

**PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE**

Sevierville, Tennessee

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2010

and

INDEPENDENT AUDITOR'S REPORT

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2010

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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

BOARD OF DIRECTORS

June 30, 2010

Jack Delozier	Chairman
(Vacant)	Vice-Chairman
Robert Montgomery	Secretary
George R. Seaton	Assistant Secretary
Bud Ogle	Board Member
James D. Ogle	Board Member
Phil Whaley	Board Member

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Public Building Authority of
Sevier County, Tennessee
Sevierville, Tennessee

We have audited the accompanying statement of net assets of the Public Building Authority of Sevier County, Tennessee, a component unit of Sevier County, Tennessee, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority'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 *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 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 Public Building Authority of Sevier County, Tennessee as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2010 on our consideration of the Public Building Authority of Sevier County, Tennessee'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Brown Lake & M. Daniel, PC

September 28, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2010

The financial statements of the Authority report information using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about their activities.

The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. The statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its fees, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balances during the reporting period.

Table 1

Condensed Statement of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	Increase (Decrease)	%
Current and other assets	\$ 8,256,494	\$ 22,393,038	\$ (14,136,544)	-63.1%
Capital assets	<u>1,181,941</u>	<u>1,181,941</u>	-	0.0%
Total assets	<u>\$ 9,438,435</u>	<u>\$ 23,574,979</u>	<u>\$ (14,136,544)</u>	-60.0%
Long-term liabilities	\$ -	\$ 145,000	\$ (145,000)	-100.0%
Other liabilities	<u>6,898,612</u>	<u>20,919,684</u>	<u>(14,021,072)</u>	-67.0%
Total liabilities	<u>\$ 6,898,612</u>	<u>\$ 21,064,684</u>	<u>\$ (14,166,072)</u>	-67.3%
Invested in capital assets, net of related debt	\$ 1,181,941	\$ 1,036,941	\$ 145,000	14.0%
Restricted	-	-	-	-
Unrestricted	<u>1,357,882</u>	<u>1,473,354</u>	<u>(115,472)</u>	-7.8%
Total net assets	<u>\$ 2,539,823</u>	<u>\$ 2,510,295</u>	<u>\$ 29,528</u>	1.2%

One way to measure financial health of a company is to look at its increases or decreases in net assets over time. Increases in net assets, in general, are signs that a company's financial health is improving. Decreases may indicate that its financial health is deteriorating. However, you will need to also consider non-financial factors such as economic conditions, service growth, and legislative mandates.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The Public Building Authority of Sevier County, Tennessee's total net assets increased \$29,528, or 1.2%, from last year. The net assets increase resulted from investment earnings and service fees. The PBA had increased invested balances earning income at lower interest rates in 2010. However, the PBA received less service fees in 2010 causing a decline in earnings when compared to the prior year.

Table 2

Statement of Revenues, Expenses and Changes in Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>	<u>%</u>
Operating revenue	\$ 53,053	\$ 98,735	\$ (45,682)	-46.3%
Non-operating revenue	<u>38,500</u>	<u>67,636</u>	<u>(29,136)</u>	-43.1%
Total revenues	<u>91,553</u>	<u>166,371</u>	<u>(74,818)</u>	-45.0%
Director's expense	2,000	2,400	(400)	-16.7%
Dues	395	395	-	0.0%
Professional fees	25,242	26,426	(1,184)	-4.5%
Storage expense	808	808	-	0.0%
Taxes and fees	20	40	(20)	-50.0%
Contributions to Sevier County and County entities	20,000	35,000	(15,000)	-42.9%
Contribution to primary government - industrial park maintenance	10,000	-	10,000	100.0%
Interest expense	<u>3,560</u>	<u>9,282</u>	<u>(5,722)</u>	-61.6%
Total expenses	<u>62,025</u>	<u>74,351</u>	<u>(12,326)</u>	-16.6%
Change in net assets	29,528	92,020	(62,492)	-67.9%
Beginning net assets	<u>2,510,295</u>	<u>2,418,275</u>	<u>92,020</u>	3.8%
Ending net assets	<u>\$ 2,539,823</u>	<u>\$ 2,510,295</u>	<u>\$ 29,528</u>	1.2%

As can be seen in Table 2, the change in net assets (formerly known as "net income") decreased over the prior year by \$62,492. The primary reason for this was total revenues decreased because of a decrease in service fees and lower interest earnings on investments as discussed above.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Table 3

Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>
Capital assets	<u>\$ 1,181,941</u>	<u>\$ 1,181,941</u>	<u>\$ -</u>

There were no capital additions during the year ended June 30, 2010.

