

CLINCH-POWELL RESOURCE CONSERVATION
& DEVELOPMENT COUNCIL, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2014

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
YEAR ENDED SEPTEMBER 30, 2014

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Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

507 West Clinch Avenue
Knoxville, TN 37902-2104
Phone 865-546-2300
Fax 865-525-7454
E-mail lastname@BHSpc.com

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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, (the Council), which comprise the consolidated statement of financial position as of September 30, 2014, 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.

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, 2014, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 dated February 9, 2015, 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.
Knoxville, Tennessee
February 9, 2015

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2014

ASSETS

Cash and cash equivalents	\$ 969,022
Grants Receivable	317,636
Other Receivables	20,418
Prepaid expenses	48,065
Inventory	22,370
Loans Receivable, Net	1,338,485
Property and Equipment, Net	3,313,767
Land and Development Costs	941,218
Deposits	15,253
Beneficial Interest in Assets Held by Others	<u>120,469</u>

TOTAL ASSETS	<u><u>\$ 7,106,703</u></u>
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LIABILITIES AND NET ASSETS

Line of Credit	\$ 600,000
Accounts Payable	22,745
Accrued Payroll Expenses and Taxes	55,678
Other Current Liabilities	98,857
Easement Contract Liabilities	53,575
Long Term Debt	<u>1,205,810</u>

TOTAL LIABILITIES	\$ 2,036,665
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NET ASSETS

Unrestricted	3,246,386
Temporarily restricted	1,763,652
Permanently restricted	<u>60,000</u>

TOTAL NET ASSETS	<u>5,070,038</u>
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TOTAL LIABILITIES NET ASSETS	<u><u>\$ 7,106,703</u></u>
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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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions	\$ 83,754	\$ 12,786	\$ -	\$ 96,540
Grant Income	-	1,101,497	-	1,101,497
In-Kind Contributions	-	992,000	-	992,000
Fees for Services	240,683	-	-	240,683
Rent	146,015	-	-	146,015
Store and Other Sales	415,853	-	-	415,853
Interest and Dividend Income	13,951	147	-	14,098
Change in Beneficial Interest	-	7,091	-	7,091
Home Program Sales Proceeds	515,289	-	-	515,289
NET ASSETS RELEASED FROM RESTRICTIONS:				
Satisfaction of Program Restrictions	<u>2,221,294</u>	<u>(2,221,294)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>\$ 3,636,839</u>	<u>\$ (107,773)</u>	<u>\$ -</u>	<u>\$ 3,529,066</u>
Expenses and Losses				
Program	\$ 3,385,210	-	-	\$ 3,385,210
Management and General	150,877	-	-	150,877
Fund Raising	<u>830</u>	<u>-</u>	<u>-</u>	<u>830</u>
Total Expenses and Losses	<u>3,536,917</u>	<u>-</u>	<u>-</u>	<u>3,536,917</u>
CHANGE IN NET ASSETS	<u>99,922</u>	<u>(107,773)</u>	<u>-</u>	<u>(7,851)</u>
NET ASSETS, beginning of year	<u>3,146,464</u>	<u>1,871,425</u>	<u>60,000</u>	<u>5,077,889</u>
NET ASSETS, end of year	<u><u>\$ 3,246,386</u></u>	<u><u>\$ 1,763,652</u></u>	<u><u>\$ 60,000</u></u>	<u><u>\$ 5,070,038</u></u>

