

CITY OF SEVIERVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2014

Prepared by:
Finance Department

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014

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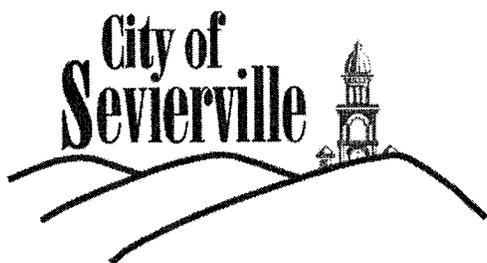
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INTRODUCTORY SECTION



December 31, 2014

To the Honorable Mayor, Aldermen
and Citizens of the City of
Sevierville, Tennessee:

Tennessee state law requires that every general purpose local government publish, within six months of the close of each fiscal year, a complete set of audited financial statements. This comprehensive annual financial report is published to fulfill that requirement for the fiscal year ended June 30, 2014.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Brown Jake and McDaniel, PC has issued an unqualified ("clean") opinion on these financial statements for the fiscal year ended June 30, 2014. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the government

The City of Sevierville, Tennessee (government), founded in 1795 and incorporated in 1901, is located in the eastern part of the state, an area known as a tourist destination because of the government's proximity to the Great Smoky Mountains National Park. It currently occupies 19.9 square miles and serves a residential population of over 15,000. The government is empowered to assess and levy a tax on all property within the government not exempt by general law upon the same principles established in regard to state and county taxation. Assessments made by the Sevier County, Tennessee Tax Assessor are adopted by the government. It also is empowered by state statute to extend its corporate limits by annexation under certain criteria, which it has done from time to time.

The government is a municipal corporation governed by a Home Rule Charter form of government. Policy-making and legislative authority are vested in the board of Mayor and Aldermen (Board) consisting of the mayor and five other members, all of whom are elected at large. Board members serve staggered four-year terms, with members elected every two years. The mayor is elected for a two-year term. The Board appoints the government's City Administrator and City Recorder.

The government provides a full range of services, including police and fire protection, highways and streets, traffic control, building inspection, sanitation and solid waste, recreational activities, a convention center, utility services and general administrative services. This report includes business-type activities of the government regarding providing electric, water and sewer services to the government and the surrounding area or in the case of electric services the entire area of Sevier County, Tennessee. The government also is financially accountable for a legally separate Public Building Authority (PBA), which is reported separately within the government's financial statements. The PBA is the government's only component unit and is governed by an appointed board. Additional information on this legally separate entity can be found in the notes to the financial statements.

The Board is required to adopt an initial budget for the fiscal year no later than June 30 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the government's financial planning and control. The budget is prepared by fund and department (e.g., police). Department heads may transfer resources within a department with City Administrator approval. Transfers between departments require approval from the Board by ordinance.

Local economy

The government is considered part of a micropolitan area. Sevierville is ideally located at the base of the Great Smoky Mountains National Park, America's most visited national park, and adjacent to internationally-known cities Gatlinburg and Pigeon Forge. Some of the top vacation activities nationwide, including Dollywood, are located either within a few minutes from downtown Sevierville or within our corporate limits. This combination helps the government draw millions of visitors each year, and we project that tourism growth will continue. The Sevier County school district also has a significant economic presence, employing in total more than 2,000 professional, paraprofessional and auxiliary staff members. The Sevier County School System serves over 14,500 students in pre-kindergarten through twelfth grade with twenty-eight schools in the system.

During the past ten years, the Sevier County unemployment rate rose from a seasonal low of 3.1 percent (2006) to a decade high of 10.8 percent (2009). The Sevier County's unemployment rate as of June 2014 was 6.8 percent compared to 6.3 percent nationally and 7.4 percent for the state of Tennessee. The decrease in the unemployment rate during the current year reflects the rebounding local economy of year round employment instead of seasonal employment.

According to the latest census of year 2010, Sevier County's median family income was \$41,774; mean family income was \$53,541; average family size was 3.1; and median population age was 40.5. The median price of a single family home in the vicinity of the government was \$183,000 with an average household size of 2.66 persons.

Due to its strong reserves and healthy local economy, the government has maintained a credit rating of Aa3 from Moody's Investor Service and has obtained an A+ rating from Standard and Poor's.

Steady growth and development have positively impacted revenue despite the nation's sluggish economy. Growing hand in hand with Sevierville's tourism economy, new service facilities such as LeConte Medical Center and the King Family Public Library have enhanced the government's ability to meet the needs of its residential population. The completion of over 1,000 hotel rooms in 2008, the groundbreaking of new developments and seven years of events with tremendous economic impact at the Sevierville Convention Center have given visitors new reasons to come to Sevierville. While Sevierville continues to expand its tourist appeal through new attractions and destinations, the government's leadership, both state and local, continues to focus heavily on infrastructure improvements. Currently, Highway 66, which serves as the main access road for our area, is undergoing a widening project to ease congestion. The first two phases are complete and have already alleviated some traffic congestion. Phase 3 of the Highway 66 widening project began in February 2012 and is estimated to be completed by December 2015. Improvements to the I-40 exit 407 interchange began on March 12, 2014. The project has an estimated completion date of May 15, 2015. At the end of completion, this will be a diverging diamond interchange exit.

Long-term financial planning and major initiatives

Unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) in the general fund at year end was 42 percent of fiscal year 2015 general fund budgeted expenditures. This amount significantly exceeds the policy guidelines set by the Board for budgetary and planning purposes (25 percent of general fund budgeted expenditures). The general fund balance increased by \$878,188 during the year ended June 30, 2014. In the event that the balance drops below the established minimum level, the Board will develop a plan to replenish the fund balance to the minimum level within two years. Although the minimum is 25 percent, the government budgeted for 42 percent for 2014 and budgets 43 percent for 2015 to strengthen its ability to react to potential economic fluctuations. Beginning in 2014, the government implemented a plan to set aside 1.5 percent of annual budgeted revenue to strengthen reserves.

By policy, the government maintains a five-year Capital Improvement Program which serves as its planning document to ensure that facilities, equipment and infrastructure are well maintained. Under the guidance of the Board, this process gives the government the ability to plan for its capital needs and allocate short- and long-term resources appropriately. As part of its process, the government identifies and quantifies the operational costs associated with its capital projects and budgets resources accordingly. In addition, the Fleet department monitors the condition of all government vehicles and makes

recommendations on their replacement. The fiscal year 2015 Capital Improvement Program anticipates \$849,000 in general government expenditures, \$30,000 in the Solid Waste fund and \$7,980,000 in the water and sewer fund. Included in these appropriations are \$388,000 for traffic and road improvements and \$3,000,000 for a sewer treatment plant expansion.

Relevant financial policies

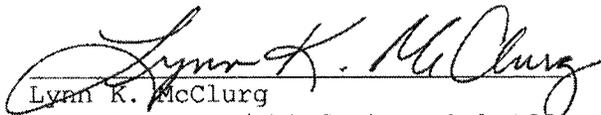
The government has adopted a comprehensive set of financial policies, including a policy that requires the adoption of a balanced annual operating budget (estimated revenues and available resources equal to or in excess of appropriations). The government has a fund balance policy to ensure its ability to meet its obligations through all economic conditions.

Acknowledgements

The preparation of this report would not have been possible without the skill, effort, and dedication of the entire staff of the Finance and Administration departments. We wish to thank all government departments for their assistance in providing the data necessary to prepare this report. Credit also is due to the Mayor and Aldermen for their unfailing support for maintaining the highest standards of professionalism in the management of the government's finances.

