

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

**ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2014**

**and**

**INDEPENDENT AUDITOR'S REPORT**

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

ANNUAL FINANCIAL REPORT

June 30, 2014

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## INTRODUCTORY SECTION

SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

List of Principal Officials

June 30, 2014

Executive Director

Kenneth Allen Newton

Board Officers

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

Board Members

Bryan Atchley  
Chuck Atchley  
Tracy Baker  
Patricia Bible  
Bobby Castle  
Matt Converse  
Kelly Headden  
Buddy Heins  
Alan Hill  
Kenny Maples  
Devon McKinzie  
Cindy Ogle  
David Ogle  
Greg Patterson  
Todd Proffitt  
Earlene Teaster  
Russell Treadway  
Chris Umberger  
David Verble  
Mark Williford

## FINANCIAL SECTION

# BROWN JAKE & McDANIEL, PC

CERTIFIED PUBLIC ACCOUNTANTS  
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 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, 2014, and the related notes to the financial statements, which collectively comprise the Council's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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, 2014, 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.

**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 April 30, 2015, 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 financial 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.



Knoxville, Tennessee  
April 30, 2015

## Sevier County Economic Development Council, Inc.

### Management's Discussion and Analysis

June 30, 2014

#### FINANCIAL HIGHLIGHTS

Council net position decreased by \$17,805 for the fiscal year reported.

Total net position is comprised of the following:

1. Net investment in capital assets of \$14,191 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 \$8,284 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, 2014 were \$401,248.

Total expenses for the year ended June 30, 2014 were \$419,053.

Total liabilities of the Council decreased by \$14,247 to \$28,913 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, 2014

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, Citizens National Bank, Home Federal Bank, Sevier County Bank, Smart Bank, First Tennessee Bank, Tennessee State Bank, AT&T, Barge, Wagoner Sumner & Cannon, Barber McMurry Engineering, and Merit Construction.

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 \$17,805 during the year ended June 30, 2014. The Council completed the year with net position of \$22,475.

**Sevier County Economic Development Council, Inc.**

**Management's Discussion and Analysis**

**June 30, 2014**

**Table 1**  
**Net Position**

	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>	<u>%</u>
<b>Assets:</b>				
Current and other assets	\$ 88,834	\$ 40,347	\$ (48,487)	-54.6%
Capital assets	<u>15,606</u>	<u>14,191</u>	<u>(1,415)</u>	-9.1%
<b>Total assets</b>	<b><u>\$ 104,440</u></b>	<b><u>\$ 54,538</u></b>	<b><u>\$ (49,902)</u></b>	<b>-47.8%</b>
<b>Liabilities:</b>				
Current liabilities	\$ 43,160	\$ 28,913	\$ (14,247)	-33.0%
<b>Total liabilities</b>	<b><u>\$ 43,160</u></b>	<b><u>\$ 28,913</u></b>	<b><u>\$ (14,247)</u></b>	<b>-33.0%</b>
<b>Deferred inflows of resources:</b>				
Funding received in advance	\$ 21,000	\$ 3,150	\$ (17,850)	-85.0%
<b>Total deferred inflows     of resources</b>	<b><u>\$ 21,000</u></b>	<b><u>\$ 3,150</u></b>	<b><u>\$ (17,850)</u></b>	<b>-85.0%</b>
<b>Net Position:</b>				
Net investment in capital assets	\$ 12,405	\$ 14,191	\$ 1,786	14.4%
Unrestricted	<u>27,875</u>	<u>8,284</u>	<u>(19,591)</u>	-70.3%
<b>Total net position</b>	<b><u>\$ 40,280</u></b>	<b><u>\$ 22,475</u></b>	<b><u>\$ (17,805)</u></b>	<b>-44.2%</b>

# Sevier County Economic Development Council, Inc.

## Management's Discussion and Analysis

June 30, 2014

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**

	June 30, 2013	June 30, 2014	Increase (Decrease)	%
Revenue:				
Operating revenue	\$ 154,824	\$ 98,820	\$ (56,004)	-36.2%
Total revenue	154,824	98,820	(56,004)	-36.2%
Expenses:				
Salaries and wages	246,862	251,590	4,728	1.9%
Employee benefits	79,078	80,377	1,299	1.6%
Management fees	17,128	-	(17,128)	-100.0%
Utilities	-	7,414	7,414	100.0%
Rent	6,276	-	(6,276)	-100.0%
Taxes and licenses	20	-	(20)	-100.0%
Travel, entertainment, auto	30,791	22,497	(8,294)	-26.9%
Telephone	5,934	1,944	(3,990)	-67.2%
Dues and subscriptions	1,344	4,911	3,567	265.4%
Professional services	16,597	17,211	614	3.7%
Insurance	3,255	4,862	1,607	49.4%
Other office expenses	8,773	6,473	(2,300)	-26.2%
Advertising and marketing	7,217	5,513	(1,704)	-23.6%
Depreciation	6,208	4,311	(1,897)	-30.6%
Job fair expenses	6,576	6,815	239	3.6%
Partners in progress expenses	60,000	-	(60,000)	-100.0%
Seminars and training	1,095	500	(595)	-54.3%
Service charges	583	-	(583)	-100.0%
Miscellaneous expenses	1,286	4,601	3,315	257.8%
Total expenses	499,023	419,019	(80,004)	-16.0%
Operating income (loss)	(344,199)	(320,199)	24,000	7.0%
Non-operating income (expense):				
Contributions	308,124	302,224	(5,900)	-1.9%
Interest income	355	204	(151)	-42.5%
Interest expense	(199)	(34)	165	-82.9%
Total non-operating income (expense)	308,280	302,394	(5,886)	-1.9%
Change in net position	(35,919)	(17,805)	18,114	-50.4%
Beginning net position	76,199	40,280	(35,919)	-47.1%
Ending net position	\$ 40,280	\$ 22,475	\$ (17,805)	-44.2%