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, 2014

	Program Services	Supporting Services		
	Program Services	Management and General	Fund Raising	Total
Construction Costs	\$ 1,388,561	\$ -	\$ -	\$ 1,388,561
Salaries, Benefits and Payroll Taxes	1,206,773	58,335	-	1,265,108
Donated Services and Materials	992,000	-	-	992,000
Cost of Store and Restaurant Sales	213,435	-	-	213,435
Utilities and Phone	68,832	8,036	-	76,868
Insurance	35,648	31,713	-	67,361
Landowner Payments	55,078	-	-	55,078
Supplies and Materials	25,071	12,759	750	38,580
Contract Services	30,062	325	-	30,387
Other Expenses	25,193	345	-	25,538
Travel	20,478	-	-	20,478
Promotional	19,280	-	-	19,280
Professional Fees	-	14,902	-	14,902
Printing and Copying	6,321	4,607	-	10,928
Donations and Grants	9,519	-	-	9,519
Maintenance	7,237	1,128	-	8,365
Meetings	3,916	1,226	-	5,142
Rent	4,800	-	-	4,800
Interest	1,474	3,165	-	4,639
Training	-	4,457	-	4,457
Postage	3,647	675	80	4,402
Dues and Subscriptions	1,235	1,005	-	2,240
Bad Debt Expense	475	-	-	475
Taxes, Licenses and Fees	-	-	-	-
Less: Capitalized Costs	(818,402)	-	-	(818,402)
Total Expenses before Depreciaiton	3,300,633	142,678	830	3,444,141
Depreciation	84,577	8,199	-	92,776
	<u>\$ 3,385,210</u>	<u>\$ 150,877</u>	<u>\$ 830</u>	<u>\$ 3,536,917</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (7,851)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	92,776
Gain on Disposition	101,183
Change in Discount on Loans Receivable	(4,000)
Change in Allowance related to Loans Receivable	22,269
(Increase) decrease in assets:	
Grants Receivable	(25,942)
Other Receivables	55,060
Prepaid Expenses	(23,284)
Inventory	(443)
Land and Development Costs	(687,953)
Deposits	(11,736)
Beneficial Interest in Assets Held by Others	(7,091)
Increase (decrease) in liabilities:	
Accounts payable	(7,684)
Accrued Payroll	(1,412)
Easement Contracts	6,600
Other liabilities	<u>47,730</u>

CASH USED FOR OPERATING ACTIVITIES (451,778)

CASH FLOWS FROM INVESTING ACTIVITIES

Cash paid for purchases of fixed assets	(130,448)
Proceeds from the Sale of Property	537,558
Receipts fom Collections of Loans	75,620
Disbursements for Loans Made	<u>(278,238)</u>

CASH PROVIDED BY INVESTING ACTIVITIES 204,493

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, 2014

CASH FLOWS FROM FINANCING ACTIVITIES

Easement Contract Payments	-
Proceeds from Line of Credit	100,000
Proceeds from Long Term Debt	212,250
Principal Payments on Long Term Debt	<u>(42,027)</u>

CASH PROVIDED BY FINANCING ACTIVITIES	<u>270,223</u>
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NET INCREASE IN CASH	22,937
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CASH AT BEGINNING OF YEAR	<u>946,085</u>
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CASH AT END OF YEAR	<u><u>\$ 969,022</u></u>
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CASH PAID DURING THE YEAR FOR:

INTEREST	<u><u>\$ 4,639</u></u>
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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, 2014

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 program operates under the Council, using the name Clinch-Powell Home Team. The 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	\$ 22,000	increase
Liabilities	12,000	decrease
Net Assets	<u>\$ 34,000</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 and gains or losses on investments are 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 7.46% of direct costs for federal grant reporting for the year ended September 30, 2014, is in place. Adjustments are made for expenses to grants which allow less than the 7.46% 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, 2014. 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, 2014. 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, 2014, 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, 2014, the council and CPCC are generally not subject to US Federal or State income tax examination by tax authorities for tax years before 2010. 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, 2014, 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 uncollectible. 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.

Subsequent Events – The Council has evaluated subsequent events for potential recognition and/or disclosure in the September 30, 2014 financial statements through February 9, 2015, 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, 2014, of approximately \$630,000 , collateralized by FNMA and other securities held under a safekeeping pledge agreement for the benefit of the Council by an independent bank.