Respectfully submitted,

City of Sevierville, Tennessee


Lynn K. McClurg
City Recorder/Chief Financial Officer



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Sevierville
Tennessee**

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Financial Report
for the Fiscal Year Ended

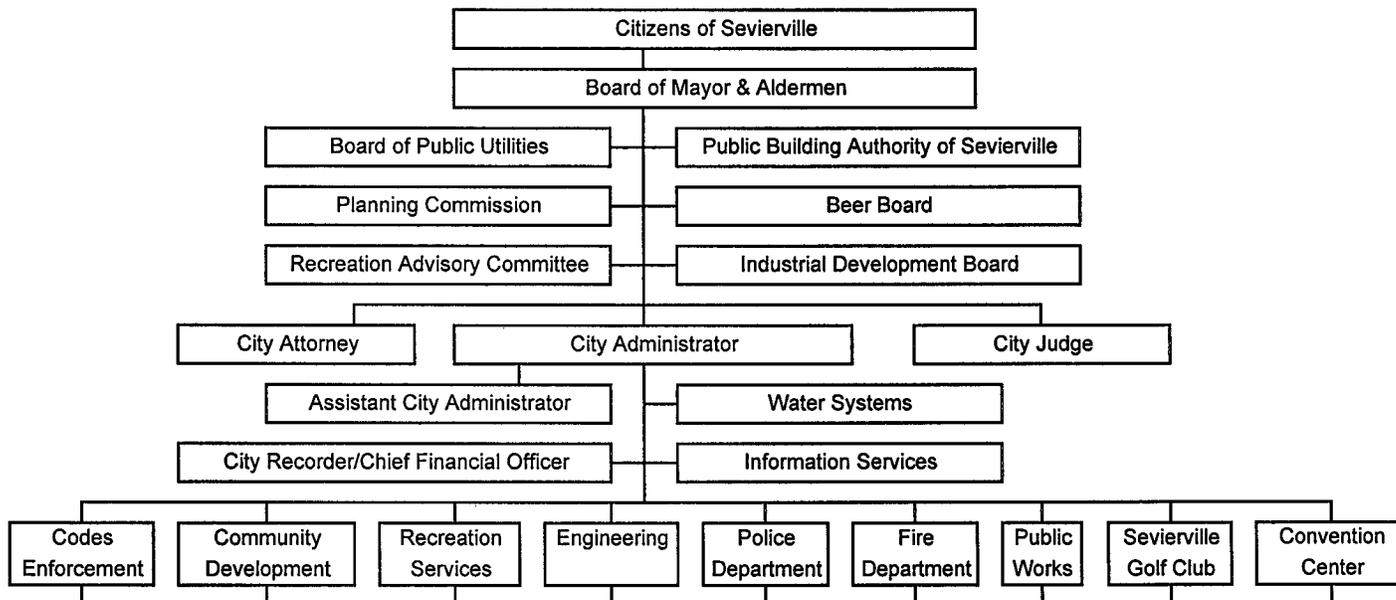
June 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive style.

Executive Director/CEO

City of Sevierville

Organizational Chart



List of Elected and Appointed Officials

Board of Mayor and Aldermen (Elected)

Mayor	Bryan C. Atchley
Vice-Mayor	Devin Koester
Alderman	Robbie Fox
Alderman	Wayne Helton
Alderman	Travis McCroskey
Alderman	Jim McGill

City Officials (Appointed)

City Administrator	Russell Treadway
Assistant City Administrator	Tracy Baker
Planning/Economic Development Director	Pamela Caskie
City Recorder/Chief Financial Officer	Lynn McClurg
City Judge	Lanning Wynn
City Attorney	Ed Owens
Police Chief	Don Myers
Fire Chief	Matt Henderson
Director of Public Works	Bryon Fortner
Director of Code Enforcement	George (Butch) Stott
Director of Parks and Recreation	Bob Parker
Director of Information Services	Jim Deanda
Director of Golf	Mark Wallace
Water and Sewer Systems Director	Stephen Flynn
General Manager Electric System	Richard Harrell
Project Manager/Purchasing Agent	Robert Moncrief
Convention Center Director	David Bobo

FINANCIAL SECTION

BROWN JAKE & McDANIEL, PC

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MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Mayor and Board of Alderman
City of Sevierville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sevierville, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the respective budgetary comparison for the General Fund and the Central Business Improvement District Fund of the City of Sevierville, Tennessee as of June 30, 2014, and the respective changes in financial position and, where applicable, 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 10 through 16 and the schedules of funding progress on page 79 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 opinions on the financial statements that collectively comprise the City of Sevierville, Tennessee's basic financial statements. The introductory section, other supplementary information in the financial section, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information in the financial section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information in the financial section is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2014, on our consideration of the City of Sevierville, Tennessee'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 City of Sevierville, Tennessee's internal control over financial reporting and compliance.

Brown Jake & McDaniel, PC

Knoxville, Tennessee
December 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Sevierville, Tennessee (the government), we offer readers of the government's financial statements this narrative overview and analysis of the financial activities of the government for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1 - 4 of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the government exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$197,017,223 (*net position*). Of this amount, \$45,165,681 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors. Net position increased significantly in fiscal year 2014 as completed component unit (PBA) projects were transferred to the primary government.
- The government's total net position increased \$111,183,280 due primarily to special items, the majority being that completed projects of the PBA were transferred to the government.
- At the close of the current fiscal year, the government's governmental funds reported combined fund balances of \$27,755,636, an increase of \$2,903,270 in comparison with the prior year. Approximately 44% of this amount (\$12,274,002) is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the general fund was \$12,480,804, or approximately 42% of total fiscal year 2015 budgeted general fund expenditures.
- The government's total general obligation bonded debt decreased by \$8,920,000 during the current fiscal year, primarily due to retirement and bond premium resulting from refinancing of CBID debt.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the government's basic financial statements. The government's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the government's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the government's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the government is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the government that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Governmental activities include general government, public safety, public works, recreation, contingency reserve, community development, and debt administration. The business-type activities of the government include a water and sewer system and an electric system.

The government-wide financial statements include not only the government itself (known as the *primary government*), but also a legally separate public building authority for which the government is financially

accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 17 - 19 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the government can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The government maintains five individual governmental funds and one blended component unit. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the central business improvement district fund, which are considered to be major funds. Data from the other three governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the combining fund financial statements section of this report.

The government adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements have been provided for the government's major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20 - 23 and the budgetary comparison statements can be found on pages 24 - 30 of this report.

Proprietary Funds. The government maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The government uses enterprise funds to account for its water and sewer system and its electric system. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the government's various functions. The government uses internal service funds to account for the management of its retained risks. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Department Fund and for the Electric Department Fund, both of which are considered to be major funds of the government. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining fund financial statements section of this report.

The basic proprietary fund financial statements can be found on pages 31 - 34 of this report.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37 - 78 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the government's progress in funding its obligation to provide

pension and OPEB benefits to its employees. Required supplementary information can be found on page 79 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds, along with additional other supplementary information, are presented immediately following the required supplementary information on pensions and OPEB. This information can be found on pages 80 - 100 of this report.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the government, assets and deferred outflows of resources exceeded liabilities by \$197,017,223, at the close of the most recent fiscal year.

City of Sevierville's Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 41,585,986	\$ 37,382,828	\$ 65,276,785	\$ 60,969,806	\$ 106,862,771	\$ 98,352,634
Capital assets	180,091,499	76,062,282	205,276,965	207,596,331	385,368,464	283,658,613
Total assets	221,677,485	113,445,110	270,553,750	268,566,137	492,231,235	382,011,247
Total deferred outflows of resources	5,227,335	5,221,838	4,242,078	4,308,956	9,469,413	9,530,794
Long-term liabilities	194,601,222	202,221,130	48,626,699	60,230,001	243,227,921	262,451,131
Other liabilities	9,076,506	1,026,541	42,630,790	32,926,251	51,707,296	33,952,792
Total liabilities	203,677,728	203,247,671	91,257,489	93,156,252	294,935,217	296,403,923
Total deferred inflows of resources	9,748,208	9,304,175	-	-	9,748,208	9,304,175
Net investment in capital assets	(9,830,370)	36,823,645	152,410,713	151,675,286	142,580,343	188,498,931
Restricted	6,997,266	4,670,528	2,273,933	2,228,157	9,271,199	6,898,685
Unrestricted	16,311,988	(135,379,071)	28,853,693	25,815,398	45,165,681	(109,563,673)
Total net position	\$ 13,478,884	\$ (93,884,898)	\$ 183,538,339	\$ 179,718,841	\$ 197,017,223	\$ 85,833,943

By far, the largest portion of the government's net position (72.3%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The government uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the government's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the government's net position (4.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$45,165,681 (23%) is unrestricted.

