

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

Sevierville, Tennessee

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2014

and

INDEPENDENT AUDITOR'S REPORT

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

BOARD OF DIRECTORS

June 30, 2014

Phil Whaley	Chairman
George R. Seaton	Vice-Chairman
Robert Montgomery	Secretary
Larry Claiborne	Assistant Secretary
Bud Ogle	Board Member
James D. Ogle	Board Member
Roger Radel	Board Member

BROWN JAKE & McDANIEL, PC

CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statement of net position of the Public Building Authority of Sevier County, Tennessee (the Authority), a component unit of Sevier County, Tennessee, as of June 30, 2014, and the related statements of revenues, expenses and change in net position and cash flows for the year then ended, and related notes to the financial statements, which collectively comprise the Authority'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 respective financial position of the Authority as of 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.

Emphasis of Matter

As described in the Notes to Basic Financial Statements, the Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) 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 July 1, 2013.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014, on our consideration of the Authority'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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Knoxville, Tennessee
September 22, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2014

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

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

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

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

Table 1

Condensed Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	Increase (Decrease)	%
Current and other assets	\$ 2,197,265	\$ 3,122,833	\$ (925,568)	-29.6%
Capital assets	<u>8,962,904</u>	<u>1,181,941</u>	<u>7,780,963</u>	658.3%
Total assets	<u>\$ 11,160,169</u>	<u>\$ 4,304,774</u>	<u>\$ 6,855,395</u>	159.3%
Other liabilities	<u>\$ 8,549,902</u>	<u>\$ 1,707,931</u>	<u>\$ 6,841,971</u>	400.6%
Total liabilities	<u>\$ 8,549,902</u>	<u>\$ 1,707,931</u>	<u>\$ 6,841,971</u>	400.6%
Net investment in capital assets	\$ 1,181,941	\$ 1,181,941	\$ -	- %
Restricted	-	-	-	- %
Unrestricted	<u>1,428,326</u>	<u>1,414,902</u>	<u>13,424</u>	0.9%
Total net position	<u>\$ 2,610,267</u>	<u>\$ 2,596,843</u>	<u>\$ 13,424</u>	0.5%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The Public Building Authority of Sevier County, Tennessee's total net position increased \$13,424, or 0.5%, from last year. The net position increase resulted from investment earnings and service fees exceeding expenses and transfers. The PBA had increased invested balances earning income at slightly higher interest rates in 2014. The PBA received more service fees in 2014 causing an increase in overall earnings when compared to the prior year. Expenses were very comparable between years and transfers to Sevier County related entities remained comparable. Overall total assets increased by \$6.8 million due to the purchase of a new industrial development site while trustee deposits for conduit debt issues decreased by \$0.9 million due to loan proceeds draws by borrowers. The Authority's liabilities increased by an amount similar to assets as the Authority issued a \$7.6 million capital outlay note and the conduit debt amount decreased by \$0.9 million. Also, total liabilities include approximately \$170,000 of accrued interest expense on the capital outlay note issued to provide funds for the purchase of the industrial development site located near U.S. Interstate I-40.

Table 2

Statement of Revenues, Expenses and Change in Net Position

	June 30, 2014	June 30, 2013	Increase (Decrease)	%
Operating revenue	\$ 38,220	\$ 33,149	\$ 5,071	15.3%
Non-operating revenue	17,519	19,557	(2,038)	-10.4%
Total revenues	55,739	52,706	3,033	5.8%
Contributions to Sevier County and County entities	20,000	20,000	-	0.0%
Director's expense	1,200	1,100	100	9.1%
Dues	395	395	-	0.0%
Professional fees	19,712	18,876	836	4.4%
Storage expense	1,008	954	54	5.7%
Total expenses	42,315	41,325	990	2.4%
Change in net position	13,424	11,381	2,043	18.0%
Beginning net position	2,596,843	2,585,462	11,381	0.4%
Ending net position	<u>\$ 2,610,267</u>	<u>\$ 2,596,843</u>	<u>\$ 13,424</u>	0.5%

As can be seen in Table 2, the change in net position (formerly known as "net assets") increased from the prior year by \$2,043. The primary reason for this was total revenues increased because of an increase in service fees, while overall expenses remained comparable to 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Table 3

Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Increase (Decrease)</u>
Capital assets	<u>\$ 8,962,904</u>	<u>\$ 1,181,941</u>	<u>\$ 7,780,963</u>

There were capital additions of \$7,780,963 during the year ended June 30, 2014.

The Authority on August 22, 2013 purchased 116 acres of land and land improvements to be completed for approximately \$7.56 million. The seller was paid \$5.0 million at closing and the remaining amount was placed in an escrow account to be released to the seller as improvements are satisfactorily completed. This property acquisition was made at the request of the County Commission of Sevier County to facilitate the development of a future industrial park in the County near U.S Interstate 40, Exit 407. The Authority has no other current plans to make any other significant capital outlays during the fiscal year ending June 30, 2015.