Certain grants require that funds be held in separate bank accounts. At September 30, 2014, these included approximately \$8,000 in tax and insurance escrows related to mortgage notes receivable.

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 \$2,166. 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 the 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, 2014. 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, 2014. At September 30, 2014, Loans Receivable past due 90 days or more and not included in the Allowance related to the Home Repair Loans for Low Income Families and totaled \$2,536 .

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	\$ 1,206,376	\$ -	\$ -	\$1,206,376
Home Loans	165,490	165,490	-	-
Small Business Development Loan Fund	7,958	6,314	-	1,644
Economic Development Loan Fund	24,200	-	1,700	22,500
Home Repair Loans for Low Income Families	21,221	9,506	1,500	10,215
Housing Loans	225,063	138,490	3,400	83,173
Community Development Loan	12,768	-	1,200	11,568
Rural Housing and Economic Development	3,209	-	200	3,009
Total Loans Receivable	<u>\$ 1,666,285</u>	<u>\$ 319,800</u>	<u>\$ 8,000</u>	<u>\$1,338,485</u>

Note 5 - Property and Equipment

Property and equipment consist of the following for the year ended September 30, 2014:

Buildings	\$3,203,128
Leasehold Improvements	232,584
Land	193,358
Land Improvement	15,620
Computers and Equipment	24,262
Construction in Process	68,117
Vehicles	9,355
Total	3,746,424
Less: Accumulated Depreciation	(432,657)
Net Book Value	<u>\$3,313,767</u>

Cost of Buildings and Land include approximately \$2,387,000 in residential rental property. Related Accumulated Depreciation totals approximately \$168,000. 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	Fair Value Measurement Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial Interest In Assets (See Note 7)	\$ 120,469	\$ 97,580	\$ -	\$ 22,889

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, 2014 are reported in Change in Beneficial Interest. Components of the Change in Beneficial Interest are:

	Level 1	Level 3	Total
Fair Value at September 30, 2013	\$ 89,795	\$ 23,583	\$ 113,378
Investment Income	1,402	329	1,731
Net Realized and Unrealized Gain (Loss)	5,568	1,306	6,874
Fees	(1,226)	(288)	(1,514)
Transfers	2,041	(2,041)	-
Change in Beneficial Interest in Net Assets Held by Others	7,785	(694)	7,091
Fair Value at September 30, 2014	\$ 97,580	\$ 22,889	\$ 120,469

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.

At September 30, 2014, the fair value of the fund held by the East Tennessee Foundation for the benefit of the Council was 120,469 . That represents an increase of \$7,091 during the year, including fees totaling \$1,514 . There were no distributions taken from or contributions made to the fund during the year. 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	586,186
Misty Meadow – Land and Development Costs	91,459
Joppa Area – Land and Development Costs	42,093
Other – Housing Projects	<u>194,942</u>
Total	<u><u>\$ 941,218</u></u>

Note 9 - Easement Contract Liabilities

The Council has acquired conservation easements protecting a total of approximately 95 acres at a cost of \$107,250 payable over 10 to 20 years with no interest. Payments under these contracts totaled

\$15,150 during the year ended September 30, 2014. Future annual payments total \$5,483 The contracts have remaining terms of 9 to 14 years.

Note 10 – Line of Credit and Long Term Debt

The Council's obligation under notes payable at September 30, 2014 consists of the following:

Line of Credit

Bank Line of Credit of \$600,000, maturing November 19, 2014, bearing interest at 0%, collateralized by Certificate of Deposit. and Money Market Account. Subsequent to September 30, 2014, the Line of Credit renewed until November 19, 2015. \$600,000

Long Term Debt

Tennessee Housing Development Agency New Start Program 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. \$1,205,810

Principal payments on long term debt are due as follows:

Year Ending September 30,	
2015	\$ 46,922
2016	46,922
2017	46,922
2018	46,922
2019	46,922
Thereafter	<u>971,200</u>
Total	<u><u>\$ 1,205,810</u></u>

Note 11 - Restricted Net Assets

Temporarily Restricted Net Assets consist of cash, loans receivable and rental property and are available for the following purposes or time periods as of September 30, 2014:

Rental Property	\$ 1,628,912
Grant Loans and Interest	74,271
Endowment	<u>60,469</u>
	<u><u>\$ 1,763,652</u></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><u>\$ 60,000</u></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, 2014 the value of the items totaling \$ 992,000 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, 2014, the Council contributed approximately \$10,700.