The government's overall net position increased \$111,183,280 from the prior fiscal year. This amount is made up of three parts: 1) current year increase in net position of \$5,534,116, 2) a prior period adjustment of (-\$13,045) and finally special items of \$105,662,209. The reasons for this current year increase in net position are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$107,363,782 from the prior fiscal year (as restated) for an ending net position balance of \$13,478,884. A

combination of factors affected this result, most notably was the grant of capital resources to the government from the component unit (Public Building Authority) that are not reported in the fund financial statements presented on the current financial resources model, but are reported in the government-wide financial statements presented on the economic resources model in the amount of \$105,810,113.

City of Sevierville's Change in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 5,082,525	\$ 2,079,624	\$ 163,736,644	\$ 159,018,665	\$ 168,819,169	\$ 161,098,289
Operating grants and contributions	1,017,890	840,006	-	-	1,017,890	840,006
Capital grants and contributions	510,000	79,670	-	-	510,000	79,670
General revenues:						
Sales taxes	23,341,677	22,397,631	-	-	23,341,677	22,397,631
Other taxes	10,230,377	7,512,277	-	-	10,230,377	7,512,277
Other revenues	(233,868)	5,861,655	338,195	185,309	104,327	6,046,964
Total revenues	39,948,601	38,770,863	164,074,839	159,203,974	204,023,440	197,974,837
Expenses:						
General government	10,191,778	5,744,298	-	-	10,191,778	5,744,298
Public safety	9,313,909	8,358,140	-	-	9,313,909	8,358,140
Public works	6,130,079	6,203,632	-	-	6,130,079	6,203,632
Recreation	5,657,997	2,847,302	-	-	5,657,997	2,847,302
Contingency reserve	118,788	166,457	-	-	118,788	166,457
Community development	216,119	216,120	-	-	216,119	216,120
Interest on long-term debt	7,052,592	7,948,138	-	-	7,052,592	7,948,138
Debt administration - other	909,900	732,297	-	-	909,900	732,297
Capital budget	-	530,641	-	-	-	530,641
Water and Sewer Department	-	-	11,712,680	11,556,009	11,712,680	11,556,009
Electric Department	-	-	147,185,482	142,556,411	147,185,482	142,556,411
Total program expenses	39,591,162	32,747,025	158,898,162	154,112,420	198,489,324	186,859,445
Increase (decrease) in net position, before other items	357,439	6,023,838	5,176,677	5,091,554	5,534,116	11,115,392
Other items:						
Special items	105,662,209	-	-	-	105,662,209	-
Transfer - in lieu of tax payment	1,357,179	1,327,296	(1,357,179)	(1,327,296)	-	-
Contributions to component unit	-	(1,542,300)	-	-	-	(1,542,300)
Total other items	107,019,388	(215,004)	(1,357,179)	(1,327,296)	105,662,209	(1,542,300)
Change in net position	107,376,827	5,808,834	3,819,498	3,764,258	111,196,325	9,573,092
Net position - beginning, as previously stated	(93,884,898)	(97,349,069)	179,718,841	176,571,438	85,833,943	79,222,369
Prior period adjustment	(13,045)	(2,344,663)	-	(616,855)	(13,045)	(2,961,518)
Net position - beginning, as restated	(93,897,943)	(99,693,732)	179,718,841	175,954,583	85,820,898	76,260,851
Net position - ending	\$ 13,478,884	\$ (93,884,898)	\$ 183,538,339	\$ 179,718,841	\$ 197,017,223	\$ 85,833,943

Business-Type Activities. For the government's business-type activities, the results for the current fiscal year were positive in that overall net position increased to reach an ending balance of \$183,538,339. The total increase in net position for business-type activities was \$3,819,498 or 2.1% from the prior fiscal year (as restated). The growth, in large part, is attributable to an increase in the number of electric customers and electric consumption. Electric activity charges increased \$4,439,575 over the previous year's amount.

Financial Analysis of Governmental Funds

As noted earlier, the government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the government's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the government's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the government itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the government's Board of Mayor and Aldermen.

At June 30, 2014, the government's governmental funds reported combined fund balances of \$27,755,636, an increase of \$2,903,270 in comparison with the prior year. Approximately 44% of this amount (\$12,274,002) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is restricted, committed, or assigned to indicate that it is 1) restricted for particular purposes (\$6,997,266), 2) nonspendable inventory and prepaids (\$92,894), or 3) assigned for particular purposes (\$8,391,474).

The general fund is the chief operating fund of the government. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,274,002, while total fund balance increased to \$12,573,698. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 41 percent of total fiscal year 2015 budgeted general fund expenditures, while total fund balance represents approximately 42 percent of that same amount.

The fund balance of the government's general fund increased by \$878,188 during the current fiscal year. The increase is due largely to the implementation of a hospitality tax on restaurant and amusement sales within the government.

The Central Business Improvement District Fund, a major fund, had a \$1,814,805 increase in fund balance during the current fiscal year which put the overall fund balance at \$13,081,635. The fund reports restricted fund balance of \$6,614,972, restricted for debt service of long-term debt issued (and being repaid) by the Fund.

Proprietary Funds. The government's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water and sewer department fund at the end of the year was \$6,370,246 and for the electric department fund was \$22,483,447. The total change in net position for both funds was \$281,803 and \$3,537,695, respectively. The increase for the water and sewer department fund results from a decrease in interest expense of \$289,793 due to the current year amortization of bond premium from refinanced debt, and the growth reported by the electric department fund results from an increase in the number of electric customers and electric consumption.

General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need for any significant amendments to increase either the original estimated revenues or original budgeted appropriations. However, there was a need to make an amendment related to the current refunding of one outstanding debt issue.

Capital Assets and Debt Administration

Capital assets. The government's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to \$385,368,464 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, water and

wastewater treatment plants and electric distribution system. The total increase in capital assets for the current fiscal year was approximately 35.9%.

City of Sevierville's Capital Assets						
	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 55,332,618	\$ 8,217,594	\$ 7,381,148	\$ 7,381,148	\$ 62,713,766	\$ 15,598,742
Buildings	95,318,879	33,291,081	-	-	95,318,879	33,291,081
Machinery, equipment, and vehicles	17,894,454	15,404,999	19,118,391	18,977,341	37,012,845	34,382,340
Infrastructure	49,855,420	49,345,420	-	-	49,855,420	49,345,420
Water and sewer utility plant	-	-	96,490,870	94,762,187	96,490,870	94,762,187
Electric utility plant	-	-	190,074,817	186,004,473	190,074,817	186,004,473
Construction work in progress	3,817,292	24,692	6,638,202	6,597,936	10,455,494	6,622,628
Plant acquisition adjustments, net of amortization	-	-	63,879	77,327	63,879	77,327
Total capital assets	222,218,663	106,283,786	319,767,307	313,800,412	541,985,970	420,084,198
Less: accumulated depreciation	42,127,164	30,221,504	114,490,342	106,204,081	156,617,506	136,425,585
Net capital assets	\$ 180,091,499	\$ 76,062,282	\$ 205,276,965	\$ 207,596,331	\$ 385,368,464	\$ 283,658,613

Major capital asset events during the current fiscal year included the following:

- Various projects related to water and sewer projects at a cost of \$1,728,683.
- Various projects related to electric department projects at a cost of \$4,945,481 for the electric distribution system.
- The purchase of various machinery and equipment at a cost of \$409,019.
- The purchase of various transportation equipment and vehicles at a cost of \$132,001.

Additional information on the government's capital assets can be found in Note 3 on pages 54 – 56 of this report.

Long-term debt. At the end of the current fiscal year, the government had a total bonded debt outstanding of \$232,485,000. All of this amount is debt backed by the full faith and credit of the government.

The government's total debt decreased by \$8,920,000 (3.69%) during the current year, primarily due to premium received through the reissuance of CBID debt and scheduled debt retirement.

The government obtained an "A+" rating from Standard & Poor's and Fitch Ratings and an "Aa3" rating from Moody's Investors Service for general obligation debt.

Additional information on the government's long-term debt can be found in Note 4 on pages 57 - 59 of this report.

Economic Factors and Next Year's Budgets and Rates

The following economic factors currently affect the government and were considered in developing the 2014-2015 fiscal year budget.

