

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

Sevierville, Tennessee

**ANNUAL FINANCIAL REPORT
WITH REQUIRED SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2016

and

INDEPENDENT AUDITOR'S REPORTS

PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

Year Ended June 30, 2016

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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

BOARD OF DIRECTORS

June 30, 2016

| | |
|-------------------|---------------------|
| 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 |

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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, 2016, 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, 2016, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Public Building Authority of Sevier County, Tennessee'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 September 29, 2016, 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 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2016

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, 2016 | June 30, 2015 | Increase (Decrease) | % |
|----------------------------------|---------------------|---------------------|------------------------|--------|
| Current and other assets | \$ 2,121,865 | \$ 2,434,798 | \$ (312,933) | -12.9% |
| Capital assets | 6,126,775 | 6,105,692 | 21,083 | 0.3% |
| Total assets | <u>\$ 8,248,640</u> | <u>\$ 8,540,490</u> | <u>\$ (291,850)</u> | -3.4% |
| Other liabilities | \$ 652,099 | \$ 949,005 | \$ (296,906) | -31.3% |
| Total liabilities | <u>\$ 652,099</u> | <u>\$ 949,005</u> | <u>\$ (296,906)</u> | -31.3% |
| Net investment in capital assets | \$ 6,106,392 | \$ 5,996,349 | \$ 110,043 | 1.8% |
| Restricted | - | - | - | - |
| Unrestricted | 1,490,149 | 1,595,136 | (104,987) | -6.6% |
| Total net position | <u>\$ 7,596,541</u> | <u>\$ 7,591,485</u> | <u>\$ 5,056</u> | 0.1% |

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 \$5,056, or 0.1%, from last year. The net position increase resulted from normal operating revenue, investment earnings and other service fees exceeding operating expenses and transfers to other governmental entities. The PBA had decreased invested balances earning income at slightly higher interest rates in 2016 than in 2015 and the PBA received more in service fees in 2016 than in 2015 causing an overall increase in normal operating revenues when compared to the prior year. In the prior year of 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. There were no development land sales occurring during 2016. Also, during 2015 the PBA determined the 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 resulted in 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 of 2015. The Primary government did not transfer any funds to the PBA during 2016. The 2015 contributed funds were used to pay off a capital outlay note and accrued interest on July 15, 2014. These types of transactions were not present during 2016. Normal operating expenses were very comparable between years and transfers to Sevier County related entities remained comparable. Overall, total assets decreased by \$292 thousand due primarily to the payment of prior year development and other accounts payables and offset by improvements to the 407 Technology Park. Also, the PBA advanced funds for the build out improvements of a jointly owned Sevier County and Sevierville education facility for East Tennessee State University in Sevier County. When completed the PBA expects to advance approximately \$200,000 to the two governments and be repaid the advances to them through the assignment of lease proceeds. The Authority's assets and liabilities both decreased by \$209 thousand in 2016 due to the liquidation of undrawn conduit debt bond funds during the fiscal year.

Table 2

Statement of Revenues, Expenses and Change in Net Position

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>Increase (Decrease)</u> | <u>%</u> |
|---|----------------------|----------------------|--------------------------------|----------|
| Operating revenue (loss) | \$ 38,646 | \$ (2,773,363) | \$ 2,812,009 | 101.4% |
| Non-operating revenue | <u>18,316</u> | <u>7,795,338</u> | <u>(7,777,022)</u> | -99.8% |
| Total revenues | <u>56,962</u> | <u>5,021,975</u> | <u>(4,965,013)</u> | -98.9% |
| Contributions to Sevier County and County entities | 25,000 | 20,000 | 5,000 | 25.0% |
| Director's expense | 1,300 | 1,600 | (300) | -18.8% |
| Dues | - | 425 | (425) | -100.0% |
| Professional fees | 24,571 | 17,697 | 6,874 | 38.8% |
| Storage expense | <u>1,035</u> | <u>1,035</u> | <u>-</u> | 0.0% |
| Total expenses | <u>51,906</u> | <u>40,757</u> | <u>11,149</u> | 27.4% |
| Change in net position | 5,056 | 4,981,218 | (4,976,162) | -99.9% |
| Beginning net position | <u>7,591,485</u> | <u>2,610,267</u> | <u>4,981,218</u> | 190.8% |
| Ending net position | <u>\$ 7,596,541</u> | <u>\$ 7,591,485</u> | <u>\$ 5,056</u> | 0.1% |

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 \$5,056. This change is discussed above Table 2.

