2017, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clinch-Powell Resource Conservation & Development Council, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report February 13, 2018, on our consideration of Clinch-Powell Resource Conservation & Development Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clinch-Powell Resource Conservation & Development Council, Inc.'s internal control over financial reporting and compliance.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
February 13, 2018

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017

ASSETS

Cash and Cash Equivalents	\$	628,030
Grants Receivable		341,298
Other Receivables		145,110
Prepaid Expenses		23,393
Inventory		20,864
Loans Receivable, Net		1,116,017
Property and Equipment, Net		3,594,492
Land and Development Costs		1,175,917
Deposits		6,809
Beneficial Interest in Assets Held by Others		134,951
		134,951
 TOTAL ASSETS	 \$	 7,186,881
		7,186,881

LIABILITIES AND NET ASSETS

Line of Credit	\$	600,000
Accounts Payable		163,118
Accrued Payroll Expenses and Taxes		62,762
Other Current Liabilities		85,732
Easement Contract Liabilities		62,929
Long Term Debt		1,019,816
		1,019,816
 TOTAL LIABILITIES		 1,994,357
		1,994,357
 NET ASSETS		
Unrestricted		3,115,544
Temporarily restricted		2,016,980
Permanently restricted		60,000
		60,000
 TOTAL NET ASSETS		 5,192,524
		5,192,524
 TOTAL LIABILITIES NET ASSETS	 \$	 7,186,881
		7,186,881

The accompanying notes are an integral part of these financial statements

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 251	\$ 10,261	\$ -	\$ 10,512
Grant Income	-	1,406,303	-	1,406,303
In-Kind Contributions	-	737,421	-	737,421
Fees for Services	395,541	-	-	395,541
Rent	171,747	-	-	171,747
Store and Other Sales	321,037	-	-	321,037
Interest and Dividend Income	10,370	-	-	10,370
Home Program Sales Proceeds	428,512	306,283	-	734,795
Change in Beneficial Interest	-	12,247	-	12,247
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of Program Restrictions	2,496,876	(2,496,876)	-	-
Total Support and Revenue	\$ 3,824,334	\$ (24,361)	\$ -	\$ 3,799,973
EXPENSES AND LOSSES				
Program	\$ 3,468,712	\$ -	\$ -	\$ 3,468,712
Management and General	268,824	-	-	268,824
Fund Raising	148	-	-	148
Total Expenses	3,737,684	-	-	3,737,684
Total Expenses and Losses	3,737,684	-	-	3,737,684
CHANGE IN NET ASSETS	86,650	(24,361)	-	62,289
NET ASSETS, beginning of year	3,028,894	2,041,341	60,000	5,130,235
NET ASSETS, end of year	\$ 3,115,544	\$ 2,016,980	\$ 60,000	\$ 5,192,524

The accompanying notes are an integral part of these financial statements

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Program Services	Supporting Services		Total
	Program Services	Management and General	Fund Raising	
Salaries, Benefits and Payroll Taxes	\$ 1,176,492	\$ 183,952	\$ -	\$ 1,360,444
Construction Costs	1,891,039	-	-	1,891,039
Contract Services	480,260	-	-	480,260
Supplies and Materials	465,677	8,833	112	474,622
Cost of Store and Restaurant Sales	146,022	-	-	146,022
Landowner Payments	95,696	-	-	95,696
Insurance	33,835	34,606	-	68,441
Utilities and Phone	51,343	6,291	-	57,634
Other Expenses	49,589	393	-	49,982
Maintenance	45,342	1,567	-	46,909
Travel	16,104	7,316	-	23,420
Professional Fees	-	12,250	-	12,250
Printing and Copying	5,858	1,894	-	7,752
Donations and Grants	7,423	-	-	7,423
Promotional	7,035	-	-	7,035
Rent	4,800	-	-	4,800
Meetings	2,538	1,110	-	3,648
Dues and Subscriptions	-	1,893	-	1,893
Postage	392	1,023	36	1,451
Bad Debt Expense	203	-	-	203
Less: Capitalized Costs	(1,105,076)	-	-	(1,105,076)
Total Expenses before Depreciation	3,374,572	261,128	148	3,635,848
Depreciation	94,140	7,696	-	101,836
	<u>\$ 3,468,712</u>	<u>\$ 268,824</u>	<u>\$ 148</u>	<u>\$ 3,737,684</u>