- The unemployment rate for Sevier County as of October 2014 is 5.9%, which is a major decrease from one year ago, and is seen to be stabilizing.
- The housing market has seen some growth and investment. As the population stabilizes, the housing market is expected to stabilize as well.
- The government's sales tax revenue has maintained a moderate growth rate over the last five years, and it is anticipated to continue.

- The government's population has seen an increase of an approximate 21% over the last ten years.
- The government implemented a new restaurant tax of 2% and an amusement tax of 2% effective July 1, 2013 that has brought additional revenue to the government for tourism advertising and tourism-related infrastructure expenses.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the government's finances and to show the government's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lynn K. McClurg, City Recorder/Chief Financial Officer, at City of Sevierville, P.O. Box 5500, Sevierville, TN 37864.

BASIC FINANCIAL STATEMENTS

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Public Building Authority of the City of Sevierville
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 11,883,865	\$ 29,629,549	\$ 41,513,414	\$ -
Investments:				
Unsegregated	8,504,567	8,385,898	16,890,465	-
Segregated for emergency and self-insured fund	-	2,800,000	2,800,000	-
Receivables:				
Property taxes (net of allowance for doubtful accounts of \$153,700)	33,091	-	33,091	-
Customers (net of allowance for doubtful accounts of \$2,795 and \$1,512,901 respectively)	38,952	6,714,069	6,753,021	-
Other	865,149	591,856	1,457,005	-
Unbilled revenue	2,268,840	8,899,548	11,168,388	-
Due from other governments	3,185,759	-	3,185,759	-
Materials and supplies inventory	62,530	2,347,331	2,409,861	-
Prepaid expenses	30,364	-	30,364	-
Restricted assets:				
Cash and cash equivalents	3,717,511	363,933	4,081,444	-
Investments	3,446,558	1,910,000	5,356,558	-
Due from other governments	7,548,800	-	7,548,800	-
Total current assets	41,585,986	61,642,184	103,228,170	-
Capital assets, not being depreciated:				
Land and improvements	55,332,618	7,381,148	62,713,766	-
Construction work in progress	3,817,292	6,638,202	10,455,494	-
Capital assets, being depreciated:				
Buildings and improvements	95,318,879	-	95,318,879	-
Infrastructure	49,855,420	-	49,855,420	-
Machinery and equipment	17,894,454	-	17,894,454	-
Utility plant	-	305,684,078	305,684,078	-
Less accumulated depreciation	(42,127,164)	(114,490,342)	(156,617,506)	-
Plant acquisition adjustments, at amortized costs	-	63,879	63,879	-
Total capital assets	180,091,499	205,276,965	385,368,464	-
Non-current assets:				
Receivable - Tennessee Valley Authority Residential Energy Services Program	-	2,769,980	2,769,980	-
Other investments	-	339,711	339,711	-
Regulatory assets, unamortized	-	413,315	413,315	-
Other	-	111,595	111,595	-
Total non-current assets	-	3,634,601	3,634,601	-
Total assets	221,677,485	270,553,750	492,231,235	-
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decreases in fair value of hedging derivatives	5,227,335	4,242,078	9,469,413	-
Total deferred outflows of resources	5,227,335	4,242,078	9,469,413	-

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position (Continued)
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Public Building Authority of the City of Sevierville
LIABILITIES				
Current liabilities:				
Payable from current assets:				
Accounts payable	\$ 472,140	\$ 11,973,925	\$ 12,446,065	\$ -
Accrued expenses	329,262	1,420,385	1,749,647	-
Accrued interest	-	151,140	151,140	-
Due to other governments	17,558	-	17,558	-
Reserve for health insurance claims	153,624	1,782,002	1,935,626	-
Other	-	454,250	454,250	-
Customer deposits, including interest of \$313,878	184,865	11,581,961	11,766,826	-
Non-current liabilities - due within one year	7,682,873	15,267,127	22,950,000	-
Payable from restricted assets:				
Accounts payable	211,184	-	211,184	-
Due to others	25,000	-	25,000	-
Total current liabilities	9,076,506	42,630,790	51,707,296	-
Non-current liabilities:				
Due in more than one year	179,663,352	41,589,932	221,253,284	-
Derivative instruments - interest rate swaps	14,937,870	4,242,078	19,179,948	-
Advances from Tennessee Valley Authority Residential Energy Services Program	-	2,794,689	2,794,689	-
Total non-current liabilities	194,601,222	48,626,699	243,227,921	-
Total liabilities	203,677,728	91,257,489	294,935,217	-
DEFERRED INFLOWS OF RESOURCES				
Property tax revenue	2,268,840	-	2,268,840	-
Sales tax revenue	7,479,368	-	7,479,368	-
Total deferred inflows of resources	9,748,208	-	9,748,208	-
NET POSITION				
Net investment in capital assets	(9,830,370)	152,410,713	142,580,343	-
Restricted:				
Debt service	6,614,972	2,273,933	8,888,905	-
State street aid	167,244	-	167,244	-
Drug enforcement	215,050	-	215,050	-
Unrestricted	16,311,988	28,853,693	45,165,681	-
Total net position	\$ 13,478,884	\$ 183,538,339	\$ 197,017,223	\$ -

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

CITY OF SEVIERVILLE, TENNESSEE

Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions/Programs	Program Revenues				Net Revenue (Expense) and Change in Net Position			Component Unit Public Building Authority of the City of Sevierville
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 10,191,778	\$ 1,237,262	\$ 448,452	\$ -	\$ (8,506,064)	\$ -	\$ (8,506,064)	\$ -
Public safety	9,313,909	492,703	186,350	-	(8,634,856)	-	(8,634,856)	-
Public works	6,130,079	1,107,267	383,088	510,000	(4,129,724)	-	(4,129,724)	-
Recreation	5,657,997	2,245,293	-	-	(3,412,704)	-	(3,412,704)	-
Contingency reserve	118,788	-	-	-	(118,788)	-	(118,788)	-
Community development	216,119	-	-	-	(216,119)	-	(216,119)	-
Interest	7,052,592	-	-	-	(7,052,592)	-	(7,052,592)	-
Debt administration - other	909,900	-	-	-	(909,900)	-	(909,900)	-
Total governmental activities	39,591,162	5,082,525	1,017,890	510,000	(32,980,747)	-	(32,980,747)	-
Business-type activities:								
Water and Sewer Department	11,712,680	11,788,123	-	-	-	75,443	75,443	-
Electric Department	147,185,482	151,948,521	-	-	-	4,763,039	4,763,039	-
Total business-type activities	158,898,162	163,736,644	-	-	-	4,838,482	4,838,482	-
Total primary government	\$ 198,489,324	\$ 168,819,169	\$ 1,017,890	\$ 510,000	(32,980,747)	4,838,482	(28,142,265)	-
Component unit:								
Public Building Authority of the City of Sevierville	\$ 3,962	\$ -	\$ -	\$ -	-	-	-	(3,962)
General revenues:								
Taxes:								
Sales taxes - local					16,787,035	-	16,787,035	-
Sales taxes - state					6,554,642	-	6,554,642	-
Property taxes					2,295,448	-	2,295,448	-
In-lieu of tax - TVA					163,819	-	163,819	-
In-lieu of tax - other					225,981	-	225,981	-
Wholesale beer tax					1,237,159	-	1,237,159	-
Income tax					222,496	-	222,496	-
Mixed drink tax					143,298	-	143,298	-
Other state shared revenue					98,696	-	98,696	-
Amusement privilege tax					247,824	-	247,824	-
Restaurant privilege tax					3,038,174	-	3,038,174	-
Business taxes					1,073,237	-	1,073,237	-
Hotel/Motel tax					1,362,130	-	1,362,130	-
Cable TV franchise tax					122,115	-	122,115	-
Interest earned					14,418	107,937	122,355	-
Loss on investment derivatives					(484,271)	-	(484,271)	-
Miscellaneous					169,570	78,845	248,415	-
Gain on disposal of assets					66,415	151,413	217,828	-
Special items:								
Grant from primary government to component unit - financial resources					(147,904)	-	(147,904)	147,904
Grant to primary government from component unit - capital resources					105,810,113	-	105,810,113	(105,810,113)
Transfers:								
In-lieu of tax - enterprise fund transfers					1,357,179	(1,357,179)	-	-
Total general revenues, special items and transfers					140,357,574	(1,018,984)	139,338,590	(105,662,209)
Change in net position								
					107,376,827	3,819,498	111,196,325	(105,666,171)
Net position - beginning, as previously stated								
					(93,884,898)	179,718,841	85,833,943	105,666,171
Prior period adjustment (see note 18)								
					(13,045)	-	(13,045)	-
Net position - beginning, as restated								
					(93,897,943)	179,718,841	85,820,898	105,666,171
Net position - ending								
					\$ 13,478,884	\$ 183,538,339	\$ 197,017,223	\$ -

