

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

Sevierville, Tennessee

**ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2015

and

INDEPENDENT AUDITOR'S REPORT

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2015

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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

BOARD OF DIRECTORS

June 30, 2015

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

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KNOXVILLE, TENNESSEE 37919-3336
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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, 2015, 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, 2015, 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 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 28, 2015, 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.

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

Knoxville, Tennessee
September 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2015

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

	June 30, 2015	June 30, 2014	Increase (Decrease)	%
Current and other assets	\$ 2,434,798	\$ 2,197,265	\$ 237,533	10.8%
Capital assets	6,105,692	8,962,904	(2,857,212)	-31.9%
Total assets	<u>\$ 8,540,490</u>	<u>\$ 11,160,169</u>	<u>\$ (2,619,679)</u>	-23.5%
Other liabilities	\$ 949,005	\$ 8,549,902	\$ (7,600,897)	-88.9%
Total liabilities	<u>\$ 949,005</u>	<u>\$ 8,549,902</u>	<u>\$ (7,600,897)</u>	-88.9%
Net investment in capital assets	\$ 5,996,349	\$ 1,181,941	\$ 4,814,408	407.3%
Restricted	-	-	-	-
Unrestricted	1,595,136	1,428,326	166,810	11.7%
Total net position	<u>\$ 7,591,485</u>	<u>\$ 2,610,267</u>	<u>\$ 4,981,218</u>	190.8%

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 \$4,981,218, or 190.8%, from last year. The net position increase resulted from contributions from the primary government, investment earnings and service fees exceeding realized losses from sales of development property, unrealized losses from the valuation adjustment of unsold development property, operating expenses and transfers to other governmental entities. The PBA had increased invested balances earning income at slightly lower interest rates in 2015 than in 2014 and the PBA received less service fees in 2015 than in 2014 causing an overall decrease in normal operating revenues when compared to the prior year. In 2015 the PBA sold one tract of development property in the new 407 Technology Park, however site preparation costs and raw land costs caused this transaction to show a net realized loss of \$1,792,562. Also, during 2015 the PBA determined remaining acreage in the older Smith-Thomas Technology Park should be revalued to reflect current selling prices of similar property in the new 407 Technology Park. This caused a loss in 2015 from the revaluation of the development property totaling \$1,014,740. These losses were offset by the primary government's (Sevier County) contribution totaling \$7,781,225 during the year. These contributed funds were used to pay a capital outlay note and accrued interest on July 15, 2014. These types of transactions during 2015 were not present in 2014. Normal operating expenses were very comparable between years and transfers to Sevier County related entities remained comparable. Overall, total assets decreased by \$2.6 million due to the sale of a new industrial development site, write-down in the value of older industrial property being held for development, and trustee deposits for conduit debt issues decreasing due to loan proceeds draws by borrowers. The Authority's liabilities decreased by \$7.6 million as the Authority repaid the 2014 Capital Outlay Note and accrued interest that was issued during 2014 to purchase the 407 Technology Park development property.

Table 2

Statement of Revenues, Expenses and Change in Net Position

	June 30, 2015	June 30, 2014	Increase (Decrease)	%
Operating revenue (loss)	\$ (2,773,363)	\$ 38,220	\$ (2,811,583)	-7356.3%
Non-operating revenue	7,795,338	17,519	7,777,819	44396.5%
Total revenues	5,021,975	55,739	4,966,236	8909.8%
Contributions to Sevier County and County entities	20,000	20,000	-	0.0%
Director's expense	1,600	1,200	400	33.3%
Dues	425	395	30	7.6%
Professional fees	17,697	19,712	(2,015)	-10.2%
Storage expense	1,035	1,008	27	2.7%
Total expenses	40,757	42,315	(1,558)	-3.7%
Change in net position	4,981,218	13,424	4,967,794	37006.8%
Beginning net position	2,610,267	2,596,843	13,424	0.5%
Ending net position	\$ 7,591,485	\$ 2,610,267	\$ 4,981,218	190.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

As can be seen in Table 2, the change in net position (formerly known as "net assets") increased from the prior year by \$4,967,794. The primary reason for this was the contribution from the primary government offset by net losses on the sale of development property and the loss from the revaluation of property being held by the Authority during 2015. These items were not present in 2014

Table 3

	<u>Capital Assets, Net of Accumulated Depreciation</u>		
	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Increase (Decrease)</u>
Capital assets	<u>\$ 6,105,692</u>	<u>\$ 8,962,904</u>	<u>\$ (2,857,212)</u>

There were capital additions of \$115,475 and significant disposals and valuation adjustments which together equaled \$2,972,687 for the year ended June 30, 2015.

The Authority, on August 22, 2013, purchased 116 acres of land and land improvements to be completed for approximately \$7.6 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, 2016 as future improvements for roads, utility services and drainage are planned to be performed by the County.

The Authority may issue additional conduit debt from time to time as requested and approved by the Authority's Board in the upcoming year. 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 budgeted and transferred \$7,781,225 in funds to the Authority on July 15, 2014 which the Authority in turn used these funds to pay off the outstanding Capital Outlay Note and related accrued interest in their entirety on July 15, 2014. The Authority does not plan to issue any additional revenue bonds or capital outlay notes in the upcoming year.