Table 3

Capital Assets, Net of Accumulated Depreciation

| | <u>June 30, 2016</u> | <u>June 30, 2015</u> | <u>Increase (Decrease)</u> |
|----------------|----------------------|----------------------|--------------------------------|
| Capital assets | <u>\$ 6,126,775</u> | <u>\$ 6,105,692</u> | <u>\$ 21,083</u> |

There were capital additions of \$21,083 and no significant disposals for the year ended June 30, 2016.

The Authority has no current plans to make any significant capital outlays in the upcoming year.

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 2016 operational expenditures and fiscal year 2016 actual operational expenditures. There are no significant planned increases in fiscal year 2017 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
Sevier County, Tennessee
P.O. Box 4630
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PUBLIC BUILDING AUTHORITY
OF SEVIER COUNTY, TENNESSEE

Sevierville, Tennessee

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

| | |
|--|------------|
| Current assets: | |
| Cash | \$ 229,172 |
| Investments | 1,729,949 |
| Advance to other local government - local facility improvement | 81,372 |
| Advance to primary government - local facility improvement | 81,372 |
| | 2,121,865 |
| | |
| Capital assets: | |
| Land and improvements held for development | 6,126,775 |
| | 6,126,775 |
| | |
| Total capital assets | 6,126,775 |
| | |
| Total assets | 8,248,640 |

LIABILITIES

| | |
|--|---------|
| Liabilities: | |
| Current liabilities: | |
| Accounts payable - operations | 277 |
| Accounts payable - local facility improvements | 111,481 |
| Accounts payable - development property improvements | 20,383 |
| | 132,141 |
| | |
| Long-term liabilities: | |
| Due to Sevier County Economic Development Council | 203 |
| Due to Sevier County | 519,755 |
| | 652,099 |

NET POSITION

| | |
|----------------------------------|--------------|
| Net position: | |
| Net investment in capital assets | 6,106,392 |
| Unrestricted | 1,490,149 |
| | 7,596,541 |
| Total net position | \$ 7,596,541 |

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, 2016

| | | |
|--|--|---------------------|
| Operating revenues: | | |
| TN-LOANS Program and other service fees | | \$ <u>38,646</u> |
| Total operating revenues | | <u>38,646</u> |
| Operating expenses: | | |
| Director's expense | | 1,300 |
| Professional fees | | 24,571 |
| Storage expense | | <u>1,035</u> |
| Total operating expenses | | <u>26,906</u> |
| Operating profit | | <u>11,740</u> |
| Non-operating revenue (expense): | | |
| Interest income | | 18,316 |
| Contributions to other governmental entities | | <u>(25,000)</u> |
| Total non-operating revenue (expense) | | <u>(6,684)</u> |
| Change in net position | | 5,056 |
| Net position, June 30, 2015 | | <u>7,591,485</u> |
| Net position, June 30, 2016 | | <u>\$ 7,596,541</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, 2016

