

**SEVIER COUNTY ECONOMIC
DEVELOPMENT COUNCIL, INC.**

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2013

and

INDEPENDENT AUDITOR'S REPORT

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

ANNUAL FINANCIAL REPORT

June 30, 2013

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SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

List of Principal Officials

June 30, 2013

Executive Director

Kenneth Allen Newton

Board Officers

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

Board Members

Bryan Atchley
Chuck Atchley
Tracy Baker
Mike Brown
Bobby Castle
Robert Estes
Kelly Headden
Alan Hill
Ken Maples
Cindy Ogle
David Ogle
Greg Patterson
Todd Proffitt
Vicki Sims
Earlene Teaster
Russell Treadway
Chris Umberger
David Verble
Phil Whaley
Mark Williford

BROWN JAKE & McDANIEL, PC

CERTIFIED PUBLIC ACCOUNTANTS
2607 KINGSTON PIKE, SUITE 110
KNOXVILLE, TENNESSEE 37919-3336
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JOE L. BROWN, CPA, CGFM, CGMA
FRANK D. McDANIEL, CPA, CGFM, CGMA
TERRY L. MOATS, CPA, CGFM, CGMA
JAMES E. BOOHER, CPA, CGMA

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Directors
Sevier County Economic Development Council, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Sevier County Economic Development Council, Inc., as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise of the Council's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sevier County Economic Development Council, Inc. at June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 and the required supplementary information on page 22 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Sevier County Economic Development Council, Inc.'s basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014, on our consideration of the Sevier County Economic Development Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financing reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sevier County Economic Development Council, Inc.'s internal control over financial reporting and compliance.

Bronn Lake & McDaniel, PC

Knoxville, Tennessee
February 12, 2014

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2013

FINANCIAL HIGHLIGHTS

Council net position decreased by \$35,919 for the fiscal year reported.

Total net position is comprised of the following:

1. Net investment in capital assets of \$12,405 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
2. Unrestricted net position of \$27,875 represents 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, 2013 were \$463,303.

Total expenses for the year ended June 30, 2013 were \$499,222.

Total liabilities of the Council decreased by \$8,377 to \$43,160 during the fiscal year. There are no long-term liabilities at the end of the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The *Statement of Net Position* is a statement of position presenting information that includes all of the Council's assets and liabilities, with the differences reported as Net Position. Over time, increases or decreases in net position 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 Position* reports how the Council's net position changed during the current fiscal year. All current year revenues and expenses are included

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2013

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, and 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, First Tennessee Bank, Tennessee State Bank, 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 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 Position and the Statement of Revenues, Expenses and Changes in Net Position reports information about the Council's activities in a way that will help answer this question. These statements report the net position of the Council and the changes in it. One can think of the Council's net position as one way to measure financial health of the organization. Over time, increases or decreases in the Council's net position are one indicator of whether its financial health is improving or deteriorating. The Council's net position has decreased by \$35,919 during the year ended June 30, 2013. The Council completed the year with net position of \$40,280.

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2013

Table 1

Net Position

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>%</u>
Assets:				
Current and other assets	\$ 148,857	\$ 88,834	\$ (60,023)	-40.3%
Capital assets	<u>14,879</u>	<u>15,606</u>	<u>727</u>	4.9%
Total assets	<u>\$ 163,736</u>	<u>\$ 104,440</u>	<u>\$ (59,296)</u>	-36.2%
Liabilities:				
Long-term liabilities	\$ 3,201	\$ -	\$ (3,201)	-100.0%
Other liabilities	<u>48,336</u>	<u>43,160</u>	<u>(5,176)</u>	-10.7%
Total liabilities	<u>\$ 51,537</u>	<u>\$ 43,160</u>	<u>\$ (8,377)</u>	-16.3%
Deferred inflows of resources:				
Funding received in advance	<u>\$ 36,000</u>	<u>\$ 21,000</u>	<u>\$ (15,000)</u>	-41.7%
Total deferred inflows of resources	<u>\$ 36,000</u>	<u>\$ 21,000</u>	<u>\$ (15,000)</u>	-41.7%
Net Position:				
Net investment in capital assets	\$ 6,330	\$ 12,405	\$ 6,075	96.0%
Unrestricted	<u>69,869</u>	<u>27,875</u>	<u>(41,994)</u>	-60.1%
Total net position	<u>\$ 76,199</u>	<u>\$ 40,280</u>	<u>\$ (35,919)</u>	-47.1%