## Sevier County Economic Development Council, Inc.

### Management's Discussion and Analysis

June 30, 2014

#### 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 \$90,886 with accumulated depreciation of \$76,695. Capital assets include a vehicle, office furniture, office equipment and leasehold improvements.

Table 3

Capital Assets

	<u>June 30, 2013</u>	<u>June 30, 2014</u>
Automobile	\$ 25,565	\$ 25,565
Leasehold improvements	6,650	6,650
Furniture and fixtures	22,687	22,687
Office equipment	33,088	35,984
	87,990	90,886
Less: accumulated depreciation	(72,384)	(76,695)
Total capital assets, net	<u>\$ 15,606</u>	<u>\$ 14,191</u>

Capital expenditures of \$28,000 have been budgeted for the upcoming fiscal year to cover new office technology equipment and a vehicle.

## **Sevier County Economic Development Council, Inc.**

### **Management's Discussion and Analysis**

**June 30, 2014**

#### **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:

- Developed new industrial park for Sevier County.
- Created and maintained the SCEDC website, which contains demographic information on the County.
- Created recruitment materials for both industry/retail
- 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 Rocky Top Sports World.
- 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.

#### **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, 2014

ASSETS

## Current assets:

Cash and cash equivalents - unrestricted	\$ 24,746
Accounts receivable, net of allowance for doubtful accounts of \$29,364	13,421
Prepaid health insurance	2,180

Total current assets	40,347
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## Capital assets:

Automobile	25,565
Furniture and fixtures	6,650
Office equipment	22,687
Leasehold improvements	35,984
Less accumulated depreciation	(76,695)

Total net capital assets	14,191
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Total assets	54,538
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES,  
AND NET POSITION

## Current liabilities:

Accounts payable	18,026
Accrued expenses	10,887

Total current liabilities	28,913
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## Deferred inflows of resources:

Funding received in advance	3,150
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Total deferred inflows of resources	3,150
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## Net position:

Net investment in capital assets	14,191
Unrestricted net assets	8,284

Total net position	\$ 22,475
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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, 2014

Operating revenues:	
Management fees	\$ 79,971
Job Fair	9,580
Miscellaneous income	9,269
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Total operating revenues	98,820
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Operating expenses:	
Salaries and wages	251,590
Employee benefits	80,377
Utilities	7,414
Travel, entertainment and auto expenses	22,497
Telephone	1,944
Dues and subscriptions	4,911
Professional services	17,211
Insurance	4,862
Other office expenses	6,473
Seminars and training	500
Advertising and marketing	5,513
Depreciation	4,311
Job Fair expenses	6,815
Miscellaneous expenses	4,601
	<hr/>
Total operating expenses	419,019
	<hr/>
Operating income (loss)	(320,199)
	<hr/>
Non-operating income (expense):	
Contributions	302,224
Interest income	204
Interest expense	(34)
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Total non-operating income (expense)	302,394
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Change in net position	(17,805)
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Net position, beginning of year	40,280
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Net position, end of year	\$ 22,475
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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, 2014

Cash flows from operating activities:	
Cash received from special projects, net of related expenses	\$ 2,666
Cash payments for special projects- grant	(20,000)
Cash received from management fees/miscellaneous income	89,241
Cash payments to employees	(251,590)
Cash payments for other goods and services	(138,275)
	<hr/>
Net cash used by operating activities	(317,958)
Cash flows from non-capital financing activities:	
Funding from supporting organizations	284,374
	<hr/>
Net cash provided by non-capital financing activities	284,374
Cash flows from capital and related financing activities:	
Purchase of equipment	(2,896)
Payments on note payable	(3,201)
Interest expense	(34)
	<hr/>
Net cash used by capital and related financing activities	(6,131)
Cash flows from investing activities:	
Interest income	204
	<hr/>
Net cash provided by investing activities	204
Net decrease in cash and cash equivalents	(39,511)
Cash and cash equivalents, beginning of year	64,257
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Cash and cash equivalents, end of year	\$ 24,746
	<hr/> <hr/>
<u>Reconciliation of operating income (loss) to</u>	
<u>net cash used by operating activities:</u>	
Operating income (loss)	\$ (320,199)
Adjustments to reconcile operating income (loss)	
to net cash used by operating activities:	
Depreciation	4,311
(Increase) decrease in operating assets:	
Accounts receivable	11,156
Prepaid expenses	(2,180)
Increase (decrease) in operating liabilities:	
Accounts payable	417
Accrued expenses	8,537
Grants payable	(20,000)
	<hr/>
Net cash used by operating activities	\$ (317,958)
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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, 2014