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

CITY OF SEVIERVILLE, TENNESSEE

Balance Sheet
 Governmental Funds
 June 30, 2014

	General Fund	Central Business Improvement District Fund	Nonmajor Governmental Funds	Total
<u>ASSETS</u>				
Cash and cash equivalents	\$ 9,188,557	\$ 6,466,663	\$ 1,914,830	\$ 17,570,050
Receivables:				
Property taxes (less allowance for doubtful accounts of \$153,700)	33,091	-	-	33,091
Garbage fees (less allowance for doubtful accounts of \$2,795)	38,952	-	-	38,952
Unbilled property taxes	2,268,840	-	-	2,268,840
Other	841,397	-	-	841,397
Due from other funds	167,281	-	-	167,281
Due from other governments	3,185,759	-	-	3,185,759
Materials and supplies inventory	62,530	-	-	62,530
Prepaid expenses	30,364	-	-	30,364
Restricted assets:				
Cash and cash equivalents	25,052	6,614,972	524,046	7,164,070
Due from other governments	-	7,479,368	69,432	7,548,800
Total assets	<u>\$ 15,841,823</u>	<u>\$ 20,561,003</u>	<u>\$ 2,508,308</u>	<u>\$ 38,911,134</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u>				
Liabilities:				
Accounts and other payables	\$ 442,600	\$ -	\$ 240,724	\$ 683,324
Accrued expenses	326,543	-	-	326,543
Due to other funds	-	-	167,281	167,281
Due to other governments	19,157	-	-	19,157
Due to others	25,000	-	-	25,000
Customer deposits	185,985	-	-	185,985
Total liabilities	<u>999,285</u>	<u>-</u>	<u>408,005</u>	<u>1,407,290</u>
Deferred inflows of resources:				
Property tax revenue	2,268,840	-	-	2,268,840
Sales tax revenue	-	7,479,368	-	7,479,368
Total deferred inflows of resources	<u>2,268,840</u>	<u>7,479,368</u>	<u>-</u>	<u>9,748,208</u>
Fund balances:				
Nonspendable:				
Inventories and prepaids	92,894	-	-	92,894
Restricted:				
State street aid fund	-	-	167,244	167,244
Drug enforcement fund	-	-	215,050	215,050
Debt service	-	6,614,972	-	6,614,972
Assigned:				
Public building authority	-	6,466,663	-	6,466,663
Solid waste fund	114,061	-	-	114,061
Convention center fund	92,741	-	-	92,741
Capital budget fund	-	-	1,695,231	1,695,231
Public building authority	-	-	22,778	22,778
Unassigned	12,274,002	-	-	12,274,002
Total fund balances	<u>12,573,698</u>	<u>13,081,635</u>	<u>2,100,303</u>	<u>27,755,636</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 15,841,823</u>	<u>\$ 20,561,003</u>	<u>\$ 2,508,308</u>	<u>\$ 38,911,134</u>

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

CITY OF SEVIERVILLE, TENNESSEE

Reconciliation of the Balance Sheet - Governmental Funds
to the Government-Wide Statement of Net Position
June 30, 2014

Total fund balances--governmental funds		\$ 27,755,636
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$222,218,663 and the accumulated depreciation is \$42,127,164.		180,091,499
Internal service funds are reported as proprietary funds, however, the activities accounted for in them are governmental in nature. Therefore, the assets and liabilities of these funds are included in the governmental activities of the Combined Statement of Net Position. The total assets of these funds are \$2,885,884 and the total liabilities are \$197,375.		2,688,509
Long-term liabilities, including bonds payable and related unamortized premium, and the net fair value of interest rate swaps, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
	Bonds and notes payable	\$ (180,042,873)
	Compensated absences	(668,228)
	Unamortized bond premium	(6,635,124)
	Accumulated decreases in fair value of hedging derivatives	5,227,335
	Derivative instrument - interest rate swap	(14,937,870)
		<u>(197,056,760)</u>
Total net position--governmental activities		<u>\$ 13,478,884</u>

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

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2014

	General Fund	Central Business Improvement District Fund	Nonmajor Governmental Funds	Total
Revenues:				
Local taxes	\$ 24,028,421	\$ -	\$ -	\$ 24,028,421
Licenses and permits	155,993	-	-	155,993
Intergovernmental revenue	2,478,584	7,860,674	383,088	10,722,346
Charges for services	4,372,202	-	-	4,372,202
Fines, forfeits and penalties	338,500	-	55,005	393,505
Other revenues	278,446	7,597	-	286,043
Total revenues	31,652,146	7,868,271	438,093	39,958,510
Expenditures:				
Current:				
General government	9,037,238	-	-	9,037,238
Public safety	9,041,944	-	32,421	9,074,365
Public works	4,687,030	-	645,377	5,332,407
Recreation	4,816,233	-	-	4,816,233
Contingency reserve	118,788	-	-	118,788
Debt service:				
Principal	3,760,000	-	-	3,760,000
Interest	1,430,152	6,279,023	-	7,709,175
Debt service charges	71,894	376,848	-	448,742
Bond issuance costs	20,290	440,868	-	461,158
Capital outlay:				
Other general government	85,513	-	5,832	91,345
Public safety	358,490	-	208,850	567,340
Public works	389,916	-	174,662	564,578
Recreation	62,700	-	205,415	268,115
Total expenditures	33,880,188	7,096,739	1,272,557	42,249,484
Excess (deficiencies) of revenues over (under) expenditures	(2,228,042)	771,532	(834,464)	(2,290,974)
Other financing sources (uses):				
Interfund transfers	(550,949)	(500,000)	1,050,949	-
In-lieu of tax - Water and Sewer Department	24,000	-	-	24,000
In-lieu of tax - Electric Department	1,333,179	-	-	1,333,179
Issuance of refunding bonds	2,300,000	70,305,000	-	72,605,000
Premium on refunding bonds issued	-	6,238,273	-	6,238,273
Payment to refunded bond escrow agent	-	(75,000,000)	-	(75,000,000)
Total other financing sources (uses)	3,106,230	1,043,273	1,050,949	5,200,452
Special items:				
Grant from primary government to component unit - financial resources	-	-	(147,904)	(147,904)
Net change in fund balances	878,188	1,814,805	68,581	2,761,574
Fund balances, beginning, as previously stated	11,553,814	11,266,830	2,031,722	24,852,366
Prior period adjustment	141,696	-	-	141,696
Fund balance, beginning, as restated	11,695,510	11,266,830	2,031,722	24,994,062
Fund balances, ending	\$ 12,573,698	\$ 13,081,635	\$ 2,100,303	\$ 27,755,636

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

CITY OF SEVIERVILLE, TENNESSEE

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances - Governmental Funds to the Government-Wide Statement of Activities
For the Fiscal Year Ended June 30, 2014**