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2013

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

Table 2

Statement of Revenues, Expenses, and Changes in Net Position

	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>	<u>%</u>
Revenue:				
Operating revenue	\$ 80,742	\$ 154,824	\$ 74,082	91.8%
Total revenue	<u>80,742</u>	<u>154,824</u>	<u>74,082</u>	<u>91.8%</u>
Expenses:				
Salaries and wages	232,006	246,862	14,856	6.4%
Employee benefits	70,055	79,078	9,023	12.9%
Management fees	-	17,128	17,128	100.0%
Rent	15,123	6,276	(8,847)	-58.5%
Taxes and licenses	-	20	20	100.0%
Travel, entertainment, auto	15,382	30,791	15,409	100.2%
Telephone	8,187	5,934	(2,253)	-27.5%
Dues and subscriptions	2,265	1,344	(921)	-40.7%
Professional services	12,733	16,597	3,864	30.3%
Insurance	3,590	3,255	(335)	-9.3%
Other office expenses	3,169	8,773	5,604	176.8%
Advertising and marketing	5,349	7,217	1,868	34.9%
Depreciation	6,612	6,208	(404)	-6.1%
Job fair expenses	5,892	6,576	684	11.6%
Partners in progress expenses	20,000	60,000	40,000	200.0%
Pineridge film expenses	42,500	-	(42,500)	-100.0%
Special projects	8,952	-	(8,952)	-100.0%
Seminars and training	870	1,095	225	100.0%
Service charges	-	583	583	100.0%
Miscellaneous expenses	4,002	1,286	(2,716)	-67.9%
Total expenses	<u>456,687</u>	<u>499,023</u>	<u>42,336</u>	<u>9.3%</u>
Operating income (loss)	<u>(375,945)</u>	<u>(344,199)</u>	<u>31,746</u>	<u>8.4%</u>
Non-operating income (expense):				
Contributions	362,535	308,124	(54,411)	-15.0%
Interest income	475	355	(120)	-25.3%
Interest expense	(369)	(199)	170	-46.1%
Total non-operating income (expense)	<u>362,641</u>	<u>308,280</u>	<u>(54,361)</u>	<u>-15.0%</u>
Change in net position	(13,304)	(35,919)	(22,615)	170.0%
Beginning net position	<u>89,503</u>	<u>76,199</u>	<u>(13,304)</u>	<u>-14.9%</u>
Ending net position	<u>\$ 76,199</u>	<u>\$ 40,280</u>	<u>\$ (35,919)</u>	<u>-47.1%</u>

Sevier County Economic Development Council, Inc.

Management's Discussion and Analysis

June 30, 2013

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 net investment in capital assets amounts to \$87,990 with accumulated depreciation of \$72,384. Capital assets include a vehicle, office furniture, office equipment and leasehold improvements.

Table 3

Capital Assets

	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Automobile	\$ 25,565	\$ 25,565
Leasehold improvements	6,650	6,650
Furniture and fixtures	18,392	22,687
Office equipment	<u>30,448</u>	<u>33,088</u>
	81,055	87,990
Less: accumulated depreciation	<u>(66,176)</u>	<u>(72,384)</u>
Total capital assets, net	<u>\$ 14,879</u>	<u>\$ 15,606</u>

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, 2013, the Council had an outstanding note payable to a bank in the amount of \$3,201. This note is secured by capital assets with a net book value of \$2,557. 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, 2013

Economic Factors and Future Needs

Originally, the Sevier County Economic Development Council, Inc. (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 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 Public Library.
- Provided construction management services for the new Sevier County Ambulance Building.
- Provided management services on behalf of the City of Sevierville and Sevier 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.