The accompanying notes are an integral part of these financial statements

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 62,289
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	101,836
Gain on Disposition	(19,344)
Change in Discount on Loans Receivable	(2,000)
Change in Allowance related to Loans Receivable	31,382
(Increase) decrease in assets:	
Grants Receivable	(135,991)
Other Receivables	(139,098)
Prepaid Expenses	27,726
Inventory	(207)
Land and Development Costs	(1,105,076)
Deposits	7,498
Beneficial Interest in Assets Held by Others	(12,247)
Increase (decrease) in liabilities:	
Accounts payable	87,432
Accrued Payroll	2,711
Other liabilities	64,223
	(1,028,866)
 CASH USED FOR OPERATING ACTIVITIES	 <u>(1,028,866)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Cash paid for purchases of fixed assets	(5,750)
Proceeds from the Sale of Property	796,175
Receipts from Collections of Loans	163,711
Disbursements for Loans Made	(106,243)
	847,893
 CASH PROVIDED BY INVESTING ACTIVITIES	 <u>847,893</u>

Continued on Page 8

The accompanying notes are an integral part of these financial statements

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Continued from page 7

CASH FLOWS FROM FINANCING ACTIVITIES	
Easement Contract Payments	(38,429)
Additions to Easement Contracts	58,750
Principal Payments on Long Term Debt	<u>(92,175)</u>
 CASH USED FOR FINANCING ACTIVITIES	 <u>(71,854)</u>
 NET DECREASE IN CASH	 (252,827)
 CASH AT BEGINNING OF YEAR	 <u>880,857</u>
 CASH AT END OF YEAR	 <u><u>\$ 628,030</u></u>

The accompanying notes are an integral part of these financial statements

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

The Clinch-Powell Resource Conservation & Development Council, Inc. (the Council) was incorporated under the laws of the state of Tennessee in 1989 as a nonprofit corporation. One of the Council's purposes is to build strong communities, care for people, and protect natural resources in East Tennessee and surrounding areas. The Council is a Community Housing Development Organization (CHDO) and holds a Tennessee license for mortgage origination.

The Council submitted proposals and was awarded federal grants to construct homes for low to moderate income families. The housing program provides home ownership education and housing counseling, increases the supply of affordable housing, assists with upfront homeownership costs, matches homeowners with the best financing available and assists existing homeowners with renovation and repairs for safe, sanitary housing.

The Council was awarded federal grants through the State of Tennessee to purchase and renovate foreclosed properties in specified areas. These have been renovated and are available for rent.

The Council operates a large AmeriCorps program called Appalachia CARES under a federal grant in partnership with various school systems and community based groups. Appalachia CARES is a service-learning program that engages AmeriCorps members in direct service with students in primarily low income, rural school systems. The program provides students with authentic learning experiences in which they learn academic content in a real life, real world context.

Through its Clinch Powell Watershed Alliance, the Council works with landowners to protect and repair farmland and the watershed. By identifying conservation threats and stressors and designing and implementing best management practices to correct problem areas, pollution is abated, habitats are created and lands are restored.

The Council works to improve the economic vitality of the region by providing counseling and assistance in small business development as well as small business loans.

River Place on the Clinch has been developed by the Council to promote eco-tourism in the poorest county of the service area. It consists of a country store, restaurant, education center, rental cabins, and river adventure equipment, with additional development anticipated.

The Council maintains an administrative office in Rutledge, Tennessee, and is under the authority of a non-compensated Board of Directors whose members represent each county in the Council's project area. The Council is primarily funded by grants and by fees for providing services such as conducting environmental workshops and seminars.

Basis of Accounting - Accounting principles generally accepted in the United States of America require financial statements to be presented on the accrual basis of accounting. The financial statements and accounting records are prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Consolidation - The consolidated financial statements of the Council include its wholly owned taxable subsidiary – Clinch-Powell Construction Company, Inc. (CPCC). CPCC was formed to facilitate the Clinch-Powell Home Team building projects and to reduce insurance costs. All significant inter-company accounts and transactions have been eliminated in consolidation. The effects on the Council’s financial statements as a result of the consolidation are as follows:

Assets	\$ 35,000	increase
Liabilities	<u>(44,000)</u>	increase
Net Assets	<u>\$ (9,000)</u>	increase

Basis of Presentation - The Council is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, the Council considers all highly liquid investments with an initial maturity of three months or less and certificates of deposit to be cash equivalents.

Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Council reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Council reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over their estimated useful lives ranging from three to thirty-nine years. The cost of maintenance and repairs is expensed as incurred. Significant renewals and betterments are capitalized.

Purchased property is recorded at historical cost and capitalized if cost is material and life is over one year. Upon dissolution of the Council, assets purchased with grant funds would revert back to the grantor. Assets purchased with Council funds would be transferred to another non-profit organization with a similar purpose in accordance with state guidelines.

Unrestricted, Temporarily Restricted, and Permanently Restricted Net Assets - The Council reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. All temporarily restricted contributions and investment income, in which the restrictions are met in the same reporting period as the donations are received, are reported as unrestricted income. Investment income, gains, and losses are recorded as increases or decreases in unrestricted net assets, unless a donor or law temporarily or permanently restricts their use. Federal grant awards are classified as refundable advances until expended for the

purposes of the grants. Endowment contributions and investments are permanently restricted. Investment earnings available for distribution are recorded in unrestricted net assets.

Donated Services – Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Council.

Functional Expenses - Directly identifiable expenses are charged to programs and supporting services. An agreement to use 9.69% of direct costs for federal grant reporting for the year ended September 30, 2017, has been submitted for approval. Adjustments are made for expenses to grants which allow less than the 9.69% in their programs as indirect cost.

Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status - The Council is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Council has been classified as an exempt organization under Section 509(a)(1) that is not a private foundation. The Council's wholly owned for-profit subsidiary, Clinch Powell Construction Company, Inc. (CPCC) is a taxable entity and it, therefore, is subject to federal and state income taxes. CPCC files a separate income tax return. There was no current income tax expense for the year ended September 30, 2017. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of CPCC's assets and liabilities. Differences are primarily attributable to net operating loss carryforwards. There were no deferred tax assets or liabilities at September 30, 2017. The Council and CPCC adopted the authoritative guidance for the uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Council and CPCC performed an evaluation of uncertain tax positions for the year ended September 30, 2017, and determined that there were no matters that would require recognition in the financial statements or which may have any effect on its tax-exempt status. As of September 30, 2017, the council and CPCC are generally not subject to US Federal or State income tax examination by tax authorities for tax years before 2013. It is The Council and CPCC's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of September 30, 2017, The Council and CPCC had no accruals for interest and/or penalties.

Loans and Other Receivables – Interest income, if any, is recognized when earned in accordance with the accrual basis of accounting and the terms of the loan. Receivables are determined to be past due based on contractual terms. Past due balances are reviewed periodically and written off when determined to be uncollectable. Factors influencing management's judgment of collectability include historical losses and existing economic conditions. Loans are placed on nonaccrual when collection of interest is doubtful. Interest income on nonaccrual loans is recognized only to the extent cash payments are received. Loans may contain provisions under which a portion of the note is forgivable if certain conditions are met. The forgivable portion is included in the allowance for loan losses.

Real Estate Sales – Revenue from real estate sales is recognized using the full accrual method. Under the full accrual method, the entire gain on the sale is recognized at the date of sale.

Land Development Costs – Costs that clearly relate to land development projects are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on their relative fair value before development, and development costs are allocated based on their relative sales value. Interest costs, if any, are capitalized while development is in progress.

Inventory – Inventory of the general store at River Place is stated at the lower of cost or market, determined on the first-in first-out basis.

Advertising Costs – Advertising costs are expensed as incurred. Advertising expense for the year ended September 30, 2017 was \$6,703

Subsequent Events – The Council has evaluated subsequent events for potential recognition and/or disclosure in the September 30, 2017 financial statements through February 13, 2018, the date that the financial statements were available to be issued.

Note 2 - Cash and Cash Equivalents

The Council has various bank accounts with local financial institutions that at times result in a concentration of credit risk. The risk involved is the event of nonperformance by the financial institution. The Council had cash deposits in financial institutions in excess of the amounts insured by the Federal Depository Insurance Corporation at September 30, 2017, of approximately \$380,000, collateralized by FNMA and other securities held under a safekeeping pledge agreement for the benefit of the Council by an independent bank.

Certain cash balances are restricted for specific purposes as discussed in Note 11. A Certificate of Deposit is pledged as collateral as discussed in Note 10.

