

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Sevierville, Tennessee

FINANCIAL STATEMENTS

June 30, 2009 and 2008

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Sevierville, Tennessee

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SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.  
Sevierville, Tennessee  
ROSTER OF BOARD OF DIRECTORS AND MANAGEMENT OFFICIALS  
Year Ending June 30, 2009

BOARD OF DIRECTORS

OFFICERS

- Mr. Jack Delozier Chairman
- Mr. Larry Waters Vice-Chairman
- Mr. Matt Ballard Secretary
- Mr. Rick Harrell Treasurer

MEMBERS

- Mr. Jim Galbraith
- Mr. Jack Miller
- Mr. David Ogle
- Mr. Chris Umberger
- Mr. David Perella
- Mr. Kelly Headden
- Mr. Phil Whaley
- Mr. R. B. Summitt
- Mr. Wes Farragut
- Mr. David Howard
- Mr. David Verble
- Ms. Lisa Johnson
- Mr. Billy Carroll

MANAGEMENT OFFICIALS

- Mr. Kenneth Allen Newton Executive Director
- Ms. Madeline Radel Executive Assistant
- Mr. Dennis Snider Stadium Marketing Director
- Ms. Stacy Helton Administrative Assistant

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.  
Sevierville, Tennessee  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009

**FINANCIAL HIGHLIGHTS**

Council assets exceeded liabilities by \$110,974 for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$ 80,859 showing an increase of \$30,115 during the current year.

Total net assets are comprised of the following:

1. Capital assets, net of related debt, of \$ 17,337 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
2. Unrestricted net assets of \$74,900 represent the portion available to maintain the Council's continuing obligation to the Sevier County residents and creditors.

Total revenues for the year were \$453,152 compared to \$374,325 in the prior year.

Total expenses for the year were \$423,037 compared to \$427,787 in the prior year.

Total liabilities of the Council increased by \$26,672 to \$62,626 during the fiscal year. Long term liabilities at the end of the current year of are \$18,737.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The basic financial statement includes: (1) Statement of Net Assets; (2) Statement of Revenues, Expenses and Changes in Fund Net Assets, (3) Statement of Cash Flows, and (4) Notes to the financial statements. The Council also includes in this report additional information to supplemental basic Financial Statements.

The *Statement of Net Assets* is a statement of position presenting information that includes all of the Council's assets and liabilities, with the differences reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Council as a whole is improving or deteriorating. Evaluation of the overall economic health of the Council would extend to other non-financial factors, such as county population changes or advances in communications technology, in addition to the financial information provided in this report.

The Statement of Revenues, Expenses and Changes in Fund Net Assets reports how the Council's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. This statement is designed to show the financial reliance of the Council's activities on revenues provided by Sevier County, Cities of Sevierville, Gatlinburg, Pigeon Forge, Sevier County Public Building Authority, Sevier County Electric System, Sevier County Utility District, BB&T Bank, Citizens National Bank, Home Federal Bank, Sevier County Bank, Bank East, Smart Bank, Mountain National Bank, AT&T, Eagle Rock Development, Barber McMurry Engineering, Lockwood Greene and Cariten Health.

The *Statement of Cash Flows* traces the effects that the fiscal year financial events had on the balance of cash in Council accounts. It is useful in planning major purchases or retirement of debt, but is not a measure of net income or loss.

The *Notes to the Financial Statements* provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

## **FINANCIAL ANALYSIS OF THE COUNCIL**

One of the most important questions asked about the Council's finances is: "Is the Council better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets reports information about the Council's activities in a way that will help answer this question. These statements report the net assets of the Council and the changes in them. One can think of the Council's net assets - the difference between assets and liabilities - as one way to measure financial health of the organization. Over time, increases or decreases in the Council's net assets are one-indicator of whether its financial health is improving or deteriorating. As can be seen from the financial information on page 7, the Council's net assets have increased approximately \$30,115 during the year ended June 30, 2009. The Council completed the year with net assets of \$110,974.

