SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

and

INDEPENDENT AUDITOR'S REPORT

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

ANNUAL FINANCIAL REPORT

June 30, 2011

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SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

List of Principal Officials

June 30, 2011

Executive Director

Kenneth Allen Newton

Board Officers

Jack Miller, Jr. - President
Larry Waters - Vice President
Matt Ballard - Secretary
Rick Harrell - Treasurer

Board Members

Bryan Atchley
Tracy Baker
Billy Carroll
Robert Estes
Jim Galbraith
Dwight Grizzell
Kelly Headden
Steve Hendrix
Alan Hill
Cindy Ogle
David Ogle
George Pelfrey
David Perella
R. B. Summitt, II
Earlene Teaster
Chris Umberger
David Verble
Phil Whaley

BROWN JAKE & McDANIEL, PC

CERTIFIED PUBLIC ACCOUNTANTS
2607 KINGSTON PIKE, SUITE 110
KNOXVILLE, TENNESSEE 37919-3336
865/637-8600 • fax: 865/637-8601

JOE L. BROWN, CPA, CGFM
FRANK D. McDANIEL, CPA, CGFM
TERRY L. MOATS, CPA
JAMES E. BOOHER, CPA

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Directors
Sevier County Economic Development Council, Inc.

We have audited the accompanying financial statements of the Sevier County Economic Development Council, Inc., as of June 30, 2011. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these basic 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 Sevier County Economic Development Council, Inc. at June 30, 2011, and the respective changes in financial position 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 March 27, 2012 on our consideration of the Council'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 9 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.

Our audit was conducted for the purpose of forming an opinion on the Council's financial statements as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the 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.

Brown Lake & McDaniel, PC

March 27, 2012

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2011

FINANCIAL HIGHLIGHTS

Council assets exceeded liabilities by $89,503 for the fiscal year reported.

Total net assets are comprised of the following:

1. Capital assets, net of related debt, of $6,019 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 $83,484 represent the portion available to maintain the Council's continuing obligation to the Sevier County residents and creditors.

Total revenues for the year ended June 30, 2011 were $551,883.

Total expenses for the year ended June 30, 2011 were $537,538.

Total liabilities of the Council increased by $44,055 to $105,592 during the fiscal year. Long-term liabilities at the end of the current year are $8,549.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statement includes: (1) Statement of Net Assets, (2) Statement of Revenues, Expenses and Changes in 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 on 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 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, Smart Bank,

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2011

Mountain National Bank, Bankeast AT&T, Barge, Wagoner Sumner & Cannon, and Barber McMurry Engineering.

The *Statement of Cash Flows* traces the effect 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 statement 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 bettor 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 the 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. The Council's net assets have increased by $14,345 during the year ended June 30, 2011. The Council completed the year with net assets of $89,503.

Table 1

Net Assets

	June 30, 2010	June 30, 2011	Increase (Decrease)	%
Current and other assets	$ 110,178	$ 175,350	$ 65,172	59.2%
Capital assets	26,517	19,745	(6,772)	-25.5%
Total assets	$ 136,695	$ 195,095	$ 58,400	42.7%
Long-term liabilities	$ 13,726	$ 8,549	$ (5,177)	-37.7%
Other liabilities	47,811	97,043	49,232	103.0%
Total liabilities	$ 61,537	$ 105,592	$ 44,055	71.6%
Net assets:				
Invested in capital assets, net of related debt	$ 7,779	$ 6,019	$ (1,760)	-22.6%
Unrestricted	67,379	83,484	16,105	23.9%
Total net assets	$ 75,158	$ 89,503	$ 14,345	19.1%