Contacting the Council's Management

This annual financial report is designed to provide a general overview of the Sevier County Economic Development Council, Inc.'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, Inc., 321 Court Avenue, Sevierville, Tennessee 37862.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Statement of Net Position

June 30, 2013

ASSETS

Current assets:	
Cash and cash equivalents - unrestricted	\$ 64,257
Accounts receivable, net of allowance for doubtful accounts of \$19,364	<u>24,577</u>
Total current assets	<u>88,834</u>
Capital assets:	
Automobile	25,565
Furniture and fixtures	6,650
Office equipment	22,687
Leasehold improvements	33,088
Less accumulated depreciation	<u>(72,384)</u>
Total net capital assets	<u>15,606</u>
Total assets	<u>104,440</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES,
AND NET POSITION

Current liabilities:	
Current maturities of note payable	3,201
Accounts payable	17,609
Grants payable	20,000
Accrued expenses	<u>2,350</u>
Total current liabilities	<u>43,160</u>
Deferred inflows of resources:	
Funding received in advance	<u>21,000</u>
Total deferred inflows of resources	<u>21,000</u>
Net position:	
Net investment in capital assets	12,405
Unrestricted net assets	<u>27,875</u>
Total net position	<u>\$ 40,280</u>

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 Position

For the Fiscal Year Ended June 30, 2013

Operating revenues:	
Management fees	\$ 80,549
Job Fair	8,335
Partners in Progress	60,000
Miscellaneous income	5,940
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Total operating revenues	154,824
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Operating expenses:	
Salaries and wages	246,862
Employee benefits	79,078
Management fees	17,128
Rent	6,276
Licenses and taxes	20
Travel, entertainment and auto expenses	30,791
Telephone	5,934
Dues and subscriptions	1,344
Professional services	16,597
Insurance	3,255
Other office expenses	8,773
Seminars and training	1,095
Advertising and marketing	7,217
Depreciation	6,208
Job Fair expenses	6,576
Partners in Progress expenses	60,000
Service charges	583
Miscellaneous expenses	1,286
	<hr/>
Total operating expenses	499,023
	<hr/>
Operating income (loss)	(344,199)
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Non-operating income (expense):	
Contributions	308,124
Interest income	355
Interest expense	(199)
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Total non-operating income (expense)	308,280
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Change in net position	(35,919)
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Net position, beginning of year	76,199
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Net position, end of year	\$ 40,280
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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, 2013

Cash flows from operating activities:	
Cash received from special projects, net of related expenses	\$ 1,759
Cash received from management fees/miscellaneous income	86,489
Cash payments to employees	(246,862)
Cash payments for other goods and services	(165,091)
	<hr/>
Net cash used by operating activities	(323,705)
Cash flows from non-capital financing activities:	
Funding from supporting organizations	293,124
	<hr/>
Net cash provided by non-capital financing activities	293,124
Cash flows from capital and related financing activities:	
Purchase of equipment	(6,935)
Payments on note payable	(5,348)
Interest expense	(199)
	<hr/>
Net cash used by capital and related financing activities	(12,482)
Cash flows from investing activities:	
Interest income	355
	<hr/>
Net cash provided by investing activities	355
Net decrease in cash and cash equivalents	(42,708)
Cash and cash equivalents, beginning of year	106,965
	<hr/>
Cash and cash equivalents, end of year	\$ 64,257
	<hr/> <hr/>
<u>Reconciliation of operating income (loss) to</u>	
<u>net cash used by operating activities:</u>	
Operating income (loss)	\$ (344,199)
Adjustments to reconcile operating income (loss)	
to net cash used by operating activities:	
Depreciation	6,208
(Increase) decrease in operating assets:	
Accounts receivable	13,947
Prepaid expenses	3,368
Increase (decrease) in operating liabilities:	
Accounts payable	8,053
Accrued expenses	(11,082)
	<hr/>
Net cash used by operating activities	\$ (323,705)
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The accompanying notes are an integral part of these financial statements.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements

June 30, 2013

1. Summary of Significant Accounting PoliciesNature of the Entity

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 an annual job fair 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).

