RHEA ECONOMIC AND TOURISM COUNCIL, INC.

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

JOHNSON, MURPHEY & WRIGHT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CHATTANOOGA, TENNESSEE

I. INTRODUCTORY SECTION

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Table of Contents
June 30, 2016

		PAGE
I.	**INTRODUCTORY SECTION**	
	Table of Contents	i
	Roster of Board Members	ii
II.	**FINANCIAL SECTION**	
	Independent Auditor's Report	1-3
	Basic Financial Statements	
	Statement of Net Position	4
	Statement of Revenues, Expenses and Changes in Net Position	5
	Statement of Cash Flows	6
	Notes to Financial Statements	7-12
	Other Supplementary Information	
	Schedule of Debt Service Requirements	13
	Schedule of Expenditures of State Awards	14
	Notes to the Schedule of Expenditures of State Awards	15
III.	**INTERNAL CONTROL AND COMPLIANCE SECTION**	
	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*	16-17
	Schedule of Findings and Responses	18-19
	Schedule of Prior Audit Findings	20

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Roster of Board Members
June 30, 2016

Dennis Tumlin	Executive Director
Gary Louallen	Chairman
Ted Doss	Vice-Chairman
Vaughn Berger	Treasurer/Secretary
Dianne Tumlin	Director
Billy Ray Patton	Director
George Thacker	Director
Bill Pryor	Director
Debra Sims	Director
Frank Welch	Director
Harold Fisher	Director
Guy Denton	Director

II. FINANCIAL SECTION

Certified Public Accountants

301 N. Market
Chattanooga, TN
37405

Office: 423-756-1170
Fax: 423-756-1436
www.jmw-cpa.com

Members
American Institute of Certified Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

Marianne Greene, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rhea Economic and Tourism Council, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Rhea Economic and Tourism Council, Inc. (a Corporation), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rhea Economic and Tourism Council, Inc., as of June 30, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. Our opinion on the basic financial statement is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rhea Economic and Tourism Council, Inc.'s basic financial statements. The Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Rhea Economic and Tourism Council, Inc. are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the county that is attributable to the transactions of the Council. They do not purport to, and do not present fairly the financial position of Rhea County, Tennessee as of June 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2017, on our consideration of the Rhea Economic and Tourism 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 the Rhea Economic and Tourism Council, Inc.'s internal control over financial reporting and compliance.

Chattanooga, Tennessee
May 25, 2017

Johnson, Murphey & Wright, P.C.

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Statement of Net Position
June 30, 2016

ASSETS		
Current assets		
Cash	$	58,821
Investments		10,000
Total current assets		68,821
Non-current assets		
Restricted assets		
Community health - cash		6,706
Scholarship - cash		30,060
Scholarship - investments		158,510
Total restricted assets		195,276
Capital assets		
Other capital assets - net of accumulated depreciation		234,381
Total non-current assets		429,657
TOTAL ASSETS	$	498,478
LIABILITIES		
Current liabilities		
Accounts payable	$	3,966
Accrued liabilities		3,898
Unearned revenue		5,456
Note payable - due in one year		6,138
Total current liabilities		19,458
Non-current liabilities		
Note payable		86,837
TOTAL LIABILITIES	$	106,295
NET POSITION		
Net investment in capital assets	$	141,406
Restricted for community health		6,706
Restricted for scholarship		188,570
Unrestricted		55,501
TOTAL NET POSITION	$	392,183

The accompanying notes are an integral part of the financial statements.

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

Operating Revenues	
Program revenue	$ 129,312
Rental income	29,500
Membership dues	10,550
Miscellaneous income	3,774
Sales	113
Total operating revenues	173,249
Operating Expenses	
Administrative expenses	299,456
General operating expenses	64,188
Depreciation	9,217
Total operating expenses	372,861
Operating income (loss)	(199,612)
Non-operating Revenues (Expenses)	
State grants	15,000
Local grants	160,193
Interest revenue	288
Interest expense	(5,528)
Loss on change in investments	(8,222)
Total non-operating revenues (expenses)	161,731
Change in net position	(37,881)
Net Position - beginning	430,064
Net Position - end	$ 392,183

The accompanying notes are an integral part of the financial statements.