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2011

Changes in the Council's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

Table 2

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2010	June 30, 2011	Increase (Decrease)	%
Revenue:				
Operating revenue	$ 26,591	$ 210,665	$ 184,074	692.2%
Total revenue	26,591	210,665	184,074	692.2%
Expenses:				
Salaries and wages	234,625	222,503	(12,122)	-5.2%
Employee benefits	54,072	48,038	(6,034)	-11.2%
Rent	14,113	14,536	423	3.0%
Travel, entertainment, auto	43,655	20,548	(23,107)	-52.9%
Telephone	7,775	8,964	1,189	15.3%
Dues and subscriptions	2,203	1,935	(268)	-12.2%
Professional services	22,493	16,226	(6,267)	-27.9%
Insurance	5,276	4,275	(1,001)	-19.0%
Other office expenses	2,978	6,235	3,257	109.4%
Advertising and marketing	6,623	8,557	1,934	29.2%
Depreciation	9,557	6,772	(2,785)	-29.1%
Job fair expenses	3,335	4,285	950	28.5%
Concert/stadium expenses	-	2,982	2,982	100.0%
Feasibility study expenses	-	44,142	44,142	100.0%
Partners in progress expenses	-	80,000	80,000	100.0%
Pineridge film expenses	-	37,500	37,500	100.0%
Special projects	5,670	9,416	3,746	66.1%
Seminars and training	150	-	(150)	-100.0%
Taxes and licenses	20	-	(20)	100.0%
Miscellaneous expenses	26	89	63	242.3%
Total expenses	412,571	537,003	124,432	30.2%
Non-operating income (expense):				
Funding	349,974	340,630	(9,344)	-2.7%
Interest income	885	588	(297)	-33.6%
Interest expense	(695)	(535)	160	-23.0%
Total non-operating income (expense)	350,164	340,683	(9,481)	-2.7%
Change in net assets	(35,816)	14,345	50,161	-140.1%
Beginning net assets	110,974	75,158	(35,816)	-32.3%
Ending net assets	$ 75,158	$ 89,503	$ 14,345	19.1%

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2011

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 $79,309 with accumulated depreciation of $59,564. Capital assets include a vehicle, office furniture, office equipment and leasehold improvements.

Table 3

Capital Assets

	June 30, 2010	June 30, 2011
Automobile	$ 25,565	$ 25,565
Leasehold improvements	6,650	6,650
Furniture and fixtures	18,392	18,392
Office equipment	28,702	28,702
	79,309	79,309
Less: accumulated depreciation	(52,792)	(59,564)
Total capital assets, net	$ 26,517	$ 19,745

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

Debt Administration

At June 30, 2011, the Council had an outstanding note payable to a bank in the amount of $13,726. This note is secured by capital assets with a net book value of $12,783. The Council currently has no plans to refinance or issue any new debt.

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2011

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 business 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.
- Provided management services on behalf of the City of Sevierville and Sevierville County for the multipurpose 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 and even bookings, for the Sevier County Fairgrounds.
- Provides management services in conjunction with the Tennessee Smokies for Visitor Center at the Stadium.

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2011

Contacting the Council's Management

This annual financial report is designed to provide a general overview of the Sevier County Economic Development Council's finances and to demonstrate its accountability for the funding it receives. If you have any questions about this report, or need additional financial information, please contact the Council's Executive Director at Sevier County Economic Development Council, P.O. Box 4066, Sevierville, Tennessee 37864.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Statement of Net Assets

June 30, 2011

ASSETS

Current assets:	
Cash and cash equivalents - unrestricted	$ 67,593
Accounts receivable	44,624
Accounts receivable - special projects	60,000
Prepaid expenses	3,133
Total current assets	175,350
Capital assets:	
Automobile	25,565
Furniture and fixtures	18,392
Office equipment	28,702
Leasehold improvements	6,650
Less accumulated depreciation	(59,564)
Total net capital assets	19,745
Total assets	$ 195,095

LIABILITIES AND NET ASSETS

Current liabilities:	
Current maturities of note payable	$ 5,177
Accounts payable	72,760
Funding received in advance	15,000
Accrued expenses	4,106
Total current liabilities	97,043
Long-term liabilities:	
Note payable, less current maturities	8,549
Total long-term liabilities	8,549
Total liabilities	105,592
Net assets:	
Invested in capital assets, net of related debt	6,019
Unrestricted net assets	83,484
Total net assets	89,503
Total liabilities and net assets	$ 195,095