Net change in fund balances - total governmental funds	\$ 2,761,574
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$3,746,634) exceeds capital outlay (\$1,491,378).	(2,255,256)
Contributions from other governments for infrastructure assets are recorded in the statement of activities and is not recorded in the governmental funds.	510,000
Grant of capital resources to the primary government from the component unit are not reported in the fund financial statements presented on the current financial resources model, but are reported in the government-wide financial statements presented on the economic resources model.	105,810,113
Proceeds from the disposal of capital assets is revenue in the governmental funds, but the net book value of the asset sold is removed from the capital assets account in the statement of net position and offset against the sales proceeds resulting in a "gain or loss on disposal of fixed asset" in the statement of activities. Net book value of capital assets sold is:	(35,640)
Proceeds from the issuance of debt is an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(72,605,000)
Repayment of bond and capital outlay note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Bond principal paid (expenditure)	3,760,000
Payment to refunded bond escrow agent (other financing use)	75,000,000
Bond premiums are reported as other financing sources in governmental funds at the time the debt is issued, but they are reported as liabilities in the statement of activities.	(6,238,273)
Government funds report bond premiums as other financing sources at the time the debt is issued. These amounts are deferred and amortized annually and reported as a reduction in interest expenses in the statement of activities during the outstanding period of the related debt issue.	
Current year amortization	656,583
The decrease in the fair value of an interest rate swap accounted for as an investment derivative instrument in the statement of activities is not expensed in governmental funds, but is an investment loss on the statement of activities.	(484,271)
In the statement of activities, certain operating expenses--compensated absences (sick pay and vacation)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave used exceeded the amounts earned.	(107,868)
Internal service funds are used by management to charge the costs of insurance and other activities to individual funds. The adjustment for internal service funds "close" those funds by crediting the change in net position to participating governmental activities expenses.	604,863
Rounding	<u>2</u>
Change in net position of governmental activities	<u>\$ 107,376,827</u>

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

CITY OF SEVIERVILLE, TENNESSEE

General Fund

The **General Fund** is used to account for all of the general revenues of the government not specifically levied or collected for other government funds, and for the expenditures related to the rendering of general services by the government. The General Fund is used to account for all resources not required to be accounted for in another fund.

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2014
 (With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Revenues:				
Local taxes:				
Property taxes (current)	\$ 2,321,536	\$ 2,321,536	\$ 2,258,473	\$ 2,265,451
Interest and penalties on property taxes	20,000	20,000	36,976	37,598
In lieu of tax - miscellaneous	2,825	2,825	2,678	3,922
In lieu of tax - Sevier County Utility District	223,226	223,226	198,169	156,540
Local sales tax	14,950,500	14,950,500	14,421,588	14,074,244
Wholesale beer tax	1,280,489	1,280,489	1,237,158	1,286,449
Hospitality tax	2,900,000	2,900,000	3,285,997	-
Business tax	1,055,827	1,055,827	1,073,237	1,142,652
Cable television franchise tax	116,252	116,252	122,115	141,660
Hotel/motel room tax	1,387,416	1,387,416	1,362,130	1,853,546
Liquor privilege tax	25,202	25,202	20,933	21,150
Beer privilege tax	9,417	9,417	8,967	8,898
Total local taxes	24,292,690	24,292,690	24,028,421	20,992,110
Licenses and permits:				
Building and related permits	53,800	53,800	122,120	73,198
Other permits and fees	31,722	31,722	33,873	25,058
Total licenses and permits	85,522	85,522	155,993	98,256
Intergovernmental revenue:				
Federal grants	99,854	99,854	159,594	122,853
In lieu of tax - Sevierville Housing Authority	20,000	20,000	25,134	24,781
In lieu of tax - Tennessee Valley Authority	156,038	156,038	163,819	168,856
State grants	251,037	251,037	288,858	246,268
State of Tennessee:				
Law enforcement supplement	55,200	55,200	48,600	49,200
Sales tax	1,044,811	1,044,811	1,057,901	1,023,489
Income tax	144,526	144,526	222,496	180,907
Alcoholic beverage tax	7,704	7,704	7,006	7,321
Mixed drink tax	132,754	132,754	143,298	145,053
Gas inspection tax	31,560	31,560	30,302	30,339
Street maintenance - State highways	160,823	160,823	160,824	138,479
Telecommunications sales tax	5,502	5,502	1,515	1,323
Corporate excise tax	46,523	46,523	31,487	37,154
County contribution - Fire Department	45,000	45,000	47,750	44,000
County contribution - school resource officers	90,000	90,000	90,000	75,000
Total intergovernmental revenue	2,291,332	2,291,332	2,478,584	2,295,023
Charges for services:				
Trolley fares	35,000	35,000	42,346	40,260
Building maintenance	47,570	47,570	27,880	46,912
Security/EMT services	81,360	81,360	68,931	64,596
Solid waste fees	773,800	773,800	741,696	738,789
Golf course fees	2,279,098	2,279,098	1,733,803	-
Convention center fees	1,112,704	1,112,704	1,206,951	-
Community Center fees and concessions	327,500	327,500	317,236	315,603
City park fees and concessions	148,000	148,000	139,801	120,295
Civic Center rent and fees	49,250	49,250	54,453	45,975
Public works services	-	-	2,190	14,980
Other charges for services	45,800	45,800	36,915	31,713
Total charges for services	4,900,082	4,900,082	4,372,202	1,419,123

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 General Fund (Continued)
 For the Fiscal Year Ended June 30, 2014
 (With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Revenues (continued):				
Fines, forfeits and penalties:				
Fines and costs	\$ 381,000	\$ 381,000	\$ 338,500	\$ 393,555
Total fines, forfeits and penalties	381,000	381,000	338,500	393,555
Other revenues:				
Interest earnings	40,000	40,000	6,821	11,152
Rent and royalties	76,326	76,326	76,041	76,066
Insurance recoveries	38,000	38,000	42,903	52,011
Sales of materials and supplies	53,200	53,200	102,055	96,135
Contributions and donations	5,500	5,500	4,625	6,386
Other miscellaneous revenue	750	750	46,001	14,247
Total other revenues	213,776	213,776	278,446	255,997
Total revenues	32,164,402	32,164,402	31,652,146	25,454,064
Expenditures:				
General government:				
Legislative board:				
Personal services	133,661	133,661	133,567	128,360
Contractual services	25,957	25,957	23,256	22,814
Supplies	1,000	1,000	625	431
Total legislative board	160,618	160,618	157,448	151,605
Legal services:				
Contractual services	215,400	215,400	182,484	150,258
Total legal services	215,400	215,400	182,484	150,258
City administration:				
Personal services	519,029	519,029	650,269	509,544
Contractual services	34,711	34,711	26,488	18,495
Supplies	4,500	4,500	4,702	2,967
Fixed charges	-	-	35	91
Capital outlay	-	-	-	192
Total city administration	558,240	558,240	681,494	531,289
City recorder/finance department:				
Personal services	1,103,910	1,103,910	1,169,095	1,072,534
Contractual services	179,202	179,202	204,298	157,835
Supplies	26,450	26,450	26,539	26,339
Fixed charges	250	250	60	167
Capital outlay	-	-	-	12,949
Less expense reimbursements from proprietary fund	(851,303)	(851,303)	(851,328)	(834,857)
Total city recorder/finance department	458,509	458,509	548,664	434,967

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

General Fund (Continued)

For the Fiscal Year Ended June 30, 2014

(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Expenditures (continued):				
General government (continued):				
Information services:				
Personal services	\$ 342,620	\$ 342,620	\$ 296,853	\$ 252,837
Contractual services	113,597	113,597	112,636	82,655
Supplies	2,400	2,400	1,881	865
Fixed charges	-	-	84	32
Capital outlay	37,500	37,500	38,615	30,125
Total information services	496,117	496,117	450,069	366,514
Engineering:				
Personal services	274,797	274,797	280,575	442,115
Contractual services	30,228	30,228	20,235	15,564
Supplies	6,250	6,250	3,153	7,700
Capital outlay	9,000	9,000	8,541	-
Total engineering	320,275	320,275	312,504	465,379
Planning and development:				
Personal services	281,832	281,832	222,456	181,386
Contractual services	44,966	44,966	49,634	12,739
Supplies	2,700	2,700	5,917	1,534
Capital outlay	800	800	1,698	-
Total planning and development	330,298	330,298	279,705	195,659
Facilities management:				
Personal services	554,217	554,217	549,149	521,784
Contractual Services	4,606	4,606	3,140	2,768
Supplies	36,000	36,000	32,228	31,210
Capital outlay	12,000	12,000	3,880	9,345
Total facilities management	606,823	606,823	588,397	565,107
City Hall building:				
Contractual services	98,789	98,789	74,544	76,403
Supplies	4,300	4,300	3,496	4,177
Capital outlay	2,000	2,000	1,688	-
Total City Hall building	105,089	105,089	79,728	80,580
Sevierville Convention Center:				
Personal services	844,739	844,739	882,865	-
Contractual services	742,246	742,246	689,689	-
Supplies	29,558	29,558	34,311	-
Fixed charges	1,020	1,020	89,167	-
Capital outlay	2,000	2,000	31,091	-
Total Sevierville Convention Center	1,619,563	1,619,563	1,727,123	-
Contracts, grants and other special funding:				
Contractual services	2,987,370	2,987,370	3,026,731	1,880,017
Grants, contributions and other	298,000	298,000	270,383	91,000
Total contracts, grants and other special funding	3,285,370	3,285,370	3,297,114	1,971,017