Note 3 – Other Receivables

Other receivables include primarily service fee income and are stated net of an allowance of \$11,754. No interest accrual is considered necessary for grants or other receivables. Collateral is not available or requested.

Note 4 – Loans Receivable

The Council provides low or no-interest loans to other entities and individuals under various loan programs. If the low interest rate is not mandated under government grants, and if it is below market, the value of below market loans is estimated using discounted cash flow analysis, based on current market interest rates for loans of this type. Loans are due over terms of five to thirty years. Loans are stated at

unpaid principal balances, less an allowance for forgivable and uncollectible portion, and unearned discounts.

There were no changes in the Council’s accounting policies during the year. There have been no purchases, sales, or reclassifications of financing receivables. The Allowance for Forgivable and Uncollectible Loans increased by during the year ended September 30, 2017. The Council individually reviews each loan balance to estimate the portion, if any, of the balance that will not be collected.

Interest continues to accrue until loans are determined to be doubtful and included in the Allowance. Unpaid interest is added to the principal balance. Forgivable or otherwise uncollectible loans are considered impaired. Interest income is only recognized on these loans when actually received from the borrower. No interest was received on impaired loans during the year ended September 30, 2017. At September 30, 2017, there were no loans receivable more than 90 days delinquent and not included in the Allowance.

Temporarily restricted net assets include loans and cash proceeds required to be used only to provide additional loans.

New Start loans are collateralized by a deed of trust that has been assigned to THDA as discussed in Note 10.

	Unpaid Principal	Allowance for Forgivable and Uncollectible Portion	Discount	Net
New Start Loans	\$ 1,019,816	\$ -	\$ -	\$1,019,816
Home Loans	54,384	54,384	-	-
Small Business Development Loan Fund	6,314	6,314	-	-
Home Repair Loans for Low Income Families	12,621	7,642	700	4,279
Housing Loans	173,341	81,410	2,000	89,931
Community Development Loan	2,291	-	300	1,991
Total Loans Receivable	<u>\$ 1,268,767</u>	<u>\$ 149,750</u>	<u>\$ 3,000</u>	<u>\$1,116,017</u>

Note 5 - Property and Equipment

Property and equipment consist of the following for the year ended September 30, 2017:

Buildings	\$3,672,476
Leasehold Improvements	232,584
Land	285,058
Land Improvement	29,060
Computers and Equipment	30,012
Construction in Process	68,117
Vehicles	<u>9,355</u>
 Total	 4,326,662
Less: Accumulated Depreciation	<u>(732,170)</u>
Net Book Value	<u><u>\$3,594,492</u></u>

Cost of Buildings and Land include approximately \$2,843,000 in residential rental property. Related Accumulated Depreciation totals approximately \$364,000. These properties were acquired primarily with Federal and State funds, and are required to be held for rent to eligible families for periods from 10 to 15 years. The Tennessee Housing Development Agency holds a rental deed of trust against certain of the properties that requires repayment of the grant funds in the event of default.

Note 6 - Fair Value Measurements

The Council's investments are reported at fair value in the accompanying statement of financial position.

	Fair Value Measurement Using:		
	Quoted Prices in Active Markets for Identical Assets Fair Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Assets (See Note #7)	<u>\$ 134,951</u>	<u>\$ 114,573</u>	<u>\$ -</u>
		<u>\$ 20,378</u>	

The Fair Value Measurements Topic of the FASB Accounting Standards Codification, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Council uses appropriate valuation techniques based on the available inputs to measure the fair

value of its investments. When available, the Council measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 inputs include quoted prices for similar assets in active markets, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

A portion of the Beneficial Interest in Assets is not actively traded and significant other observable inputs are not available and is therefore considered a Level 3 input. The fair value of Beneficial Interest in Assets is equal to the value reported by the trustee.