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 \$830 in fund raising costs for the year ended September 30, 2014.

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	\$ 415,853
Cost of Sales	93,943
Restaurant Food	119,492
Gross Profit	202,418
Operating Expenses	298,837
Net Margin (Loss)	<u><u>\$ (96,419)</u></u>

Sales revenue and cost of sales are reported net of discounts, estimated returns, and sales taxes. Sales taxes totaled approximately \$ 32,400 for the year ended September 30, 2014.

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 \$ 25,000 were made to that company during the year ended September 30, 2014.

A member of the Clinch Powell Construction Company Board provides contract services to Clinch Powell RC&D through another non-profit organization. During the year ended September 30, 2014, approximately \$ 7,500 was paid for these services.

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 & DEVELOPMENT COUNCIL INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2014

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	Grant <u>Number</u>	Accrued or (Deferred) Expenditures at 9/30/13	Federal Expenditures Received from Grantors	Federal Expenditures Earned	Accrued or (Deferred) Expenditures at 9/30/14
<u>U.S. Dept of Housing & Urban Development</u>						
LHCA Comprehensive Housing						
Counseling	14.168	HC14-0421-032	-	-	4,728	4,728
Passed through Tennessee Housing Development Agency:						
HOME 2012	14.239	HM-12-02	-	125,757	182,046	56,289
Hardest Hit Fund	99.000	HHF	(687)	96,980	70,444	(27,223)
Natl Foreclosure Mitigation Counseling	14.110	Phase Eight	-	21,600	39,114	17,514
Natl Foreclosure Mitigation Counseling	14.110	Phase Seven	26,411	32,025	5,614	-
Total U.S. Dept of Housing and Urban Development			<u>25,724</u>	<u>276,362</u>	<u>301,946</u>	<u>51,308</u>
<u>Environmental Protection Agency-</u>						
Passed through TN Dept of Agriculture						
TN Grazing Lands Conservation	66.460	GR-09-27319-00	1,674	4,854	3,180	-
Passed through TN Dept of Agriculture						
TN Grazing Lands Conservation	66.460	18614	6,769	24,105	17,822	486
Passed through TN Dept of Agriculture						
319 Clinch BMP	66.460	30297	5,885	-	6,035	11,920
Passed through TN Dept of Agriculture						
Mulberry Creek/Little Mulberry Creek	66.460	GR-09-27110-00	2,597	13,324	10,727	-
Passed through TN Dept of Agriculture						
Mulberry Creek Phase II	66.460	32501-050-13	-	-	23,096	23,096
Total Environmental Protection Agency			<u>16,925</u>	<u>42,283</u>	<u>60,860</u>	<u>35,502</u>
<u>Department of the Interior-</u>						
<u>U.S. Fish and Wildlife Service</u>						
Passed through the Tennessee Wildlife						
Resources Agency						
TWRA-Riparian Conservation BMP's	15.605	30304	8,435	8,435	-	-
Total Department of the Interior			<u>8,435</u>	<u>8,435</u>	<u>-</u>	<u>-</u>
<u>The Corporation for National and</u>						
<u>Community Service-AmeriCorps</u>						
Passed through the Volunteer TN						
AppalachiaCares - 2012-2013	94.006	12AC136538	148,873	206,206	57,103	(230)
AppalachiaCares - 2013 2014	94.006	35926	7,068	322,010	479,918	164,976
AppalachiaCares - 2014-2015	94.006	40717	-	-	14,531	14,531
Total Corporation for						
National and Community Service			<u>155,941</u>	<u>528,216</u>	<u>551,552</u>	<u>179,277</u>
<u>U.S. Natural Resources Conservation Services</u>						
Cooperative Grazing Lands	10.902	68-4741-1-090	8,433	30,666	38,492	16,259
AppCARE	10.902	68-4741-0-965	13,742	44,553	34,260	3,449
Total U S Natural Resources Conservation Services			<u>22,175</u>	<u>75,219</u>	<u>72,752</u>	<u>19,708</u>
GRAND TOTALS			<u>229,200</u>	<u>930,515</u>	<u>987,110</u>	<u>285,796</u>