### **Budgetary Highlights**

The Council adopts an annual operating budget which includes proposed expenses and the means for paying these expenses. As conditions change during the year the budget may be amended to prevent budget overruns.

### **Capital Assets**

The Council's investment in capital assets amounts to \$79,709 with accumulated depreciation of \$43,235. Capital assets included a vehicle, office furniture, office equipment and leasehold improvements.

Capital expenditures of \$1,000 have been budgeted for the upcoming fiscal year to cover new computers, printers and telephones.

### **Economic Factors and Future Needs**

Originally, the Sevier County Economic Development Council (SCEDC) was established to recruit manufacturing industries only. Over the past ten years, the Council has evolved into a much more diverse entity. The Council's main two functions are to recruit both manufacturing and tourist businesses to the County. However, we have added the following responsibilities:

- Created and maintained the SCEDC website, which contains demographic information on the County.
- Creation and implementation of the Sevier First Health Care Program in which local businesses have the opportunity to provide primary health care benefits to their full-time, part-time and seasonal employees.
- Creation and implementation of the Sevier County Partners in Progress Scholarship Program in which students who have a 2.7 GPA upon graduation from a Sevier County High School, qualify for a last-dollar scholarship to pay for the tuition at Walters State Community College
- Provided construction management services for the new Sevier County Minimum Security Facility.
- Provided construction management services for the new Sevier County Public Library.
- Provided Construction Management services for the new Sevier County Ambulance Building.
- Provide management services on behalf of the City of Sevierville and Sevierville County for the multi-purpose stadium, including day to day maintenance. Also, the SCEDC provides for the organization of outside events other than baseball, such as concerts and car shows.
- Provides management services, including marketing, sponsorship and selecting entertainment for the Sevier County Fair.

- Provides management services, including marketing and event bookings, for the Sevier County Fairgrounds.
- Provides management services in conjunction with the Tennessee Smokies for Visitor Center at the Stadium.

# HICKMAN AND COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Member  
American Institute of  
Certified Public Accountants

Member  
Tennessee Society of  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sevier County Economic Development Council, Inc.  
Sevierville, Tennessee

We have audited the accompanying financial statements of the Sevier County Economic Development Council, Inc., as of, and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Council's management. 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 *Governmental 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sevier County Economic Development Council, Inc. as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 thru 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 8 to the financial statements, an error in accruing reimbursements receivable was discovered by management subsequent to the issuance of our report on these financial statements dated February 13, 2009. Accordingly, the 2008 financial statements have been restated to correct the error.

In accordance with Government Auditing Standards, we have also issued a report dated April 28, 2010 on our consideration of the Sevier County Economic Development Council's compliance and internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Hickman and Company, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS  
April 28, 2010

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.  
Sevierville, Tennessee  
STATEMENT OF NET ASSETS  
June 30, 2009 and 2008

-ASSETS-

	<u>2009</u>	<u>2008 Restated (Note 8)</u>
<u>Current:</u>		
Cash, Unrestricted	\$67,702	\$51,395
Accounts Receivable	65,369	41,995
Prepaid Expenses	4,455	5,250
<u>Total Current Assets</u>	<u>\$137,526</u>	<u>\$98,640</u>
<u>Property and Equipment: (Note 1)</u>		
Automobile	\$25,565	\$23,418
Furniture and Fixtures	18,392	18,392
Office Equipment	28,702	28,702
Leasehold Improvements	6,650	6,650
Less: Accumulated Depreciation	(43,235)	(58,989)
<u>Net Property and Equipment</u>	<u>\$36,074</u>	<u>\$18,173</u>
 TOTAL ASSETS	 <u>\$173,600</u>	 <u>\$116,813</u>
 <u>-LIABILITIES AND NET ASSETS-</u>		
<u>Current Liabilities:</u>		
Bank Overdraft	\$0	\$10,338
Accounts Payable	31,412	25,307
Payroll Taxes Payable	2,687	309
Accrued Vacation Leave (Note 1)	4,938	0
Note Payable, Current (Note 3)	4,852	0
<u>Total Current Liabilities</u>	<u>\$43,889</u>	<u>\$35,954</u>
<u>Long-Term Liabilities:</u>		
Note Payable	\$18,737	\$0
<u>Total Liabilities</u>	<u>\$62,626</u>	<u>\$35,954</u>
<u>Net Assets:</u>		
Invested in Capital Assets	\$36,074	\$18,173
Unrestricted Net Assets	74,900	62,686
<u>TOTAL NET ASSETS</u>	<u>\$110,974</u>	<u>\$80,859</u>