Gains and losses (realized and unrealized) included in activities for the year ended September 30, 2017 are reported in Change in Beneficial Interest. Components of the Change in Beneficial Interest are:

	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Fair Value at September 30, 2016	\$ 101,599	\$ 21,105	\$ 122,704
Investment Income	759	135	894
Net Realized and Unrealized Gain (Loss)	10,972	1,951	12,923
Fees	(1,333)	(237)	(1,570)
Transfers	2,576	(2,576)	-
Change in Beneficial Interest in Net			
Assets Held by Others	12,974	(727)	12,247
Fair Value at September 30, 2017	<u>\$ 114,573</u>	<u>\$ 20,378</u>	<u>\$ 134,951</u>

Note 7 - Beneficial Interest in Funds Held by Others

The Council has an agreement with the East Tennessee Foundation (ETF), an unrelated tax-exempt community foundation, to manage an endowment fund. The initial contributions to the Fund are to be invested in perpetuity with investment income (to be determined using a spending rate set by ETF) to be distributed annually to the Council for unrestricted purposes.

The funds held at ETF are legally owned by that organization. The ETF Board of Directors has the power to modify the agreement which directs that investment income be distributed to the Council if, in the sole judgment of the ETF Board, such restriction or condition becomes unnecessary, undesirable, impractical, incapable of fulfillment, or inconsistent with the charitable needs of the community served.

The Council's endowment fund is held in the ETF's Long Term Commingled Fund, which is invested to maintain or increase the real value of the endowment principal and its distributions over the long term. Distributions from ETF's endowment funds are based on a total return concept and are made according to a current annual spending rate of 4.5% of a twelve-quarter rolling average.

Donor-designated Endowments - after implementation of FASB ASC 958-205 - The Council's endowment consists of donor-restricted funds held by the ETF, the income from which is available to support the Council. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Council has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Council classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (c) donor required matching additions from the Council’s unrestricted funds, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 8 – Land and Development Costs

Land and Development Costs include costs incurred to buy land and construct properties related to the Clinch-Powell Home Team project.

Persia Woods – Land and Development Costs	\$ 26,538
Pleasant Ridge - Land and Development Costs	464,287
Misty Meadow – Land and Development Costs	91,459
Joppa Area – Land and Development Costs	42,093
Other – Housing Projects	<u>551,540</u>
 Total	 <u><u>\$1,175,917</u></u>

Note 9 - Easement Contract Liabilities

The Council has acquired conservation easements protecting a total of approximately 140 acres at a cost of \$166,000 payable over 10 to 20 years with no interest. Payments under these contracts totaled \$38,429 during the year ended September 30, 2017. Future annual payments total \$8,709. The contracts have remaining terms of 5 to 10 years.

Note 10 – Line of Credit and Long Term Debt

The Council’s obligation under notes payable at September 30, 2017 consists of the following:

Line of Credit

Bank Line of Credit of \$600,000, maturing December 15, 2017, bearing interest at 0%, collateralized by Certificate of Deposit and Money Market Account. Subsequent to September 30, 2017, the Line of Credit was renewed until February 9, 2019 at 0.25% interest.	\$ <u> -</u>
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Long Term Debt

Tennessee Housing Development Agency New Start Program \$1,019,816
mortgages receivable purchased from the Council, with recourse,
payable in monthly installments of over 30 years, without interest,
collateralized by assignment of a deed of trust held by the council.

Principal payments on long term debt are due as follows:

Year Ending September 30,	
2018	\$ 44,797
2019	44,797
2020	44,797
2021	44,797
2022	44,797
Thereafter	<u>795,831</u>
Total	<u>\$1,019,816</u>

Note 11 - Restricted Net Assets

Temporarily Restricted Net Assets consist of endowment assets, loans receivable and rental property and are available for the following purposes or time periods as of September 30, 2017:

Rental Property	\$1,670,667
Home Proceeds	204,456
Grant Loans and Interest	66,906
Endowment	<u>74,951</u>
	<u>\$2,016,980</u>

Permanently Restricted Net Assets (Note 7) consist of an endowment to be held indefinitely, the income from which is expendable to support operations of the Council:

Endowment	<u>\$ 60,000</u>
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Note 12 - Donated Services and Materials

The Council receives donated materials from various supporters and donated services from a variety of unpaid volunteers assisting the Council in program activities. The majority of these services are related to the Appalachia CARES AmeriCorps program where the services of certified teachers and community professionals work with members and students in a volunteer role to implement this program. During the year ended September 30, 2017 the value of the items totaling \$737,421 were included in contributions and expense in the accompanying financial statements.

Additional donated services were received that did not satisfy the criteria specified by the FASB Accounting Standards Codification (FASB ASC 958-605-50-1). These services include environmental beautification; work at environmental camps and seminars as well as preparation for facilitating programs.