Financial Reporting Entity

The Sevier County Economic Development Council, Inc. is governed by a board of directors comprised of leaders from the principal governing bodies of Sevier County and various other local businesses.

The Council is not considered to be a component unit of Sevier County because the County does not exercise significant influence over operations or have accountability for the Council.

Basis of Presentation

The financial statements of the Council have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental 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.

The Sevier County Economic Development Council, Inc.'s operations are accounted for as a proprietary fund. This fund type is 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 user 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.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)1. Summary of Significant Accounting Policies (Continued)Measurement focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The accompanying financial statements are reporting using the "economic resources measurement focus," and the "accrual basis of accounting." Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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, 2013 was entirely secured by federal depository insurance or insured through the State of Tennessee Bank Collateral Pool.

Reimbursements and Reimbursements Receivable

The Sevier County Economic Development Council, Inc. 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.

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)1. Summary of Significant Accounting Policies (Continued)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.

Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Council include management fees and special projects. Operating expenses include personnel costs, contractual services, and expenses related to special projects. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Recently Issued and Adopted Accounting Pronouncements

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*; and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)* became effective for the year ended June 30, 2013. The City early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, which have an effective date of June 30, 2014.

GASB Statement No. 60 provides accounting and financial reporting guidance related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The standard establishes criteria for determining whether a SCA exists, how to account for SCAs, and requires certain disclosures associated with a SCA.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)1. Summary of Significant Accounting Policies (Continued)Recently Issued and Adopted Accounting Pronouncements (Continued)

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Financial Position was renamed to a Statement of Net Assets.

GASB Statement No. 64 clarifies the circumstances in which hedge accounting continues to be applied when a swap counterparty or a swap counterparty's credit support provider is replaced. The statement allows that when certain conditions exist, the hedging relationship and accounting continues to be applied.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66 resolves conflicting guidance by removing the provision that limited fund based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. Under Statement No. 66, decisions about fund type classifications are based on the nature of the activity to be reported as required by Statements No. 54 and No. 34. This statement also modified guidance on operating lease payments, purchased loans, and servicing fees related to mortgage loans.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)1. Summary of Significant Accounting Policies (Continued)Net Position Flow Assumption

Net position - net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The net investment of capital assets will also include deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt. If there are any significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, the portion of the debt is included in the same net position component (restricted or unrestricted) as the unspent proceeds.

Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted or external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Sometimes the Council will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as net position - restricted and net position - unrestricted, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Council's policy to consider net position - restricted to have been depleted before net position - unrestricted is applied.

Income Tax Status

The Council is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation.

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, 2013, the carrying amount of the Council's certificate of deposit was \$36,367, various checking accounts totaled \$27,790, and petty cash was \$100.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)3. Note Payable

In January 2009, the Sevier County Economic Development Council, Inc. 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 6/30/14	<u>\$3,201</u>
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Cash payments for interest on notes payable totaled \$199 for the year ended June 30, 2013.

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 year ended June 30, 2013, \$258,124 was received from local governments and \$35,000 was received from local private enterprises. 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, 2013.

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 \$1,250 per month per the agreement.

5. Rent Expense

During the fiscal year ended June 30, 2013, the Sevier County Economic Development Council, Inc. ended its operating lease with Branch Banking and Trust Company to rent space for their offices in Sevierville, Tennessee. The total amount of rent paid during the year was \$6,276.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)6. Pension PlanPlan Description

Employees of Sevier County Economic Development Council, Inc. 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 Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Sevier County Economic Development Council, Inc. 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

Sevier County Economic Development Council, Inc. requires employees to contribute 5.0% of earnable compensation.