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

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.  
 Sevierville, Tennessee  
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
 For the Years Ended June 30, 2009 and 2008

CHANGES IN UNRESTRICTED NET ASSETS:-OPERATING REVENUE- (Note 4)

	<u>2009</u>	<u>2008</u> <u>Restated (Note 8)</u>
Reimbursements	\$0	\$1,613
Special Projects	0	2,325
State and TVA Grants	0	8,097
Retail Sales	0	2,414
Job Fair Income	3,975	5,064
Vending Income	345	90
Management Fees	20,000	20,000
Smart Card	396	0
Miscellaneous Income	415	619
<b>TOTAL OPERATING REVENUES</b>	<b>\$25,131</b>	<b>\$40,222</b>

-OPERATING EXPENSES-

Salaries and Wages	\$262,792	\$247,833
Employee Benefits (Note 6)	59,012	58,902
Management Fees	13,599	13,200
Contract Labor	1,700	640
Rent (Note 5)	13,736	14,444
Travel, Entertainment & Auto Expenses	21,023	11,936
Telephone	8,505	8,472
Dues and Subscriptions	2,817	16,617
Repairs & Maintenance	374	0
Professional Services	11,093	12,774
Insurance	5,940	4,743
Other Office Expenses	3,099	4,856
Advertising & Marketing	7,480	14,107
Depreciation	7,664	5,632
Job Fair Expenses	2,892	6,323
Special Projects	780	6,075
Seminars & Training	110	962
Misc. Expenses	86	205
<b>TOTAL OPERATING EXPENSES</b>	<b>\$422,702</b>	<b>\$427,721</b>
<b>OPERATING INCOME</b>	<b>(\$397,571)</b>	<b>(\$387,499)</b>

NON-OPERATING REVENUES (EXPENSES):

Funding (Note 4)	\$426,433	\$332,177
Interest Income	1,588	1,926
Interest Expense	(335)	(66)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>\$427,686</b>	<b>\$334,037</b>

Net Income	\$30,115	(\$53,462)
NET ASSETS, Beginning of Year	80,859	\$134,321
<b>NET ASSETS, END OF YEAR</b>	<b>\$110,974</b>	<b>\$80,859</b>

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

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Sevierville, Tennessee

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2009 and 2008

<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	<u>2009</u>	<u>2008</u>
Cash from Management Fees	\$10,000	\$0
Cash from Grants	2,500	5,597
Cash from Reimbursements	16,493	5,868
Cash from Sales	0	181
Cash from Special Projects	4,716	11,391
Cash Payments to Employees and Professional Services	(346,081)	(324,379)
Cash Payments for other Goods and Services	(97,031)	(102,197)
<u>Net Cash Provided by Operating Activities</u>	<u>(\$409,403)</u>	<u>(\$403,539)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>		
Cash from Funding	\$426,433	\$332,177
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Proceeds of Note Payable	\$25,565	\$0
Payments on Note Payable	(1,976)	(1,762)
Interest Expense	(335)	(66)
<u>Net Cash Provided by Capital and Related Financing Activities</u>	<u>23,254</u>	<u>1,828</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of Fixed Assets	(25,565)	(3,094)
Interest Income	1,588	1,926
<u>Net Cash Used by Investing Activities</u>	<u>(23,977)</u>	<u>(1,168)</u>
Net Increase (Decrease) in Cash	16,307	(\$74,358)
Cash, Beginning of Year	51,395	125,753
<u>CASH, END OF YEAR</u>	<u>\$67,702</u>	<u>\$51,395</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
<u>OPERATING INCOME:</u>	<u>(\$397,571)</u>	<u>(\$387,499)</u>
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</u>		
Depreciation	\$7,664	\$306
(Increase) Decrease in Accounts Receivable (Note 8)	(23,374)	(18,691)
(Increase) Decrease in Prepaid Expenses	795	(4)
Increase (Decrease) in Accounts Payable	(4,233)	6,560
Increase (Decrease) in Taxes Payable	2,378	209
Increase (Decrease) in Accrued Vacation Leave	4,938	(4,420)
<u>Net Cash Provided (Used) by Operating Activities</u>	<u>(\$409,403)</u>	<u>(\$403,539)</u>
<u>SUPPLEMENTAL DISCLOSURES</u>		
Interest Expense	\$335	