The Authority does not plan to have any significant capital outlays during the fiscal year ending June 30, 2011.

The Authority, except for conduit debt issues, is not expecting to issue any revenue bonds or capital outlay notes in the next fiscal year.

At June 30, 2010, the Authority had no outstanding long-term debt.

There were no significant variations from planned fiscal year 2010 operational expenditures and fiscal year 2010 actual operational expenditures. There are no significant planned increases in fiscal year 2011 operational expenditures.

This financial report is designed to provide the public and creditors with an overview of the finances of the Authority and to demonstrate accountability for the money received. If there are questions, comments, or requests for additional information pertaining to this report, please contact:

Mr. Jack Delozier, Chairman
Public Building Authority of
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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF NET ASSETS

June 30, 2010

ASSETS

Current assets:	
Cash	\$ 11,486
Investments	1,866,630
Funds held by trustee	<u>6,378,378</u>
Total current assets	<u>8,256,494</u>
Capital assets:	
Land and improvements held for development	<u>1,181,941</u>
Total capital assets	<u>1,181,941</u>
Total assets	<u>\$ 9,438,435</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current liabilities:	
Accounts payable	\$ 276
Due to Sevier County	519,755
Due to Sevier County Economic Development Council	203
Conduit debt	<u>6,378,378</u>
Total current liabilities	<u>6,898,612</u>
Total liabilities	<u>6,898,612</u>
Net assets:	
Invested in capital assets, net of related debt	1,181,941
Unrestricted	<u>1,357,882</u>
Total net assets	<u>2,539,823</u>
Total liabilities and net assets	<u>\$ 9,438,435</u>

See accompanying notes to basic financial statements.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

Operating revenue:	
TN-LOANS Program and other service fees	\$ <u>53,053</u>
Total operating revenue	<u>53,053</u>
Operating expenses:	
Director's expense	2,000
Dues	395
Professional fees	25,242
Storage expense	808
Taxes and fees	<u>20</u>
Total operating expenses	<u>28,465</u>
Operating margin	<u>24,588</u>
Non-operating revenue (expense):	
Interest income	38,500
Contributions to other governmental entities	(20,000)
Contribution to primary government - industrial park maintenance	(10,000)
Interest expense	<u>(3,560)</u>
Total non-operating revenue (expense)	<u>4,940</u>
Change in net assets	29,528
Net assets, June 30, 2009	<u>2,510,295</u>
Net assets, June 30, 2010	<u>\$ 2,539,823</u>

See accompanying notes to basic financial statements.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

Cash flows from operating activities:	
Cash received from program and other service fees	\$ 53,053
Cash paid to suppliers for goods and services	(28,465)
Cash received by trustee for conduit debt borrowers	81,035,000
Cash disbursements by trustee to conduit debt borrowers	<u>(95,204,632)</u>
Net cash used by operating activities	<u>(14,145,044)</u>
Cash flows from capital and related financing activities:	
Interest paid	(6,525)
Repayments of long-term debt	(145,000)
Repayments/advances from Sevier County	<u>151,525</u>
Net cash provided by capital and related financing activities	<u>-</u>
Cash flows from non-capital financing activities:	
Contributions to Sevier County and Sevier County entities	<u>(30,000)</u>
Net cash used by non-capital financing activities	<u>(30,000)</u>
Cash flows from investing activities:	
Cash invested	(58,458)
Interest income	<u>38,500</u>
Net cash used by investing activities	<u>(19,958)</u>
Net decrease in cash and cash equivalents	(14,195,002)
Cash and cash equivalents, June 30, 2009	<u>20,584,866</u>
Cash and cash equivalents, June 30, 2010	<u>\$ 6,389,864</u>
Cash and cash equivalents:	
Operating account	\$ 11,209
Construction accounts	277
Funds held by trustee	<u>6,378,378</u>
	<u>\$ 6,389,864</u>
Reconciliation of operating margin to net cash used by operating activities:	
Operating margin	\$ 24,588
Adjustments to reconcile operating margin to net cash used by operating activities:	
Increase in conduit debt	81,035,000
Decrease in conduit debt	<u>(95,204,632)</u>
Net cash used by operating activities	<u>\$ (14,145,044)</u>