Sevier County Economic Development Council, Inc. is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2013 was 16.11% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Sevier County Economic Development Council, Inc. is established and may be amended by the TCRS Board of Trustees.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)6. Pension Plan (Continued)Annual Pension Cost

For the year ended June 30, 2013, Sevier County Economic Development Council, Inc.'s annual pension cost of \$37,303 to TCRS was equal to Sevier County Economic Development Council, Inc.'s required actual contributions. The required contribution was determined as part of the July 1, 2011 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, Inc.'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, 2011, which established contribution rates effective July 1, 2012.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2013	\$ 37,303	100.00%	\$ -
June 30, 2012	\$ 35,130	100.00%	\$ -
June 30, 2011	\$ 31,653	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 89.08% funded. The actuarial accrued liability for benefits was \$0.29 million, and the actuarial value of assets was \$0.26 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.03 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.21 million, and the ratio of the UAAL to the covered payroll was 15.34%.

The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements
(Continued)7. Schedule of Changes in Capital Assets

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	June 30, 2012	Additions	Retirements	June 30, 2013
Capital assets:				
Automobile	\$ 25,565	\$ -	\$ -	\$ 25,565
Leasehold improvements	6,650	-	-	6,650
Furniture and fixtures	18,392	4,295	-	22,687
Office equipment	30,448	2,640	-	33,088
	<u>81,055</u>	<u>6,935</u>	<u>-</u>	<u>87,990</u>
Total capital assets				
Less accumulated depreciation for:				
Automobile	17,895	5,113	-	23,008
Leasehold improvements	896	171	-	1,067
Furniture and fixtures	18,392	409	-	18,801
Office equipment	28,993	515	-	29,508
	<u>66,176</u>	<u>6,208</u>	<u>-</u>	<u>72,384</u>
Total accumulated depreciation				
Total capital assets, net	<u>\$ 14,879</u>	<u>\$ 727</u>	<u>\$ -</u>	<u>\$ 15,606</u>

Depreciation expense for fiscal year ending June 30, 2013 was \$6,208.

8. Litigation and Contingencies

From time to time, there are lawsuits pending against the Sevier County Economic Development Council, Inc. However, the Council vigorously defends these matters.

9. Subsequent Events

Management has evaluated subsequent events through February 12, 2014, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Schedule of Funding Progress

June 30, 2013

As of July 1, 2011, the most recent actuarial valuation date, the plan was 89.08 percent funded. The actuarial accrued liability for benefits was \$0.29 million, and the actuarial value of assets was \$0.26 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.03 million. The covered payroll (annual payroll of active employees covered by the plan) \$0.21 million, and the ratio of the UAAL to the covered payroll was 15.34 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

RETIREMENT PLAN -

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 01, 2011	\$261	\$293	\$32	89.08%	\$208	15.34%
July 01, 2009	\$139	\$173	\$34	80.29%	\$207	16.48%
July 01, 2007	\$29	\$65	\$36	44.62%	\$197	18.27%

See independent auditor's report.

BROWN JAKE & McDANIEL, PC

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MEMBERS
 AMERICAN INSTITUTE OF
 CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
 AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
 PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
 Sevier County Economic Development Council, Inc.

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sevier County Economic Development Council, Inc. (the Council) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Sevier County Economic Development Council, Inc.'s basic financial statements and have issued our report thereon dated February 12, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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, we consider items #13-1 through 13-2 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 #13-1 through #13-2.

Operating Deficiencies

Finding #13-1: 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 reconciliations 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 #13-2: 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sevier County Economic Development Council, Inc.'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*.

Sevier County Economic Development Council, Inc.'s Response to Findings

The Sevier County Economic Development Council, Inc.'s responses to the findings identified were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Brown Baker & McDaniel, PC". The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
February 12, 2014