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

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Sevierville, Tennessee

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –

The Organization – The Council was originally established in 1986 as a not-for-profit organization for the purpose of coordinating governmental and private sector activities in attracting businesses and industries to the Sevier County area. It also assisted these businesses in the selection of suitable sites for operating in Sevier County. Other activities in which the Council is involved include: marketing for the Smokies Baseball Stadium, operating a welcome center at the Stadium, coordinating a small business health insurance plan for local employers, and organizing a scholarship program for qualifying Sevier County post secondary students, as well as providing technical and administrative support for the Public Building Authority of Sevier County's speculative construction of industrial buildings and the management of the Sevier County Fair and Fairgrounds. It is exempt from Federal income tax as a other -than- private foundation as described in the Internal Revenue Code Section 501 (c)(6). Contributions to the organization are deductible for federal income tax purposes.

Fund Accounting and Basis of Accounting- Because of the financial support received from local governments the Council has been required to change their financial reporting in 2007 from a not-for-profit model as allowed prior to the implementation of GASB Statement No. 34 to a governmental fund model.

The financial statements of the Sevier County Economic Development Council, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Council applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the Council's accounting policies are described below.

The Council's accounts are organized on the fund basis of accounting. The entity is a Proprietary Fund type known as an Enterprise Fund.

The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs are financed through user charges.

Proprietary funds are accounted for on a "flow of economic resources" measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses), in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions and ancillary activities.

Reimbursements and Reimbursements Receivable- The Sevier County Economic Development Council receives reimbursements from the East Tennessee Economic Developmental Agency for specific qualified expenditures. Also from time to time Sevier County and the City of Sevierville will reimburse the Council for purchases made at their request. The Council follows the practice of reducing specific expenses by the amount of reimbursements received on such expenses except in the case of capital expenditures

Fixed Assets and Depreciation – Property and equipment are stated at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets, as follows: automobiles – five years; furniture and fixtures – five to seven years; and equipment – five to seven years. Only items over \$300 are capitalized.

Capital assets to establish the Smoky Mountain Welcome Center are jointly owned by Sevier County and the Cities of Sevierville, Gatlinburg and Pigeon Forge through their participation agreement.

Vacation and Compensated Absences – Vacation and compensated absences follow the same guidelines as Sevier County governmental policy. Vacation leave is granted as follows:

- One week for one year of service
- Two weeks for second through tenth year of service
- Three weeks for eleven years of service and thereafter

Vacation leave is earned at the end of the calendar year. Employees then have one year to take it or it is lost. Sick leave may be accumulated by employees at a rate of one day per month of full-time employment and no limit is placed on the total number of sick days that may be accumulated. Sick pay can only be used as needed. There is no pay for unused sick pay at any time.

As of June 2009 and 2008, respectively the liability for earned vacation time was \$4,938 and \$0.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, cash and cash equivalents are defined as petty cash, demand deposits at banks, and certificates of deposit.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH –

The Council's cash funds, except for a nominal amount of petty cash, are deposited, at its own discretion, in checking accounts and certificates of deposit at local depository banks. The Council's policy is to obtain accounts with their funding partners.