Note 13 - Retirement Plan

The Council maintains a SIMPLE retirement plan and matches up to 3% of each eligible employee’s compensation. During the year ended September 30, 2017, the Council contributed approximately \$13,900.

Note 14 - Leases

The Council occupies a building with rental payments of \$400 per month. The lease began in 1995 and remains available to the Council at their discretion on a month-to-month basis. The Council is required to provide “upkeep” to the building while taxes and insurance are paid by the owners. There was no maintenance expense in the current year related to this building. Current year rental expense was \$4,800.

In addition, the Organization operates an Education Center on land leased from the Tennessee Wildlife Resources Agency, under a long-term, no cost agreement.

Note 15 - Fund Raising Costs

The majority of the Council's support is received through grants. The individuals responsible for submitting grant requests are not employees of the Council, they are volunteers. The Council had \$148 in fund raising costs for the year ended September 30, 2017.

Note 16 – General Store

In furtherance of their mission to promote eco-tourism in the poorest counties of the service area, the Council operates a general store and restaurant at River Place on the Clinch. Income and expenses for the store and restaurant were as follows:

Sales	\$ 321,037
Cost of Sales	56,705
Restaurant Food	88,120
Gross Profit	<u>176,212</u>
Operating Expenses	233,749
Net Margin (Loss)	<u><u>\$ (57,537)</u></u>

Sales revenue and cost of sales are reported net of discounts, estimated returns, and sales taxes. Sales taxes totaled approximately for the year ended September 30, 2017.

Note 17- Related Parties

The Chief Operating Officer of Clinch Powell Construction Company owns a company that acts as a subcontractor on certain construction projects. Payments of approximately \$18,500 were made to that company during the year ended September 30, 2017.

Note 18 - Concentration of Risk

The Council receives a significant portion of its support from federal grants. A substantial reduction in support, should it occur, would have a significant effect on the activities and programs. Financial instruments that potentially subject the Council to credit risk are Loans Receivable, primarily from low income families in the East Tennessee area. These loans are generally made to build, repair or obtain homes, and collateralized by a lien on the property.

CLINCH-POWELL RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2017

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Number	Pass-through Entity Identifying Number	Passed through to Sub- recipients	Accrued or (Deferred) Expenditures at 9/30/16	Federal Expenditures Received from Grantors	Federal Expenditures Earned	Accrued or (Deferred) Expenditures at 9/30/17
<u>U.S. Dept of Housing & Urban Development</u>								
Comprehensive Housing								
Counseling	14.168	HC16-0421-016		-	11,806	22,761	10,955	-
Comprehensive Housing								
Counseling	14.168	HC17-0421-035		-	-	-	17,462	17,462
Passed through Tennessee Housing Development Agency:								
HOME 2014	14.239		HM-14-29	-	7,650	104,926	106,182	8,906
HOME 2015	14.239		HM-15-03	-	-	287,525	330,917	43,392
HOME 2017	14.239		HMHC-17-01-OP	-	-	-	620	620
Total U.S. Dept of Housing and Urban Development				-	19,456	415,212	466,136	70,380
<u>Environmental Protection Agency-</u>								
Passed through TN Dept of Agriculture								
TN Grazing Lands Conservation	66.460		44298	-	8,912	48,567	48,510	8,855
Passed through TN Dept of Agriculture								
319 Clinch BMP	66.460		32501-05417	-	-	9,461	63,895	54,434
Passed through TN Dept of Agriculture								
Total Environmental Protection Agency				-	8,912	58,028	112,405	63,289
<u>Department of the Interior-</u>								
<u>U.S. Fish and Wildlife Service</u>								
Passed through the Tennessee Wildlife								
Resources Agency								
Habitat Restoration	15.631		F14AC00808	-	19,881	58,129	38,248	-
Total Department of the Interior				-	19,881	58,129	38,248	-
<u>The Corporation for National and</u>								
<u>Community Service-Americorps</u>								
Passed through the Volunteer TN								
AppalachiaCares - 2017-2018	* 94.006		75908	-	-	-	30,579	30,579
AppalachiaCares - 2016-2017	* 94.006		75908	-	29,537	333,902	446,948	142,583
AppalachiaCares - 2015-2016	* 94.006		27086	-	121,187	168,534	47,347	(0)
Total Corporation for				-	150,724	502,436	524,874	173,162
<u>U.S. Natural Resources Conservation Services</u>								
Cooperative Grazing Lands	10.902	68-4741-14-060		-	1,088	8,085	10,800	3,803
Watershed Dam Assessment	10.916	68-4741-4-045		-	-	66,178	66,178	-
AppCARE	10.902	68-4741-14-061		-	3,656	7,472	24,679	20,863
Total U S Natural Resources Conservation Services				-	4,744	81,735	101,657	24,666
GRAND TOTALS				-	203,717	1,115,540	1,243,320	331,497