See accompanying notes to basic financial statements.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Public Building Authority of Sevier County, Tennessee, a component unit of Sevier County, Tennessee, is a local public non-profit organization formed pursuant to the provisions of the Public Building Authorities Act of 1971, Title 12, Chapter 10, Tennessee Code Annotated, for the purposes of constructing, acquiring, repairing and renovating public facilities to improve the quality of life, and the health, safety and welfare of the citizens of the State of Tennessee and the borrowing of funds and the execution of loan agreements, leases, and interest rate swap agreements with municipal corporations for the purpose of financing any undertaking that is eligible to be financed by bonds, notes, interim certificates or other obligations issued. The Public Building Authority of Sevier County, Tennessee is a public instrumentality of the County and its Board of Directors is appointed by the County Commissioners; it has no power to obligate Sevier County, Tennessee. Sevier County is legally entitled to the net earnings of the Public Building Authority of Sevier County, Tennessee after provision for all current obligations and future projects of the Authority.

Basis of Presentation

The financial statements of the Public Building Authority of Sevier County, Tennessee 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. In addition to applicable GASB pronouncements for proprietary activities, all pronouncements issued, such as Statements and Interpretations by the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), Opinions and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedures, are applied, except for those that conflict with or contradict GASB pronouncements.

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 assets.

Methods of Accounting

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Authority follows the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. It requires the classification of net assets into three components - 1) invested in capital assets, net of related debt service, 2) restricted for debt service, and 3) unrestricted.

Cash and Cash Equivalents

The Public Building Authority of Sevier County, Tennessee considers cash, for the purposes of the statement of cash flows, to include demand deposits with the bank, as there were no other cash equivalents.

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. Only items over \$100 are capitalized.

Use of 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.

Interest Capitalization

Interest costs incurred during construction are capitalized. There was no interest capitalized during the year ended June 30, 2010.

Operating and Non-Operating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Resources

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

CASH

Cash consists of demand deposits in the Public Building Authority of Sevier County, Tennessee checking accounts with Citizens National Bank, Sevier County Bank and Branch Banking and Trust Bank. Cash is insured through the Federal Depository Insurance Corporation.

INVESTMENTS

The Public Building Authority of Sevier County, Tennessee, authorized by its board of directors, has invested its idle monies into two investment accounts with Morgan Keegan & Company of Knoxville, Tennessee. All interest income generated by these investments is added to the principal amounts on a monthly basis. Total carrying value, which also equals market value, at June 30, 2010, is \$1,866,630. This includes all interest earned through the end of fiscal year 2010. At June 30, 2010, the accounts were invested in Federal Farm Credit Bank Notes, Federal Home Loan Bank Discount Notes and cash positions with Morgan Keegan. All securities are held by Morgan Keegan in the Public Building Authority of Sevier County, Tennessee's name and are protected by insurance coverage of up to \$2,500,000 (\$250,000 limit for cash amounts). These investments are in compliance with state statute restrictions regarding investment policies.