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

General Fund (Continued)

For the Fiscal Year Ended June 30, 2014

(With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Expenditures (continued):				
General government (continued):				
Other general government:				
Personal services	\$ 4,000	\$ 4,000	\$ 3,253	\$ 18,190
Contractual services	243,425	243,425	219,863	226,219
Supplies	9,820	9,820	5,767	5,463
Fixed charges	670,739	670,739	588,938	556,488
Grants, contributions and other	-	-	200	237
Total other general government	927,984	927,984	818,021	806,597
Total general government	9,084,286	9,084,286	9,122,751	5,718,972
Public safety:				
Police:				
Personal services	5,066,416	5,066,416	5,049,984	4,890,726
Contractual services	206,084	206,084	160,575	150,982
Supplies	244,301	244,301	229,709	201,039
Fixed charges	325	325	1,047	207
Grants, contributions and other	39,056	39,056	29,399	33,296
Capital outlay	240,500	240,500	310,357	55,129
Total police	5,796,682	5,796,682	5,781,071	5,331,379
Traffic control and maintenance:				
Personal services	139,947	139,947	141,879	69,312
Contractual services	89,640	89,640	61,473	-
Supplies	109,600	109,600	91,151	473
Capital outlay	24,200	24,200	11,475	20,701
Total traffic control and maintenance	363,387	363,387	305,978	90,486
Reserve police:				
Personal services	27,989	27,989	15,160	18,360
Supplies	6,000	6,000	6,578	18,183
Total reserve police	33,989	33,989	21,738	36,543
Fire:				
Personal services	2,435,167	2,435,167	2,466,990	2,372,071
Contractual services	156,285	156,285	143,451	117,707
Supplies	160,051	160,051	143,671	135,646
Fixed charges	-	-	31	-
Capital outlay	43,675	43,675	36,658	142,136
Total fire	2,795,178	2,795,178	2,790,801	2,767,560
Codes enforcement:				
Personal services	486,103	486,103	490,936	476,037
Contractual services	12,335	12,335	7,239	7,198
Supplies	4,005	4,005	2,671	3,102
Capital outlay	800	800	-	-
Total codes enforcement	503,243	503,243	500,846	486,337
Total public safety	9,492,479	9,492,479	9,400,434	8,712,305

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 General Fund (Continued)
 For the Fiscal Year Ended June 30, 2014
 (With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Expenditures (continued):				
Public works:				
Street:				
Personal services	\$ 908,356	\$ 908,356	\$ 907,002	\$ 1,032,339
Contractual services	314,771	314,771	307,910	315,219
Supplies	106,900	106,900	117,764	238,044
Building materials	357,500	357,500	358,254	287,407
Fixed charges	-	-	-	67
Capital outlay	21,600	21,600	16,604	174,485
Total street	1,709,127	1,709,127	1,707,534	2,047,561
Fleet maintenance:				
Personal services	519,040	519,040	515,594	509,951
Contractual services	86,528	86,528	82,180	70,697
Supplies	421,600	421,600	373,635	402,683
Fixed charges	-	-	13	106
Capital outlay	1,600	1,600	1,455	-
Total fleet maintenance	1,028,768	1,028,768	972,877	983,437
Solid waste:				
Personal services	681,585	681,585	651,030	662,989
Contractual services	642,394	642,394	597,201	616,200
Supplies	235,500	235,500	225,285	217,545
Grants, contributions and other	-	-	1,629	2,306
Capital outlay	373,600	373,600	371,858	-
Total solid waste	1,933,079	1,933,079	1,847,003	1,499,040
Public transportation systems:				
Contractual services	839,928	839,928	549,532	834,439
Total public transportation systems	839,928	839,928	549,532	834,439
Total public works	5,510,902	5,510,902	5,076,946	5,364,477
Recreation:				
Parks and recreation:				
Personal services	987,189	987,189	971,342	924,971
Contractual services	203,935	203,935	184,414	198,873
Supplies	192,400	192,400	194,649	133,940
Materials	7,200	7,200	6,489	3,552
Fixed charges	-	-	163	1
Capital outlay	47,000	47,000	38,702	989
Total parks and recreation	1,437,724	1,437,724	1,395,759	1,262,326
Community Center				
Personal services	953,776	953,776	942,514	929,509
Contractual services	137,368	137,368	137,211	134,505
Supplies	99,250	99,250	95,318	75,451
Fixed charges	1,675	1,675	2,274	1,634
Other	13,100	13,100	9,219	9,871
Capital outlay	16,000	16,000	14,000	16,774
Total community center	1,221,169	1,221,169	1,200,536	1,167,744

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 General Fund (Continued)
 For the Fiscal Year Ended June 30, 2014
 (With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Expenditures (continued):				
Recreation (continued):				
Civic center:				
Personal services	\$ 141,011	\$ 141,011	\$ 138,356	\$ 131,709
Contractual services	43,143	43,143	35,395	33,744
Supplies	13,400	13,400	16,913	11,115
Capital outlay	6,000	6,000	9,998	455
Total civic center	203,554	203,554	200,662	177,023
Sevierville Golf Club:				
Personal services	1,488,071	1,488,071	1,087,426	-
Contractual services	223,762	223,762	434,156	-
Supplies	580,364	580,364	505,408	-
Fixed charges	37,934	37,934	54,986	-
Capital outlay	2,700	2,700	-	-
Total Sevierville Golf Club	2,332,831	2,332,831	2,081,976	-
Total recreation	5,195,278	5,195,278	4,878,933	2,607,093
Contingency reserve fund:				
Reserve for contingencies	229,000	229,000	118,788	166,457
Total contingency reserve fund	229,000	229,000	118,788	166,457
Debt administration:				
Principal	1,390,000	3,690,000	3,760,000	996,300
Interest	1,571,173	1,615,173	1,430,152	1,675,766
Debt service charges	90,000	90,000	71,894	82,586
Bond issuance costs	-	20,200	20,290	194,860
Total debt administration	3,051,173	5,415,373	5,282,336	2,949,512
Total expenditures	32,563,118	34,927,318	33,880,188	25,518,816
Revenues over (under) expenditures	(398,716)	(2,762,916)	(2,228,042)	(64,752)
Other financing sources (uses):				
Interfund transfers	(1,504,156)	(1,504,156)	(550,949)	(1,092,300)
In-lieu of tax - Water and Sewer Department	24,000	24,000	24,000	20,000
In-lieu of tax - Electric Department	1,477,055	1,477,055	1,333,179	1,307,296
Issuance of refunding bonds	-	2,300,000	2,300,000	9,160,000
Premium on refunding bonds issued	-	-	-	284,860
Payment to refunded bond escrow agent	-	-	-	(9,250,000)
Total other financing sources (uses)	(3,101)	2,296,899	3,106,230	429,856
Net change in fund balances	(401,817)	(466,017)	878,188	365,104
Fund balance, beginning, as previously stated	11,553,814	11,553,814	11,553,814	11,188,710
Prior period adjustment	-	-	141,696	-
Fund balance, beginning, as restated	11,553,814	11,553,814	11,695,510	11,188,710
Fund balance, ending	\$ 11,151,997	\$ 11,087,797	\$ 12,573,698	\$ 11,553,814

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

Central Business Improvement District Fund

The **Central Business Improvement District Fund** is used to account for state and local option sales tax diverted to fund debt service related to tourist development zone activities. The fund is also used to account for tourist development zone related bond issuance, related expenses, and transfers of bond funds as capital contribution to PBA fund construction of “qualified public use facilities.”