See Independent Auditor's Report

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2014

<u>Grantor/ Program Title</u>	<u>Grant Number</u>	<u>Accrued or (Deferred) Expenditures at 10/01/13</u>	<u>Expenditures Received from Grantors</u>	<u>Expenditures Recognized</u>	<u>Accrued or (Deferred) Expenditures at 9/30/14</u>
<u>State Grants:</u>					
Tennessee Department of Agriculture BMP Project	Z-08-21460-00	-	-	-	-
Total Tennessee Department of Agriculture		-	-	-	-
TN Arts Commission Arts Build Communities Grant	2014 - 23407	1,144	2,000	856	-
TN Department of Tourist Development Partnership Marketing Program Grant	2013-2014	-	2,000	2,000	-
Tennessee Wildlife Resources Agency TWRA-Riparian Conservation BMP's	30304	565	565	-	-
TWRA-Riparian Conservation BMP's	41373	-	-	4,388	4,388
Total Tennessee Wildlife Resources Agency		565	565	4,388	4,388
Tennessee Housing Development Agency Housing Trust Fund	HTF-10-006	-	-	-	-
AG Counsel	AG Counsel	(7,451)	58,112	16,418	(49,145)
AG Packaging	AG Packaging	101	21,000	28,296	7,397
AG Capacity	AG Capacity	(11,127)	-	11,127	-
Total Tennessee Housing Development Agency		(18,477)	79,112	55,841	(41,748)
The Nature Conservancy	TNC - THWI	-	72,360	72,360	-
TOTAL NON-FEDERAL GRANTS		\$ (16,768)	\$ 156,037	\$ 135,445	\$ (37,360)

See Independent Auditor's Report.

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED SEPTEMBER 30, 2014

Note 1 - Basis of Presentation

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

Note 2 – Reconciliation to Financial Statements

Awards expended during the year ended September 30, 2014 included:

Federal	\$ 987,110
State	135,445
Non-governmental	<u>(21,058)</u>
Grant Income per Financial Statements	<u>\$ 1,101,497</u>

Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

507 West Clinch Avenue
Knoxville, TN 37902-2104
Phone 865-546-2300
Fax 865-525-7454
E-mail lastname@BHSpc.com

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. (the Council) (a nonprofit organization), which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 9, 2015.

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.
Knoxville, Tennessee
February 9, 2015

Bible Harris Smith, P.C.

Certified Public Accountants and Business Advisors Since 1949

507 West Clinch Avenue
Knoxville, TN 37902-2104
Phone 865-546-2300
Fax 865-525-7454
E-mail lastname@BHSpc.com

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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. and its for-profit subsidiary (the Council)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of The Council's major federal programs for the year ended September 30, 2014. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bible Harris Smith, P.C.
Knoxville, Tennessee
February 9, 2015

CLINCH-POWELL RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2014

Summary of Auditor's Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Clinch-Powell Resource Conservation & Development Council, Inc.
2. No control deficiencies relating to 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*.
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 OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the Council expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

The Corporation for National and Community Service - Americorps
Passed through Volunteer TN
Appalachia Cares CFDA # 94.006
8. The threshold for distinguishing Types A and B programs was \$300,000.
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, 2014

None Reported