There were no significant variations from planned fiscal year 2015 operational expenditures and fiscal year 2015 actual operational expenditures. There are no significant planned increases in fiscal year 2016 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:

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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF NET POSITION

June 30, 2015

ASSETS

Current assets:	
Cash	\$ 311,144
Investments	1,915,080
Funds held by trustee	<u>208,574</u>
Total current assets	<u>2,434,798</u>
Capital assets:	
Land and improvements held for development	<u>6,105,692</u>
Total capital assets	<u>6,105,692</u>
Total assets	<u>8,540,490</u>

LIABILITIES

Liabilities:	
Current liabilities:	
Conduit debt payable	208,574
Accounts payable and contract retainage - operations	111,130
Accounts payable – development property improvements	109,343
Due to Sevier County	519,755
Due to Sevier County Economic Development Council	<u>203</u>
Total current liabilities	<u>949,005</u>

NET POSITION

Net position:	
Net investment in capital assets	5,996,349
Unrestricted	<u>1,595,136</u>
Total net position	<u>\$ 7,591,485</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, 2015

Operating revenues:	
TN-LOANS Program and other service fees	\$ 33,939
Realized (loss) on development property sales, net of cost of \$2,361,437	(1,792,562)
Unrealized (loss) on valuation adjustment for development property	<u>(1,014,740)</u>
Total operating revenues (loss)	<u>(2,773,363)</u>
Operating expenses:	
Director's expense	1,600
Dues	425
Professional fees	17,697
Storage expense	<u>1,035</u>
Total operating expenses	<u>20,757</u>
Operating profit (loss)	<u>(2,794,120)</u>
Non-operating revenue (expense):	
Interest income	14,113
Contributions from primary government	7,781,225
Contributions to other governmental entities	<u>(20,000)</u>
Total non-operating revenue (expense)	<u>7,775,338</u>
Change in net position	4,981,218
Net position, June 30, 2014	<u>2,610,267</u>
Net position, June 30, 2015	<u>\$ 7,591,485</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, 2015

Cash flows from operating activities:	
Cash received from program and other service fees	\$ 33,939
Cash received from sale of development property	568,875
Cash paid for improvements to development land sold	(292,638)
Cash paid to suppliers for goods and services	(20,757)
Cash received by trustee for conduit debt borrowers	29,560,000
Cash disbursements by trustee to conduit debt borrowers	<u>(29,600,129)</u>
Net cash provided by operating activities	<u>249,290</u>
Cash flows from capital and related financing activities:	
Acquisition of land and improvements	(5,870)
Repayment of capital outlay note	(7,610,000)
Contributions from Sevier County	7,781,225
Interest paid	<u>(171,225)</u>
Net cash used by capital and related financing activities	<u>(5,870)</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	936,245
Cash used for investment purchases	(950,000)
Interest income	<u>14,113</u>
Net cash provided by investing activities	<u>358</u>
Net increase in cash and cash equivalents	223,778
Cash and cash equivalents, June 30, 2014	<u>295,940</u>
Cash and cash equivalents, June 30, 2015	<u>\$ 519,718</u>
Cash and cash equivalents:	
Operating account	\$ 310,867
Construction accounts	277
Funds held by trustee	<u>208,574</u>
	<u>\$ 519,718</u>
Reconciliation of operating profit (loss) to net cash provided by operating activities:	
Operating profit (loss)	\$ (2,794,120)
Adjustments to reconcile operating profit (loss) to net cash provided by operating activities:	
Add unrealized (loss) on valuation adjustment for development property	1,014,740
Add realized (loss) on sale of development property – property cost	1,957,946
Increase in accounts payable for realized (loss) on sale of development property	110,853
Net decrease in conduit debt	<u>(40,129)</u>
Net cash provided by operating activities	<u>\$ 249,290</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, 2015

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 \$262 interest capitalized during the year ended June 30, 2015.

Operating and Non-Operating Revenues

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

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted and Unrestricted Resources

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

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.

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, 2015, is \$1,915,080. This includes all interest earned through the end of fiscal year 2015. At June 30, 2015, 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.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

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, 2014	Additions	Disposals	June 30, 2015
Non-depreciable capital assets:				
Land and improvements held for development -				
Smith-Thomas Technology Park	\$ 585,017	\$ -	\$ 417,817	\$ 167,200
Smith-Thomas Technology Park improvements	596,924	-	596,924	-
407 Technology Park	<u>7,780,963</u>	<u>115,475</u>	<u>1,957,946</u>	<u>5,938,492</u>
	<u>\$ 8,962,904</u>	<u>\$ 115,475</u>	<u>\$ 2,972,687</u>	<u>\$ 6,105,692</u>
Depreciable capital assets:				
Furniture and fixtures	\$ 879	\$ -	\$ -	\$ 879
Less accumulated depreciation	<u>879</u>	<u>-</u>	<u>-</u>	<u>879</u>
Net depreciable capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

During the year ending June 30, 2015 the governing body and management of the Authority determined the historical costs for the remaining land and land improvements at the Smith-Thomas Technology Park would be more accurately reflected in the financial statements at an estimated fair market value of \$20,000 per acre. The schedule above reflects a reduction of the value of the land and improvements totaling \$1,014,740. A significant portion of the original costs of improvements were funded by state and federal grants received.

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.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

CONDUIT DEBT (Continued)

The total conduit debt outstanding as of June 30, 2015 for all bond issues is \$728,575,000. 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, 2015, is \$208,574. 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 totaling \$7,781,225 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.

REVENUE AND SUPPORT

Operating revenues in the fiscal year ended June 30, 2015 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.

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

NOTES TO BASIC FINANCIAL STATEMENTS
(Continued)

RISK MANAGEMENT

The Public Building Authority of Sevier County, Tennessee did not participate in any risk management strategies as of June 30, 2015, 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 28, 2015, which is the date the financial statements were available to be issued.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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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, 2015, 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 28, 2015.

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.


CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
September 28, 2015