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Statement of Cash Flows
Year Ended June 30, 2016

Cash Flows from Operating Activities	
Receipts from customers and users	$ 173,249
Payments to suppliers	(244,311)
Payments to employees	(103,485)
Net cash provided (used) by operating activities	(174,547)
Cash Flows from Non-Capital Financing Activities	
State and local grants	175,193
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(35,118)
Interest paid on notes	(5,528)
Principal paid on notes	(5,795)
Net cash provided (used) by capital and related financing activities	(46,441)
Cash Flows from Investing Activities	
Net sale (purchase) of investments	22,018
Interest revenue received	288
Net cash provided (used) by investing activities	22,306
Net increase (decrease) in cash	(23,489)
Cash - beginning	119,076
Cash - end	$ 95,587
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ (199,612)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation	9,217
Loss on change in investments	(8,222)
(Increase) decrease in receivables	39,508
Increase (decrease) in accounts payable	3,966
Increase (decrease) in accrued liabilities	1,762
Increase (decrease) in unearned revenue	(21,166)
Total adjustments	25,065
Net cash provided (used) by operating activities	$ (174,547)
Cash	
Cash	$ 58,821
Restricted assets - community health	6,706
Restricted assets - scholarship	30,060
Total	$ 95,587

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Rhea Economic and Tourism Council, Inc. (Council) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

The following is a summary of the more significant accounting policies:

A. Reporting Entity

Rhea Economic and Tourism Council, Inc. was organized in 1996 for the purpose of education, industry, tourism and community. The primary sources of revenue of the Council, Inc. are local grants and program revenues. The board members of the Council are allowed to appropriate funds for the operation and maintenance of the Council.

The financial statements present only the Rhea Economic and Tourism Council, Inc. of Rhea County, Tennessee, as of June 30, 2016. These financial statements are in no way intended to represent the government wide financial position of Marion County, Tennessee for the year then ended in conformity with accounting principles generally accepted in the United States of America.

B. Basic Financial Statements

All activities of the Council are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and /or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus - Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Council's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities and deferred inflows associated with the operations are included on the Statement of Net Position. Net position (i.e., assets + deferred outflows - liabilities - deferred inflows) are segregated into net investment in capital assets, restricted components and unrestricted components.

The financial records are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. The allowance method is used to estimate the uncollectible accounts. Unbilled service receivables are recorded at year-end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus - Basis of Accounting (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operation. The principal operating revenues of the Council's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Council's policy to use restricted resources first, then unrestricted resources as needed.

D. Cash and Cash Equivalents

For purposes of reporting cash on the Statement of Cash Flows, the Council considers all unrestricted highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. At June 30, 2016, the Council had no cash equivalents.

E. Investments

Investments are reported at fair value, which is based on quoted market prices. The Council is authorized by Tennessee statutes to invest in the following:

1. Bonds, notes or treasury bills of the United States.
2. Non-convertible debt securities of the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Student Loan Marketing Association.
3. Any obligations which are guaranteed as to principal and interest by the United States or any of its agencies.
4. Certificates-of-deposit and other evidence of deposit at state and federal chartered banks and savings and loan associations.
5. Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested.
6. Money market funds whose portfolios consist of any of the foregoing investments.
7. The local government investment pool.

F. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year-end are recorded as prepaid expenses. At year-end, there were no prepaid expenses.

G. Inventory

Supplies and materials are recorded as expenses at the time items are purchased and are not inventories at year-end, due to lack of materiality.

H. Restricted Assets

Certain resources can be classified as restricted assets on the Statement of Net Position because their use is limited. At year-end, there were restrictions for community health and scholarship funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

Capital assets are defined by the Council as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The Council's policy is to capitalize the net interest cost incurred during the year resulting from borrowings utilized to finance the construction of assets.

Major additions are capitalized while maintenance and repairs, including the cost of minor items of property, are expensed as incurred. Upon disposal of such assets, the accounts are relieved of the related costs and accumulated depreciation, and resulting gains or losses are reflected in income. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Asset Class	Years
Furniture and fixtures	7
Vehicles	7
Buildings	39

J. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Entity has no items that qualify for reporting as a deferred outflow of resources.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. Currently, the Entity has no items that qualify for reporting as a deferred inflow of resources.

K. Compensated Absences

Policies regarding employee vacation and sick leave benefits do not meet the criteria which would require accrual of a liability for future benefits.

L. Net Position

Net position is the residual of all elements presented in the Statement of Financial Position (i.e., assets + deferred outflows - liabilities - deferred inflows). Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position represents restricted assets reduced by any related outstanding debt.

M. Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Events Occurring after Reporting Date

The Council has evaluated events and transactions that occurred between June 30, 2016, and May 25, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Council's deposits may not be returned to it. The Council does not have a deposit or investment policy for custodial credit risk, however, the State of Tennessee requires its governmental entities to either meet the deposit and collateralization regulations under TCA Title 9, Chapter 4, Parts 1 and 4, or as provided in the collateral pool. As of June 30, 2016, the carrying amount of the Council's deposits was $95,587, and the bank balance was $99,867. None of the Council's bank balance was exposed to custodial credit risk as uninsured or uncollateralized.

The carrying amount of the Council's deposits is classified as follows on the Statement of Net Position:

Cash	$ 58,821
Restricted assets - community health - cash	6,706
Restricted assets - scholarship - cash	30,060
Total	$ 95,587

Investments

The Council's investments are carried at fair value, and consist of a certificate-of-deposit and an annuity. The certificate-of-deposit is fully insured by FDIC. The annuity balance is uninsured and uncollateralized due to its nature. Investments are listed on the Statement of Net Position as follows:

Investments	$ 10,000
Restricted assets - scholarship - investments	158,510
Total	$ 168,510

NOTE 3 - RESTRICTED ASSETS

Restricted assets include funds restricted for specific expenditures. The restricted assets at June 30, 2016, are as follows:

$6,706 are legally restricted for community health expenditures.

$30,060 of cash and $158,510 of investments are legally restricted for scholarship expenditures.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 follows:

	Beginning Balance 07-01-15	Increases	Decreases	Ending Balance 06-30-16
Business-type activities:				
Capital assets being depreciated:				
Furniture and fixtures	$ 11,922	$ 1,044	$ -	$ 12,966
Vehicles	-	27,675	-	27,675
Buildings	338,772	6,399	-	345,171
Total capital assets being depreciated	350,694	35,118	-	385,812
Less accumulated depreciation for:				
Furniture and fixtures	11,922	26	-	11,948
Vehicles	-	498	-	498
Buildings	130,292	8,693	-	138,985
Total accumulated depreciation	142,214	9,217	-	151,431
Total capital assets being depreciated - net	208,480	25,901	-	234,381
Business-type activities capital assets - net	$ 208,480	$ 25,901	$ -	$ 234,381

NOTE 5 - LONG-TERM DEBT

Long-term debt is summarized as follows:

	Principal Balance
Note payable to Brightbridge, Inc., 5.75%, due 2028	$ 92,975
Less: current portion of long-term debt	(6,138)
Total long-term debt	$ 86,837

A summary of changes in long-term debt for the year ended June 30, 2016, are as follows:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016	Amount Due Within One Year
Note payable	$ 98,770	$ -	$(5,795)	$ 92,975	$ 6,138
Less: current portion of long-term debt				(6,138)	
Total long-term debt				$ 86,837	

Interest paid during the year ended June 30, 2016, on long-term debt was $5,528.

NOTE 5 - LONG-TERM DEBT (Continued)

Debt service requirements to maturity, including interest of $33,141 are as follows:

Year ended June 30	Principal	Interest	Total Requirements
2017	$ 6,138	$ 5,186	$ 11,324
2018	6,500	4,824	11,324
2019	6,884	4,440	11,324
2020	7,291	4,033	11,324
2021	7,721	3,603	11,324
2022-2026	46,006	10,614	56,620
2027-2028	12,435	441	12,876
	$ 92,975	$ 33,141	$ 126,116

NOTE 6 - NET POSITION RESTRICTIONS

The Council can restrict net position to be maintained for specific purposes. The nature and purpose of these are explained as follows:

$6,706 are legally restricted for community health expenditures.

$188,570 are legally restricted for scholarship expenditures.

NOTE 7 - COMPLIANCE WITH FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The Council has no material violations of finance related legal and contractual provisions.

NOTE 8 - CONTINGENT LIABILITIES

As of June 30, 2016, the Council does not have any material contingent liabilities that would have a material effect on the Council's financial condition.

NOTE 9 - LITIGATION

As of June 30, 2016, the Council was not involved in any litigation that would have a material effect on the Council's financial condition.

NOTE10 - COMMERCIAL INSURANCE

It is the policy of the Council to purchase commercial insurance for the risks of losses to which it is exposed. The risks include general liability, property and casualty, worker's compensation, employee fidelity, and directors' and officers' liability.