At June 30, 2009 and 2008 respectively, the carrying amount of the Council's certificate of deposit was \$33,496 and \$32,293 and the bank balances were \$34,110 and \$8,667.

The following is disclosed concerning cash depository accounts:

- a. Name of bank.
- b. Amount of security pledged as of the date of highest balance on deposit.

- c. Largest cash, savings and time deposit combined amount and month of occurrence.
- d. Total amount of FDIC coverage at the time of largest combined balance.

- a. Citizens National Bank
- b. All amounts over FDIC limits are uncollateralized.
- c. \$181,137, September, 2008
- d. \$100,000

- a. Mountain National Bank
- b. All amounts over FDIC limits are uncollateralized.
- c. \$11,144, February, 2009
- d. \$250,000

- a. Sevier County Bank
- b. All amounts over FDIC limits are uncollateralized
- c. \$3,049, June, 2009
- d. \$250,000

- a. Branch Bank and Trust
- b. All amounts over FDIC limits are uncollateralized
- c. \$18,572, July, 2008
- d. \$100,000

The Council is exposed to custodial credit risk on all deposits over FDIC limits because those deposits would be uninsured and uncollateralized. The Council has no deposit or investment policies that address this risk.

NOTE 3 – NOTE PAYABLE –

In November, 2002 the Economic Development Council purchased a 2002 Mercury Mountaineer with the assistance of a Note Payable to Citizens National Bank for \$23,418 payable over 60 months. This note was paid off in October, 2008.

In January, 2009 the Economic Development Council purchased a 2008 Chevrolet Trailblazer with the assistance of a 60 month note payable to Sevier County Bank for \$25,565 at 3.25% interest. Payments are \$462.20 per month with maturities as follows:

Year ended 6/30/10	\$4,851.86
Year ended 6/30/11	\$5,011.85
Year ended 6/30/12	\$5,177.15
Year ended 6/30/13	\$5,347.87
Year ended 6/30/14	\$3,200.67

Cash payments for interest on Notes Payable totaled \$66 and \$335 for the years ended June 30, 2008 and 2009, respectively.

NOTE 4 – SUPPORT AND REVENUE –

The majority of funding for the Economic Development program is from contributions received from local city and county governments. The balance of contributions is from local private enterprises. In the years ended June 30, 2009 and 2008, \$278,600 and \$256,344 were received from local governments and \$145,833 and \$75,833 were received from local private enterprises, respectively. For the fiscal year 2008, \$15,000 of the Sevier County's funding was for the Welcome Center. For the year ended June 30, 2009, Sevier County contributed \$15,000 towards the Welcome Center Funding. Other revenue consists of management fees, interest income, vending machine royalties, special projects and other miscellaneous income. All support and revenue were used for the exempt purpose of the organization for the years ended June 30, 2009 and 2008.

With the opening of the new City of Sevierville Welcome Center on Highway 66, the City of Sevierville withdrew their financial support of the Smoky Mountain Visitor Center operated for them at Smokies Stadium by the Sevier County Economic Development Council, Inc. At approximately the same time, the Great Smoky Mountain Natural History Association decided not to renew their contract with the Council for management of their own retail business at the Welcome Center location. The Council Board decided to continue operation of a retail business in their name while in discussion with third parties to take over sponsorship of this operation. The first sales were reported in June, 2006. During the 2008 fiscal year, the council entered into a contract with the Smokies Baseball Team for the operation of the Welcome Center retail store. They have agreed to a 50/50 split on all profits from sales. Also the Council will pay the Smokies a management fee of \$1,100 per month per the agreement.

In 2006, the Sevier County Development Council Board agreed to manage the Sevier County Fairgrounds and the County Fair for the Sevier County. A minimum fee of \$20,000 per calendar year was agreed upon for this service to be paid by Sevier County. All expenses are to be funded by Sevier County and all income from the events at the fairground will go to Sevier County. On July 1, 2009 all management operations were turned over to the Sevier County Fair Association.