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

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2011

Operating revenues:	
Grant fundraising	$ 250
Job fair	6,919
Feasibility study	51,000
Partners in progress	80,000
Pineridge film	45,000
Reimbursements	15,293
Reimbursements - special projects	6,883
Miscellaneous income	5,320
Total operating revenues	210,665
Operating expenses:	
Salaries and wages	222,503
Employee benefits	48,038
Rent	14,536
Travel, entertainment and auto expenses	20,548
Telephone	8,964
Dues and subscriptions	1,935
Professional services	16,226
Insurance	4,275
Other office expenses	6,235
Advertising and marketing	8,557
Depreciation	6,772
Job fair expenses	4,285
Concert/stadium expenses	2,982
Feasibility study expenses	44,142
Partners in progress expenses	80,000
Pineridge film expenses	37,500
Special projects	9,416
Miscellaneous expenses	89
Total operating expenses	537,003
Operating income (loss)	(326,338)
Non-operating income (expense):	
Funding from supporting organizations	340,630
Interest income	588
Interest expense	(535)
Total non-operating income (expense)	340,683
Change in net assets	14,345
Net assets, beginning of year	75,158
Net assets, end of year	$ 89,503

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

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from grants	$ 250
Cash received from reimbursements	22,176
Cash received in advance	15,000
Cash payments for special projects, net of related cash received	(55,406)
Cash payments to employees	(222,503)
Cash payments for other good and services	(89,567)
Net cash used by operating activities	(330,050)
Cash flows from non-capital financing activities:	
Funding from supporting organizations	336,006
Net cash provided by non-capital financing activities	336,006
Cash flows from capital and related financing activities:	
Payments on note payable	(5,012)
Interest expense	(535)
Net cash used by capital and related financing activities	(5,547)
Cash flows from investing activities:	
Interest income	588
Net cash provided by investing activities	588
Net increase in cash and cash equivalents	997
Cash and cash equivalents, beginning of year	66,596
Cash and cash equivalents, end of year	$ 67,593
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	$ (326,338)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	6,772
(Increase) decrease in operating assets:	
Accounts receivable - special projects	(60,000)
Prepaid expenses	449
Increase (decrease) in operating liabilities:	
Accounts payable	31,057
Funding received in advance	15,000
Accrued expenses	3,010
Net cash used by operating activities	$ (330,050)

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

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements

June 30, 2011

1. 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 an other-than-private foundation as described in the Internal Revenue Code 501(c)(6).

2. Summary of Significant Accounting Policies

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 more significant of the Council's accounting policies are described below.

Basis of Presentation

The Council's accounts are organized on the fund basis of accounting. The entity is a Proprietary Fund type known as an Enterprise Fund. An enterprise fund is a proprietary type fund used to account for operations 1) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges; or 2) 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 purpose. As permitted by generally accepted accounting principals, the Council has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices. After November 30, 1989, the Council has elected not to apply FASB pronouncements.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Measurement Focus

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

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

Employees of Sevier County Economic Development Council, Inc. adhere to Sevier County's personnel policy regarding vacation and sick leave. Vacation leave benefits for Sevier County employees do not vest or accumulate and must be used within the year or lost. Therefore, no accrual or recording is required. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)

2. Summary of Significant Accounting Policies (Continued)

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. Cash on deposit with financial institutions at June 30, 2011 was entirely secured by federal depository insurance or insured through the State of Tennessee Bank Collateral Pool.

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.

3. 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, 2011, the carrying amount of the Council's certificate of deposit was $34,680, the bank balance was $32,813, and petty cash was $100.

4. Note Payable

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 per month with maturities as follows:

Year ended 6/30/12	$ 5,177
Year ended 6/30/13	5,348
Year ended 6/30/14	3,201
	$13,726

Cash payments for interest on notes payable totaled $535 for the year ended June 30, 2011.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)

5. 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 year ended June 30, 2011, $305,756 was received from local governments and $30,250 was received from local private enterprises. For the year ended June 30, 2011, 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 year ended June 30, 2011.

With the opening of the 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 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.

6. Rent Expense

As of July 1, 2011, the Sevier County Economic Development Council renewed its operating lease 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 $1,248 per month to be paid on or before the 10th of each month for a total annual payment of $14,972 for 2011.

7. Pension Plan

Overview

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.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)

7. Pension Plan (Continued)

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 requirement 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 became 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 Cody 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 Treasure Department, Consolidated Retirement System, 10th 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, 2011 was 16.24% 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.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)

7. Pension Plan (Continued)

Annual Pension Cost

For the year ended June 30, 2011, Sevier County Economic Development Council's annual pension cost of $31,653 to TCRS was equal to Sevier County Economic Development Council's required actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0 % annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumptions made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 % annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% 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 ten-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, 2009 was 17 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 31,653	100.00%	$ -
June 30, 2010	$ 34,715	100.00%	-
June 30, 2009	$ 39,547	100.00%	-

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 40.51% funded. The actuarial accrued liability for benefits was $0.3 million, and the actuarial value of assets was $0.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $0.2 million, and the ratio of the UAAL to the covered payroll was 98.43%.