The Authority may issue additional conduit debt from time to time as requested and approved by the Authority's Board in the upcoming year. Also, the Authority issued approximately a \$7.61 million Capital Outlay Note, Series 2013, dated August 21, 2013, to provide funding for the land and land improvement acquisition discussed in the previous paragraph. This Note reflects an annual interest rate of 2.5% and matures on July 14, 2014. The County Commission of Sevier County has adopted a resolution reflecting the Commission's intention during its fiscal year ending June 30, 2015 for the County to issue its own general obligation debt or use the County's debt reserves or combination of these two alternatives to repay the Authority's Note at maturity in July 2014. The Authority does not plan to issue any additional revenue bonds or capital outlay notes in the upcoming year.

The County provided a contribution to the Authority on July 14, 2014 to pay the principal and interest on the capital outlay note of the Authority.

There were no significant variations from planned fiscal year 2014 operational expenditures and fiscal year 2014 actual operational expenditures. There are no significant planned increases in fiscal year 2015 operational expenditures.

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

Mr. Phil Whaley, Chairman
Public Building Authority of
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Sevierville, TN 37864-4630

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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

Current assets:	
Cash	\$ 47,237
Investments	1,901,325
Funds held by trustee	<u>248,703</u>
Total current assets	<u>2,197,265</u>
Capital assets:	
Land and improvements held for development	<u>8,962,904</u>
Total capital assets	<u>8,962,904</u>
Total assets	<u>11,160,169</u>

LIABILITIES

Liabilities:	
Current liabilities:	
Capital outlay note payable	7,610,000
Conduit debt payable	248,703
Accounts payable	277
Accrued interest	170,964
Due to Sevier County	519,755
Due to Sevier County Economic Development Council	<u>203</u>
Total current liabilities	<u>8,549,902</u>

NET POSITION

Net position:	
Net investment in capital assets	1,181,940
Unrestricted	<u>1,428,327</u>
Total net position	<u>\$ 2,610,267</u>

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

Year Ended June 30, 2014

Operating revenues:	
TN-LOANS Program and other service fees	\$ 38,220
Total operating revenues	<u>38,220</u>
Operating expenses:	
Director's expense	1,200
Dues	395
Professional fees	19,712
Storage expense	<u>1,008</u>
Total operating expenses	<u>22,315</u>
Operating margin	<u>15,905</u>
Non-operating revenue (expense):	
Interest income	17,519
Contributions to other governmental entities	<u>(20,000)</u>
Total non-operating revenue (expense)	<u>(2,481)</u>
Change in net position	13,424
Net position, June 30, 2013	<u>2,596,843</u>
Net position, June 30, 2014	<u><u>\$ 2,610,267</u></u>

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from program and other service fees	\$ 38,220
Cash paid to suppliers for goods and services	(22,315)
Cash disbursements by trustee to conduit debt borrowers	<u>(938,994)</u>
Net cash used by operating activities	<u>(923,089)</u>
Cash flows from capital and related financing activities:	
Acquisition of land and improvements	(7,610,000)
Proceeds from issuance of capital outlay note	<u>7,610,000</u>
Net cash used by capital and related financing activities	<u>-</u>
Cash flows from non-capital financing activities:	
Contributions to Sevier County entities	<u>(20,000)</u>
Net cash used by non-capital financing activities	<u>(20,000)</u>
Cash flows from investing activities:	
Cash from investment maturities	700,000
Cash used for investment purchases	(717,462)
Interest income	<u>17,519</u>
Net cash provided by investing activities	<u>57</u>
Net decrease in cash and cash equivalents	(943,032)
Cash and cash equivalents, June 30, 2013	<u>1,238,972</u>
Cash and cash equivalents, June 30, 2014	<u><u>\$ 295,940</u></u>
Cash and cash equivalents:	
Operating account	\$ 46,960
Construction accounts	277
Funds held by trustee	<u>248,703</u>
	<u><u>\$ 295,940</u></u>
Reconciliation of operating margin to net cash used by operating activities:	
Operating margin	\$ 15,905
Adjustments to reconcile operating margin to net cash used by operating activities:	
Decrease in conduit debt	<u>(938,994)</u>
Net cash used by operating activities	<u><u>\$ (923,089)</u></u>

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

REPORTING ENTITY

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting and reporting policies of the Public Building Authority of Sevier County, Tennessee (Authority) included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America (GAAP) that are applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governments*. The more significant accounting policies of the Authority are described below.

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

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

Methods of Accounting

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Fixed Assets and Depreciation

Property and equipment are stated at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets. Only items over \$100 are capitalized.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interest Capitalization

Interest costs incurred during construction are capitalized. There was \$170,964 interest capitalized during the year ended June 30, 2014.

Operating and Non-Operating Revenues

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

Restricted and Unrestricted Resources

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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.