FUNDS HELD BY TRUSTEE

The Public Building Authority of Sevier County, Tennessee has issued bonds on behalf of the following Tennessee entities: Sevier County and the Water and Wastewater Authority of Wilson County. The proceeds of these bond issues are deposited with Regions Bank Trust Department as trustee. The proceeds remain the funds of the Authority as long as the proceeds remain with the trustee and are carried as an asset on the balance sheet of the Public Building Authority of Sevier County, Tennessee. The proceeds become the funds of the borrower when funds are disbursed to the above named entities in accordance with the contract terms.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

CAPITAL ASSETS

	June 30, 2009	Additions	Disposals	June 30, 2010
Non-depreciable capital assets:				
Land and improvements held for development -				
Smith-Thomas Technology Park	\$ 585,017	\$ -	\$ -	\$ 585,017
Smith-Thomas Technology Park Improvements	596,924	-	-	596,924
	\$1,181,941	\$ -	\$ -	\$1,181,941
Depreciable capital assets:				
Furniture and fixtures	\$ 879	\$ -	\$ -	\$ 879
Less accumulated depreciation	879	-	-	879
Net depreciable capital assets	\$ -	\$ -	\$ -	\$ -

CAPITAL OUTLAY NOTE

During January, 2003, the Public Building Authority purchased 65.41 acres of land to be developed as an industrial park (Smith-Thomas Industrial Park). Sevier County contributed \$103,471 toward the purchase price of this land. The remaining \$881,150 was financed with a capital outlay note. This capital outlay note's final installment matured on January 15, 2010 with interest paid at the rate of 4.5% per annum as follows:

<u>Redemption Date</u>	<u>Principal Amount Redeemed</u>	<u>Interest</u>	<u>Total</u>
January 15, 2010	<u>\$145,000</u>	<u>\$6,525</u>	<u>\$151,525</u>

During the year, Sevier County advanced the Authority \$151,525 for the final debt service payment due on the above capital outlay note.

CONDUIT DEBT

The Authority has issued bonds as conduit debt on behalf of various Tennessee local government borrowers for construction and acquisition of various capital assets. The borrowers have guaranteed, insured and pledged certain revenues for repayments of these bond issues. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or Sevier County and, accordingly, have not been reported in the accompanying financial statements, except undrawn bond funds held by the Authority's Trustee.

The total conduit debt outstanding as of June 30, 2010 for all bond issues is \$774,260,000. This amount includes bond issues with amounts remaining undrawn in trust asset accounts as shown in the following paragraph.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

CONDUIT DEBT (Continued)

The conduit debt amount recorded by the Authority is the offsetting liability to the funds held by the Trustee asset account. These are funds owed to the borrowing entities, but have not yet been requested by the borrowers. The amounts are fully insured by the borrower for their respective amounts. The investments are held by the Trustee and are invested in U.S. Federal Discount Notes as per the contract agreement. Total carrying value, which approximates market value, at June 30, 2010, is \$6,378,378. Earnings on funds held by the Trustee flow through to the various entities and reduce interest expense on the amount of funds borrowed on their behalf.

REVENUE AND SUPPORT

Operating revenues in the fiscal year ended June 30, 2010 were from facilitating fees and additional payments for loan agreements which are due to the Public Building Authority of Sevier County, Tennessee under the loan agreements for the Tennessee Local Government Alternative Loan Program (TN-LOANS Program). The Authority acts as a conduit issuer for various borrowers throughout the State of Tennessee. Each borrower under the TN-LOANS Program pays a fee on the outstanding balance of their loan based on the basis points provided for in the loan agreement for their particular bond issue.

RISK MANAGEMENT

The Public Building Authority of Sevier County, Tennessee did not participate in any risk management strategies as of June 30, 2010, as it has no employees and owns minimal assets, other than cash which is insured by the Federal Depository Insurance Corporation.

The loan agreements under which bonds are issued require the security of either bond insurance provided by the borrower or other securities such as mortgage notes and trust deeds to indemnify the Public Building Authority of Sevier County, Tennessee.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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MEMBERS
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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
 Public Building Authority of
 Sevier County, Tennessee
 Sevierville, Tennessee

We have audited the financial statements of the Public Building Authority of Sevier County, Tennessee, a component unit of Sevier County, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 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 the Public Building Authority of Sevier County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures 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 Public Building Authority of Sevier County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Public Building Authority of Sevier County, Tennessee's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Public Building Authority of Sevier County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, 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 federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brown Lake & McDaniel, PC
CERTIFIED PUBLIC ACCOUNTANTS

September 28, 2010