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 benefit.

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.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)

7. Pension Plan (Continued)

Funded Status and Funding Progress (Continued)

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ 139	$ 343	$ 204	40.51%	$ 207	98.43%
July 1, 2007	$ 29	$ 65	$ 36	44.62%	$ 197	18.27%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

8. Schedule of Changes in Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	June 30, 2010	Additions	Retirements	June 30, 2011
Capital assets:				
Automobile	$ 25,565	$ -	$ -	$ 25,565
Leasehold improvements	6,650	-	-	6,650
Furniture and fixtures	18,392	-	-	18,392
Office equipment	28,702	-	-	28,702
Total capital assets	79,309	-	-	79,309
Less accumulated depreciation for:				
Automobile	7,669	5,113	-	12,782
Leasehold improvements	554	171	-	725
Furniture and fixtures	18,275	117	-	18,392
Office equipment	26,294	1,371	-	27,665
Total accumulated depreciation	52,792	6,772	-	59,564
Total capital assets, net	$ 26,517	$ (6,772)	$ -	$ 19,745

BROWN JAKE & McDANIEL, PC

CERTIFIED PUBLIC ACCOUNTANTS
2607 KINGSTON PIKE, SUITE 110
KNOXVILLE, TENNESSEE 37919-3336
865/637-8600 • fax: 865/637-8601

JOE L. BROWN, CPA, CGFM
FRANK D. McDANIEL, CPA, CGFM
TERRY L. MOATS, CPA
JAMES E. BOOHER, CPA

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

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
Sevier County Economic Development Council, Inc.

We have audited the accompanying financial statements of the Sevier County Economic Development Council, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated March 27, 2012. 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 Council's internal 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 the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. However of the significant deficiencies described below, we consider items #11-1 through #11-3 to be material weaknesses.

□ □ □

A significant deficiency is a deficiency, or 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. Significant deficiencies are described in Findings #11-1 through #11-3.

Operating Deficiencies

Finding #11-1: There is an absence of appropriate segregation of duties consistent with control objectives within the revenue cycle. The same accounting personnel are currently responsible for and performing duties involving billing, collections, maintenance of receivables, general ledger activity and bank reconciliations. This finding was reported in the prior year.

Recommendation: We recommend the Council implement duties consistent with control objectives. The lack of an adequate number of personnel may make optimal segregation of duties impractical.

Management's Reply: We concur. Segregation of duties is implemented as much as possible for a small office with limited employees. We will strive to find ways to increase segregation of duties by involving the executive director and our treasurer to review bank statements and bank reconcilements along with monthly internal financial reports. We have also contracted an external accountant to review our general ledger postings, journal entries and detailed general ledger activities.

Finding #11-2: During our audit, we had to make material journal entries to allow the financial statements presentation to conform to generally accepted accounting principles. This finding was reported in the prior year.

Recommendation: Management should evaluate the cost and benefits of employing personnel with the technical expertise to detect and correct misstatements of financial statements so that they conform to generally accepted accounting principles.

Management's Reply: We concur. We have evaluated the cost and benefits of employing such personnel. We concluded that the benefits do not outweigh the cost; however, we have contracted with an outside accountant to review our general ledger postings, monthly journal entries and general ledger activities.

Finding #11-3: The Council does not employ personnel that have the technical expertise to prepare annual financial reports in accordance with generally accepted accounting principles. This finding was reported in the prior year.

Recommendation: The Council should evaluate the cost and benefits of employing personnel with the technical expertise to prepare a comprehensive annual financial report in accordance with generally accepted accounting principles.

Management's Reply: We concur. We have evaluated the cost and benefits of employing such personnel. We concluded that the benefits do not outweigh the cost. Instead, we will contract the preparation of the Council's comprehensive annual financial report to our auditors and will retain the responsibility of reviewing and accepting the financial report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of 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*.

The Council's responses to the findings identified in our audit are described above. We did not audit the Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, 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

March 27, 2012