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from program and other service fees | \$ 38,646 |
| Cash paid to suppliers for goods and services | (26,906) |
| Cash paid for improvements to development land sold in prior year | (110,853) |
| Cash disbursements by trustee to conduit debt borrowers | <u>(208,574)</u> |
| Net cash used by operating activities | <u>(307,687)</u> |
| Cash flows from capital and related financing activities: | |
| Cash paid for acquisition of land and improvements | <u>(89,660)</u> |
| Net cash used by capital and related financing activities | <u>(89,660)</u> |
| Cash flows from non-capital financing activities: | |
| Cash advances to other local government for local facility improvements | (25,632) |
| Cash advances to Sevier County for local facility improvements | (25,631) |
| Contributions to Sevier County entities | <u>(25,000)</u> |
| Net cash used by non-capital financing activities | <u>(76,263)</u> |
| Cash flows from investing activities: | |
| Cash from investment maturities | 950,000 |
| Cash used for investment purchases | (785,252) |
| Interest income | <u>18,316</u> |
| Net cash provided by investing activities | <u>183,064</u> |
| Net decrease in cash and cash equivalents | (290,546) |
| Cash and cash equivalents, June 30, 2015 | <u>519,718</u> |
| Cash and cash equivalents, June 30, 2016 | <u>\$ 229,172</u> |
| Cash and cash equivalents: | |
| Operating account | \$ 228,895 |
| Construction accounts | <u>277</u> |
| | <u>\$ 229,172</u> |
| Reconciliation of operating profit to net cash used by operating activities: | |
| Operating profit | \$ 11,740 |
| Adjustments to reconcile operating profit to net cash used by operating activities: | |
| Decrease in accounts payable | (110,853) |
| Net decrease in conduit debt | <u>(208,574)</u> |
| Net cash used by operating activities | <u>\$ (307,687)</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, 2016

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 no interest capitalized during the year ended June 30, 2016.

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 account with Citizens National 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, 2016, is \$1,729,949. This includes all interest earned through the end of fiscal year 2016. At June 30, 2016, 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 in past years on behalf of the various Tennessee entities. 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, if applicable. The proceeds become the funds of the borrower when funds are disbursed to the named entities in accordance with the contract terms. As of June 30, 2016 there were no undrawn bond proceeds being held by the trustee for any related bond issues.

CAPITAL ASSETS

| | June 30, 2015 | Additions | Disposals | June 30, 2016 |
|--|---------------------|------------------|-------------|---------------------|
| Non-depreciable capital assets: | | | | |
| Land and improvements held for development - | | | | |
| Smith-Thomas Technology Park | \$ 167,200 | \$ - | \$ - | \$ 167,200 |
| 407 Technology Park | 5,938,492 | 21,083 | - | 5,959,575 |
| | <u>\$ 6,105,692</u> | <u>\$ 21,083</u> | <u>\$ -</u> | <u>\$ 6,126,775</u> |
| Depreciable capital assets: | | | | |
| Furniture and fixtures | \$ 879 | \$ - | \$ - | \$ 879 |
| Less accumulated depreciation | 879 | - | - | 879 |
| Net depreciable capital assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

During the year ended June 30, 2016, there were some road and drainage improvements to the 407 Technology Park. During the year ended June 30, 2016, there was no depreciation expense recorded by the Authority for depreciable capital assets as the original value had been fully depreciated in prior years.

ADVANCES TO PRIMARY AND OTHER LOCAL GOVERNMENT

During the year ended June 30, 2016, the PBA's Board of Directors approved advancing Sevier County, TN and the City of Sevierville, TN approximately \$200,000 for improvements to a jointly owned facility intended to be used as the Sevier County campus of East Tennessee State University. As of June 30, 2016, the PBA had begun the planned improvements to the facility and expended \$162,744. The amount advanced is divided evenly between the two governments on the Statement of Net Position of the PBA as of June 30, 2016. The PBA expects to be repaid from the receipts of an assigned lease proceeds from a lease agreement between the two local governments and the University.

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, 2016 for all bond issues is \$562,695,000. There are no undrawn proceeds from these bond issues in trust asset accounts with the trustee as of June 30, 2016 as discussed in the following paragraph.

There was no conduit debt amount recorded by the Authority as an offsetting liability to the funds held by the Trustee asset account as of June 30, 2016. If these funds existed they would be 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, however; no undrawn bond funds remained with the bond trustee as of June 30, 2016.

REVENUE AND SUPPORT

Operating revenues in the fiscal year ended June 30, 2016 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, 2016, as it has no employees and owns minimal assets, other than cash and investments which are 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 29, 2016, which is the date the financial statements were available to be issued.

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

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JAMES E. BOOHER, CPA, CGMA

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, 2016, 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 29, 2016.

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.



BRON LAKE & MCDANIEL, PC
CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
September 29, 2016