OTHER SUPPLEMENTARY INFORMATION

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Schedule of Debt Service Requirements
June 30, 2016

NOTE PAYABLE TO BRIGHTBRIDGE, INC.

Interest at 5.75%
Original issue of $150,000

Maturing June 30,	Principal	Interest	Total Requirements
2017	$ 6,138	$ 5,186	$ 11,324
2018	6,500	4,824	11,324
2019	6,884	4,440	11,324
2020	7,291	4,033	11,324
2021	7,721	3,603	11,324
2022	8,177	3,147	11,324
2023	8,660	2,664	11,324
2024	9,171	2,153	11,324
2025	9,712	1,612	11,324
2026	10,286	1,038	11,324
2027	10,893	431	11,324
2028	1,542	10	1,552
Total	$ 92,975	$ 33,141	$ 126,116

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Schedule of Expenditures of State Awards
Year Ended June 30, 2016

Grantor/Pass - Through Grantor/Program Title	State Grant/ Program Number	(Receivable) Deferred June 30, 2015	Grant/Loan Receipts	Grant/Loan Expenditures	(Receivable) Deferred June 30, 2016
State					
Department of Economic & Community Development					
Rhea County Three-Star Grant	9877	$ -	$ 10,000	$ 10,000	$ -
Department of Tourism Development	0000073083	-	5,000	5,000	-
Total		$ -	$ 15,000	$ 15,000	$ -

RHEA ECONOMIC AND TOURSIM COUNCIL, INC.
Notes to the Schedule of Expenditures of State Awards
Year Ended June 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of State Awards includes the state grant activity of the Rhea Economic and Tourism Council, Inc. and is presented on the modified accrual basis of accounting.

III. INTERNAL CONTROL AND COMPLIANCE SECTION

Certified Public Accountants

301 N. Market
Chattanooga, TN
37405

Office: 423-756-1170
Fax: 423-756-1436
www.jmw-cpa.com

Members
American Institute of Certified Public Accountants

Paul Johnson, III, CPA

Brian T. Wright, CPA

Karen Hutcherson, CPA

Marianne Greene, CPA

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*

To the Board of Directors
Rhea Economic and Tourism Council, Inc.

We have audited 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, the financial statements of the business-type activities of the Rhea Economic and Tourism Council, Inc. as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Rhea Economic and Tourism Council, Inc.'s basic financial statements, and have issued our report thereon dated May 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rhea Economic and Tourism Council, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhea Economic and Tourism Council, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhea Economic and Tourism Council, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2016-001 and 2016-002, which we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhea Economic and Tourism Council, Inc.'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*.

Rhea Economic and Tourism Council, Inc.'s Response to Findings

The Rhea Economic and Tourism Council, Inc.'s response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Rhea Economic and Tourism Council, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Murphey & Wright, P.C.

Chattanooga, Tennessee
May 25, 2017

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Schedule of Findings and Responses
June 30, 2016

SUMMARY OF AUDIT RESULTS

Opinion:
Unmodified opinion issued on the financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Deficiencies:
During the audit of the financial statements, two significant deficiencies in internal controls were disclosed.

Material Noncompliance:
None disclosed.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROLS:

Finding 2016-001 - Segregation of duties

Criteria:
Government Auditing Standards (Yellow Book) A.06(h), states that "inadequate controls for the safeguarding of assets" is a deficiency in internal controls.

Condition:
There is not a proper segregation of duties as to collecting, depositing, and recording funds.

Cause:
The Council has a limited number of office employees to provide for a proper division of duties.

Effect:
Without a proper division of duties, one person has control over a complete transaction from beginning to end which could result in a misappropriation of assets.

Management's Response:
We concur. However, the benefits of the additional controls are not justified by the cost to the Council at this time.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT AUDITING STANDARDS* (Continued)

INTERNAL CONTROLS: (Continued)

Finding 2016-002 - Approvals and documentation

Criteria:
Government Auditing Standards (Yellow Book) A.06(h), states that "inadequate controls for the safeguarding of assets" is a deficiency in internal controls.

Condition:
Invoices and credit card receipts are not being initialed as approved for payment.

Cause:
An approval process is not in place so that all invoices and credit card receipts are initialed as approved for payment.

Effect:
Without an approval process, improper payments could be expensed to the Council.

Management's Response:
We concur. We will make every effort to correct the issue as noted.

RHEA ECONOMIC AND TOURISM COUNCIL, INC.
Schedule of Prior Audit Findings
June 30, 2016

None.