CLINCH-POWELL RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2017

<u>Grantor/ Program Title</u>	<u>Grant Number</u>	<u>Accrued or (Deferred) Expenditures at 10/01/16</u>	<u>Expenditures Received from Grantors</u>	<u>Expenditures Recognized</u>	<u>Accrued or (Deferred) Expenditures at 9/30/17</u>
TN Dept of Tourist Development		-	2,000	2,000	-
TN Dept of Environment and Conservation					
Clinch & Powell Rivers Blueways	32701-03065	-	-	9,801	9,801
Trail Dev and Watershed Restor					
The Nature Conservancy- Easement	N/A	-	64,443	64,443	-
TN State Parks	32701-02827	-	68,004	68,004	-
		-	132,447	142,248	9,801
Federation of appalachian Housing Enterprise	N/A	-	884	884	-
Tennessee Wildlife Resources Agency					
TWRA-Riparian Conservation BM	41373	1,590	9,000	7,410	-
Total Tennessee Wildlife Resources Agency		1,590	9,000	7,410	-
Tennessee Housing Development Agency					
AG Counsel	AG Counsel	-	10,440	10,440	-
Total Tennessee Housing Development Agency		0	10,440	10,440	-
TOTAL NON-FEDERAL GRANTS		<u>\$ 1,590</u>	<u>\$ 154,771</u>	<u>\$ 162,982</u>	<u>\$ 9,801</u>

See Independent Auditor's Report.

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL
AWARDS
YEAR ENDED SEPTEMBER 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal and non-federal awards (the Schedule) includes the federal and non-federal award activity of the Council under programs of the federal and state government for the year ended September 30, 2017. 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Council, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Council.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-122, *Costs Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Reconciliation to Financial Statements

Awards expended during the year ended September 30, 2017 included:

Federal	\$ 1,243,320
State	162,098
Non-Governmental	884
Rounding	<u>1</u>
	<u><u>\$ 1,406,303</u></u>

Note 4 – Indirect Cost Rate

The Council is not eligible to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance as they have previously applied for and been approved for an indirect cost rate.

Note 5 – Awards Passed through to Subrecipients

The Council had no awards which it passed through to subrecipients.

Bible Harris Smith, P.C.

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Member of the AICPA Peer Review
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INDEPENDENT AUDITOR'S 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*

Board of Directors
Clinch-Powell Resource Conservation
& Development Council, Inc.

Rutledge, Tennessee

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 consolidated financial statements of Clinch-Powell Resource Conservation & Development Council, Inc. (a nonprofit organization) and its for-profit subsidiary (the Council), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Council'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 the Council's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
February 13, 2018

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Member of the AICPA Peer Review
Program
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Clinch-Powell Resource Conservation
& Development Council, Inc.

Rutledge, Tennessee

Report on Compliance for Each Major Federal Program

We have audited Clinch-Powell Resource Conservation & Development Council, Inc.'s (the Council) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Council's major federal programs for the year ended September 30, 2017. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Council's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Council complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the Council is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Council's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council'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.

Bible Harris Smith, P.C.

Bible Harris Smith, P.C.
Knoxville, Tennessee
February 13, 2018

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2017

Summary of Auditor's Results

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Clinch-Powell Resource Conservation & Development Council, Inc. were prepared in accordance with GAAP.
2. No significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's 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*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the Council, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No control deficiencies were disclosed during the audit of the major federal award programs and thus none are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the Council expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a)
7. The program tested as major program was:

The Corporation for National and Community Service-Americorps
Passed through the Volunteer TN
AppalachiaCares CFDA 94.006
8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The Council was determined to be a low risk auditee.

Findings - Financial Statement Audit
None Reported

Findings and Questioned Costs - Major Federal Award Programs Audit
None Reported

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2017

None Reported