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, coordinating an annual job fair for local employers, 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, 2014 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

## SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements  
(Continued)1. Summary of Significant Accounting Policies (Continued)Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. Deferred property taxes in the general fund are unavailable resources in the current year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

Contributed Facilities

The Council occupies without charge an office located in a government-owned building. The estimated fair rental value of the premises is not included in the accompanying financial statements.

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.

## 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

In December 2013, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 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 and recognizes, as outflows of resources of resources or inflows of resources, certain items that were previously reported as assets and liabilities. In addition, this statement provides reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

Also, in December 2013, the GASB issued Statement 66, which is an amendment of GASB Statements No. 10 and No. 62. The objective of this statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of *Statements No. 54 and Statement No. 62*.

The Council implemented these statements during the year ended June 30, 2014.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans* - an amendment of GASB Statement 25, and Statement 68, *Accounting and Financial Reporting for Pensions* - an amendment of GASB Statement 27. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and

## 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)

financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations.

Management is currently evaluating the impact that the adoption of Statement 68 will have on the government's financial statements.

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.

## SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements  
(Continued)1. Summary of Significant Accounting Policies (Continued)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, 2014, the carrying amount of the Council's certificate of deposit was \$16,490, various checking accounts totaled \$8,156, and petty cash was \$100.

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 and the note was paid off in the current year.

Cash payments for interest on notes payable totaled \$34 for the year ended June 30, 2014.

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, 2014, \$267,224 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, 2014.

## SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

Notes to Basic Financial Statements  
(Continued)5. 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, 10<sup>th</sup> 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, 2014 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)5. Pension Plan (Continued)Annual Pension Cost

For the year ended June 30, 2014, Sevier County Economic Development Council, Inc.'s annual pension cost of \$37,804 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, 2011 was 4 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, 2014	\$ 37,804	100.00%	\$ -
June 30, 2013	\$ 37,303	100.00%	\$ -
June 30, 2012	\$ 35,130	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 69.46% funded. The actuarial accrued liability for benefits was \$0.53 million, and the actuarial value of assets was \$0.37 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.16 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.23 million, and the ratio of the UAAL to the covered payroll was 69.36%.

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)6. Schedule of Changes in Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	June 30, 2013	Additions	Retirements	June 30, 2014
Capital assets:				
Automobile	\$ 25,565	\$ -	\$ -	\$ 25,565
Leasehold improvements	6,650	-	-	6,650
Furniture and fixtures	22,687	-	-	22,687
Office equipment	33,088	2,896	-	35,984
Total capital assets	87,990	2,896	-	90,886
Less accumulated depreciation for:				
Automobile	23,008	2,557	-	25,565
Leasehold improvements	1,067	169	-	1,236
Furniture and fixtures	18,801	614	-	19,415
Office equipment	29,508	971	-	30,479
Total accumulated depreciation	72,384	4,311	-	76,695
Total capital assets, net	\$ 15,606	\$ (1,415)	\$ -	\$ 14,191

Depreciation expense for fiscal year ending June 30, 2014 was \$4,311.

7. 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.

8. Subsequent Events

Management has evaluated subsequent events through April 30, 2015, 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, 2014

As of July 1, 2013, the most recent actuarial valuation date, the plan was 69.46 percent funded. The actuarial accrued liability for benefits was \$0.53 million, and the actuarial value of assets was \$0.37 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.16 million. The covered payroll (annual payroll of active employees covered by the plan) \$0.23 million, and the ratio of the UAAL to the covered payroll was 69.36 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, 2013	\$365	\$526	\$161	69.46%	\$232	69.36%
July 01, 2011	\$261	\$293	\$32	89.08%	\$208	15.34%
July 01, 2009	\$139	\$173	\$34	80.29%	\$207	16.48%

See independent auditor's report.

## **INTERNAL CONTROL AND COMPLIANCE SECTION**

**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, 2014, 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 April 30, 2015.

**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 #14-001 and 14-003 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. We did identify one deficiency in internal control, described below in finding #14-002, that we consider to be a significant deficiency.

#### Operating Deficiencies

Finding #14-001: 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.

Finding #14-002: Due to limitations on staff and resource, the Council's control structure does not allow management the ability to prepare annual financial reports in accordance with generally accepted accounting principles.

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

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

Finding #14-003: 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.

#### **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.

  
CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee  
April 30, 2015

## SEVIER COUNTY ECONOMIC DEVELOPMENT COUNCIL, INC.

## Summary Schedule of Prior Audit Findings

There were no significant deficiencies or material weaknesses disclosed in the prior year's auditor's report on internal control and compliance that have not been reported in the auditor's report on internal control and compliance in the current year.