NOTE 5 – RENT EXPENSE –

In June, 2008 the Sevier County Economic Development Council renewed its operating lease for 3 years with Branch Banking and Trust Company to rent space for their offices in Sevierville, Tennessee. The rent for the first year of the renewal was set at \$1,141.77 per month to be paid on or before the 10<sup>th</sup> of each month. The second year rental was set at \$1,176.05 per month and the third year rent is \$1,211.33 per month.

The following is a schedule of future minimum rental payments under the lease:

Year Ended June 30, 2010	14,113
Year Ended June 30, 2011	<u>14,536</u>
Total Minimum Payments	<u>28,649</u>

There is an option to renew the lease for an additional two years at an increased monthly rental.

NOTE 6 – PENSION PLAN –

Until October, 2006, The Sevier County Economic Development Council, Inc. participated in a defined contribution pension plan for its employees. The Simple IRA Contribution Plans is administered by Prudential, Inc. and Wachovia Securities and covered all employee groups of Sevier County Economic Development Council, Inc. The basis for determining employer contributions was set by the Board of Directors of Sevier County Economic Development Council, Inc., at 3.5% of the employees' base pay. Employees were allowed to voluntarily contribute additional amounts to the plan. In October of 2006 all full time employees became eligible to participate in the Tennessee Consolidated Retirement system plan as described below. Part time employees who had been participating in the Simple IRA plan were allowed to continue with this plan.

Plan Description-Employees of SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service required for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/ters/PS/>.

#### Funding Policy

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL requires employees to contribute 5.0 % of earnable compensation.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 17.08% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL is established and may be amended by the TCRS Board of Trustees.

#### Annual Pension Cost

For the year ending June 30, 2009, SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL'S annual pension cost of \$39,947 to TCRS was equal to SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL'S required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 % a year compounded annually, (b) projected salary increases of 4.75 % (graded) annual rate (no explicit assumption is made regarding the portion attribute to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short term volatility in the market value of total investments over a five-year period. SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL'S unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 19 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost(APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$39,547	100.00%	\$0.00
June 30, 2008	\$39,947	100.00%	\$0.00
June 30, 2007	\$22,415	100.00%	\$0.00

## Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 44.62% percent funded. The actuarial accrued liability for benefits was \$0.06 million, and the actuarial value of assets was \$0.02 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.04 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0 million, and the ratio of the UAAL to the covered payroll was 18.27% percent.

The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar Amounts in Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)- (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 01, 2007	\$29	\$65	\$36	44.62%	\$197	18.27%

NOTE 7- SCHEDULE OF CHANGES IN CAPITAL ASSETS-

The following is a summary of the changes in fixed assets owned by the Sevier County Economic Development Council, Inc. at June 30, 2008 and June 30, 2009.

	<u>Balance 6/30/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/08</u>
Automobile	\$23,418	\$0	\$0	\$23,418
Leasehold Improvements	6,650	0	0	6,650
Furniture and Fixtures	18,392	0	0	18,392
Office Equipment	25,608	3,094	0	28,702
Accumulated Depreciation	(53,357)	(5,632)	0	(58,989)
<b>TOTAL NET FIXED ASSETS</b>	<b>\$20,711</b>	<b>(\$2,538)</b>	<b>\$0</b>	<b>\$18,173</b>

	Balance 6/30/08	Additions	Deletions	Balance 6/30/09
Automobile	\$23,418	\$25,565	(\$23,418)	\$25,565
Leasehold Improvements	6,650	0	0	6,650
Furniture and Fixtures	18,392	0	0	18,392
Office Equipment	28,702	0	0	28,702
Accumulated Depreciation	(58,989)	(7,664)	23,418	(43,235)
<b>TOTAL NET FIXED ASSETS</b>	<b>\$18,173</b>	<b>\$17,901</b>	<b>\$0</b>	<b>\$36,074</b>

Depreciable assets and related accumulated depreciation consist of:

	6/30/08		6/30/09	
	Fixed Assets	Accumulated Depreciation	Fixed Assets	Accumulated Depreciation
Automobile	\$23,418	\$23,418	\$25,565	\$2,556
Leasehold Improvements	6,650	213	6,650	383
Furniture & Fixtures	18,392	16,218	18,392	16,963
Office Equipment	28,702	19,140	28,702	23,333
	<b>\$77,162</b>	<b>\$58,989</b>	<b>\$79,309</b>	<b>\$43,235</b>

NOTE 8- PRIOR PERIOD ADJUSTMENT-

This is an adjustment for the 2009 reimbursement of \$5,326 in travel and entertainment expenses expensed in the prior period. The 2008 Statement of Net Assets and 2008 Statement of Revenue, Expenses and Changes in Net Assets have been restated to reflect this adjustment.

# HICKMAN AND COMPANY, P.C.

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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 and Executive Director  
Sevier County Economic Development Council, Inc.  
Sevierville, Tennessee

We have audited the financial statements of the Sevier County Economic Development Council, as of and for the year ended June 30, 2009, and have issued our report thereon dated April 28, 2010. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sevier County Economic Development Council's control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sevier County Economic Development Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sevier County Economic Development Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 weaknesses 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. We consider the following deficiencies in Sevier County Economic Development Council's internal control as described in the accompanying schedule of findings to be material weaknesses: 1.1, 1.2.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sevier County Economic Development Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, County Commission and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Huckman and Company, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

April 28, 2010

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2009  
PART I, SUMMARY OF AUDITOR'S RESULTS

1. The audit disclosed significant deficiencies in internal control. These deficiencies were considered to be material weaknesses.
2. The audit disclosed no instances of non-compliance that were material to the financial statements of the Sevier County Economic Development Council, Inc.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2009  
PART II, FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING 1.1- SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC. DOES NOT HAVE THE RESOURCES TO PRODUCE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS  
(Internal Control- Material Weakness Under Government Auditing Standards)

Generally accepted auditing standards require the Sevier County Economic Development Council, Inc's financial statements be the product of financial reporting systems that offer reasonable assurance that management is able to produce financial statements and notes to the financial statements that comply with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires that the Council have internal controls over reporting fund financial information and preparing the related notes. It is permissible for us, as the Council's external auditors, to assist the Council in preparing their financial statements and notes as a matter of convenience as long as the Council have the skills needed to prepare their financial statements and notes. However, management, including the accounting staff, does not have the technical skills necessary to prepare GAAP financial statements and disclosures. This deficiency is the result of management's failure to correct the finding noted in the prior-year audit report. The inability to prepare financial statements and notes is an indication of a lack of controls, or ineffective controls, because material misstatements may not be detected.

RECOMMENDATION

The Sevier County Economic Development Council, Inc. should develop the ability to produce financial statements and notes to the financial statements that comply with GAAP. This could include having at least one staff member trained in financial statement preparation. This staff member should have sufficient skills necessary to prepare a complete set of year-end financial statements even though the external auditors prepare the Council's financial statements as a matter of Council's financial statements, this individual must have sufficient knowledge to determine the completeness of financial statement information and disclosures.

FINDING 1.2- MATERIAL AUDIT ADJUSTMENTS WERE REQUIRED FOR PROPER FINANCIAL STATEMENT PRESENTATION  
(Internal Control- Material Weakness Under Government Auditing Standards)

At June 30, 2009, various general ledgers were not materially correct, and multiple audit adjustments were required for the financial statements to be materially correct at year-end. Generally accepted accounting principles require the Council to have adequate internal controls over the maintenance of its accounting records. Therefore, the Council's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records. Although it is permissible for us, as the external auditors, to assist the county in preparing its financial statements, it is a strong indicator of a material weakness in internal control if the Council has ineffective controls over the maintenance of its accounting records, which are used to prepare the financial statements, including the related notes. This deficiency is the result of management's failure to correct the finding noted in the prior-year audit report. We presented audit adjustments to management that they approved and posted to properly present the financial statements in this report.

RECOMMENDATION

The Council should have appropriate processes in place to ensure that its general ledgers are materially correct.