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 adoption of GASB 65 and GASB 66 does not have any impact on the Authority's financial statements.

Net Position

Equity is classified as net position and displayed in three components:

Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that is attributable to the acquisition, construction or improvement of those assets.

Restricted for debt service - Consists of net position with constraints placed on its use by revenue bond resolution.

Unrestricted - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

CASH

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

INVESTMENTS

The Public Building Authority of Sevier County, Tennessee, authorized by its board of directors, has invested its idle monies into one investment account with Raymond James Financial, Inc.'s local office in Knoxville, Tennessee. All interest income generated by these investments is added to the principal amounts on a monthly basis. Total carrying value, which also equals market value, at June 30, 2014, is \$1,901,325. This includes all interest earned through the end of fiscal year 2014. At June 30, 2014, the accounts were invested in bank certificates of deposit and a cash position with Raymond James Financial. All securities are held by Raymond James Financial, Inc. in the Public Building Authority of Sevier County, Tennessee's name and are protected by insurance coverage of up to \$2,500,000 (\$250,000 limit for cash amounts). These investments are in compliance with state statute restrictions regarding investment policies.

FUNDS HELD BY TRUSTEE

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

CAPITAL ASSETS

	June 30, 2013	Additions	Disposals	June 30, 2014
Non-depreciable capital assets:				
Land and improvements held for development -				
Smith-Thomas Technology Park	\$ 585,017	\$ -	\$ -	\$ 585,017
Smith-Thomas Technology Park improvements	596,924	-	-	596,924
407 Technology Park	-	7,780,963	-	7,780,963
	<u>\$1,181,941</u>	<u>\$7,780,963</u>	<u>\$ -</u>	<u>\$8,962,904</u>
Depreciable capital assets:				
Furniture and fixtures	\$ 879	\$ -	\$ -	\$ 879
Less accumulated depreciation	879	-	-	879
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net depreciable capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

CONDUIT DEBT

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

The total conduit debt outstanding as of June 30, 2014 for all bond issues is \$627,455,000. This amount includes bond issues with amounts remaining undrawn in trust asset accounts as shown in the following paragraph.

The conduit debt amount recorded by the Authority is the offsetting liability to the funds held by the Trustee asset account. These are funds owed to the borrowing entities, but have not yet been requested by the borrowers. The amounts are fully insured by the borrower for their respective amounts. The investments are held by the Trustee and are invested in cash and U.S. Government Securities as per the contract agreement. Total carrying value, which approximates market value, at June 30, 2014, is \$248,703. Earnings on funds held by the Trustee flow through to the various entities and reduce interest expense on the amount of funds borrowed on their behalf.

CAPITAL OUTLAY NOTE PAYABLE

The Authority on August 22, 2013 purchased 116 acres of land and land improvements to be completed for approximately \$7.61 million. The seller was paid \$5.0 million at closing and the remaining amount was placed in an escrow account to be released to the seller as improvements are satisfactorily completed. This property acquisition was made at the request of the County Commission of Sevier County to facilitate the development of a future industrial park in the County near U.S Interstate 40, Exit 407.

Also, the Authority issued approximately a \$7.61 million Capital Outlay Note, Series 2013, dated August 21, 2013, to provide funding for the land and land improvement acquisition discussed in the previous paragraph. This note reflects an annual interest rate of 2.5% and matures on July 14, 2014. The County Commission of Sevier County adopted a resolution reflecting the Commission's intention during its fiscal year ending June 30, 2015 for the County to issue its own general obligation debt or use the County's debt reserves or combination of these two alternatives to repay the Authority's note at maturity in July 2014. The County contributed funds to the Authority on July 14, 2014 for the amount of principal and interest due on the note and it was paid in full on that date.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

REVENUE AND SUPPORT

Operating revenues in the fiscal year ended June 30, 2014 were from facilitating fees and additional payments for loan agreements which are due to the Public Building Authority of Sevier County, Tennessee under the loan agreements for the Tennessee Local Government Alternative Loan Program (TN-LOANS Program). The Authority acts as a conduit issuer for various borrowers throughout the State of Tennessee. Each borrower under the TN-LOANS Program pays a fee on the outstanding balance of their loan based on the basis points provided for in the loan agreement for their particular bond issue.

RISK MANAGEMENT

The Public Building Authority of Sevier County, Tennessee did not participate in any risk management strategies as of June 30, 2014, as it has no employees and owns minimal assets, other than cash which is insured by the Federal Depository Insurance Corporation.

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

SUBSEQUENT EVENTS

Subsequent events were evaluated through September 22, 2014, which is the date the financial statements were available to be issued.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

BROWN JAKE & McDANIEL, PC

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

We have audited, in accordance with the 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, the financial statements of the Public Building Authority of Sevier County, Tennessee (the Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, however, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The 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 "Brandon A. McDaniel, PC". The signature is written in a cursive, flowing style.

CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
September 22, 2014