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
 Central Business Improvement District Fund
 For the Fiscal Year Ended June 30, 2014
 (With Comparative Totals for the Fiscal Year Ended June 30, 2013)

	2014 Original Budget	2014 Final Budget	2014 Actual	2013 Actual
Revenues:				
Local taxes:				
Local sales taxes	\$ 2,290,531	\$ 2,290,531	\$ 2,365,447	\$ 2,202,012
Total local sales taxes	<u>2,290,531</u>	<u>2,290,531</u>	<u>2,365,447</u>	<u>2,202,012</u>
Intergovernmental revenue:				
State of Tennessee:				
Sales tax	5,301,653	5,301,653	5,495,227	5,096,561
Total intergovernmental revenue	<u>5,301,653</u>	<u>5,301,653</u>	<u>5,495,227</u>	<u>5,096,561</u>
Other revenues:				
Interest earnings	10,000	10,000	7,597	9,754
Total other revenues	<u>10,000</u>	<u>10,000</u>	<u>7,597</u>	<u>9,754</u>
Total revenues	<u>7,602,184</u>	<u>7,602,184</u>	<u>7,868,271</u>	<u>7,308,327</u>
Expenditures:				
Debt administration:				
Interest	6,875,000	6,875,000	6,279,023	6,658,239
Debt service charges	625,000	625,000	376,848	454,851
Bond issuance costs	-	347,873	440,868	-
Total debt administration	<u>7,500,000</u>	<u>7,847,873</u>	<u>7,096,739</u>	<u>7,113,090</u>
Total expenditures	<u>7,500,000</u>	<u>7,847,873</u>	<u>7,096,739</u>	<u>7,113,090</u>
Revenues over (under) expenditures	<u>102,184</u>	<u>(245,689)</u>	<u>771,532</u>	<u>195,237</u>
Other financing sources (uses):				
Premium on refunding bonds issued	-	6,238,273	6,238,273	-
Bond proceeds	-	70,305,000	70,305,000	-
Retirement on bonds	-	(76,195,400)	(75,000,000)	-
Transfers to capital projects fund	-	-	(500,000)	(650,000)
Total other financing sources (uses)	<u>-</u>	<u>347,873</u>	<u>1,043,273</u>	<u>(650,000)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>102,184</u>	<u>102,184</u>	<u>1,814,805</u>	<u>(454,763)</u>
Fund balance, beginning	<u>11,266,830</u>	<u>11,266,830</u>	<u>11,266,830</u>	<u>11,721,593</u>
Fund balance, ending	<u>\$ 11,369,014</u>	<u>\$ 11,369,014</u>	<u>\$ 13,081,635</u>	<u>\$ 11,266,830</u>

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

Enterprise Funds

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the government is that costs of providing goods and services to the general public on a continuing basis will be financed or recovered primarily through user charges. The government has the following Enterprise Funds:

Water and Sewer Department Fund – to account for the providing of water and sewer services to the residents of the government and surrounding areas. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Water and Sewer Department debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund. The fund is operated as Sevierville Water Systems.

Electric Department Fund – to account for the providing of electricity to the residents of the government and Sevier County. Activities of the fund include administration, operation and maintenance of the electric system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for Electric Department debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund. The fund is operated as Sevier County Electric System.

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position
 Proprietary Funds
 June 30, 2014

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
	Water and Sewer Department Fund	Electric Department Fund	Total	Internal Service Funds
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents	\$ 6,408,343	\$ 23,221,206	\$ 29,629,549	\$ 2,818,381
Investments:				
Unsegregated	-	8,385,898	8,385,898	-
Segregated for emergency and self-insured fund	-	2,800,000	2,800,000	-
Receivables:				
Customers (net of allowance for doubtful accounts of \$75,265 and \$1,437,636, respectively)	753,442	5,960,627	6,714,069	-
Other	-	591,856	591,856	23,752
Unbilled revenue	545,439	8,354,109	8,899,548	-
Due from other funds	-	-	-	43,751
Materials and supplies inventories	591,858	1,755,473	2,347,331	-
Restricted assets:				
Cash and cash equivalents	-	363,933	363,933	-
Investments	-	1,910,000	1,910,000	-
Total current assets	<u>8,299,082</u>	<u>53,343,102</u>	<u>61,642,184</u>	<u>2,885,884</u>
Capital assets, not being depreciated:				
Land and land rights	427,269	6,953,879	7,381,148	-
Construction work in progress	4,263,323	2,374,879	6,638,202	-
Capital assets, being depreciated:				
Utility plant	107,713,943	197,970,135	305,684,078	-
Less accumulated depreciation	(34,402,889)	(80,087,453)	(114,490,342)	-
Plant acquisition adjustments, at amortized costs	-	63,879	63,879	-
Total capital assets	<u>78,001,646</u>	<u>127,275,319</u>	<u>205,276,965</u>	<u>-</u>
Non-current assets:				
Tennessee Valley Authority Residential Energy Services Program receivable	-	2,769,980	2,769,980	-
Other investments	-	339,711	339,711	-
Regulatory assets, unamortized	-	413,315	413,315	-
Other	-	111,595	111,595	-
Total non-current assets	<u>-</u>	<u>3,634,601</u>	<u>3,634,601</u>	<u>-</u>
Total assets	<u>86,300,728</u>	<u>184,253,022</u>	<u>270,553,750</u>	<u>2,885,884</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Accumulated decreases in fair value of hedging derivatives	2,381,610	1,860,468	4,242,078	-
Total deferred outflows of resources	<u>2,381,610</u>	<u>1,860,468</u>	<u>4,242,078</u>	<u>-</u>

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position
 Proprietary Funds (Continued)
 June 30, 2014

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
	Water and Sewer Department Fund	Electric Department Fund	Total	Internal Service Funds
<u>LIABILITIES</u>				
Current liabilities:				
Current maturities of long-term debt	\$ 13,142,127	\$ 1,125,000	\$ 14,267,127	\$ -
Compensated absences - current	140,000	860,000	1,000,000	-
Accounts payable	297,802	11,676,123	11,973,925	-
Accrued expenses	151,014	1,269,371	1,420,385	-
Accrued interest	110,140	41,000	151,140	-
Due to other funds	-	-	-	43,751
Reserve for health insurance claims	-	1,782,002	1,782,002	153,624
Revenues received in advance	454,250	-	454,250	-
Customer deposits, including interest of \$313,878	694,611	10,887,350	11,581,961	-
Total current liabilities	<u>14,989,944</u>	<u>27,640,846</u>	<u>42,630,790</u>	<u>197,375</u>
Non-current liabilities:				
Long-term debt, less current maturities	25,694,125	12,905,000	38,599,125	-
Compensated absences, less current portion	81,019	2,909,788	2,990,807	-
Derivative instrument - interest rate swap	2,381,610	1,860,468	4,242,078	-
Advances from Tennessee Valley Authority Residential Energy Services Program	-	2,794,689	2,794,689	-
Total non-current liabilities	<u>28,156,754</u>	<u>20,469,945</u>	<u>48,626,699</u>	<u>-</u>
Total liabilities	<u>43,146,698</u>	<u>48,110,791</u>	<u>91,257,489</u>	<u>197,375</u>
<u>NET POSITION</u>				
Net position:				
Net investment in capital assets	39,165,394	113,245,319	152,410,713	-
Restricted for debt service	-	2,273,933	2,273,933	-
Unrestricted	6,370,246	22,483,447	28,853,693	2,688,509
Total net position	<u>\$ 45,535,640</u>	<u>\$ 138,002,699</u>	<u>\$ 183,538,339</u>	<u>\$ 2,688,509</u>

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

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenses, and Change in Net Position
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2014

	Business-Type Activities			Governmental Activities
	Enterprise Funds			
	Water and Sewer Department Fund	Electric Department Fund	Total	Internal Service Funds
Operating revenues:				
Utility sales	\$10,698,279	\$149,188,234	\$159,886,513	\$ -
Other operating revenue	1,089,844	2,760,287	3,850,131	100,794
Medical, dental and childcare revenue	-	-	-	5,757,369
Total operating revenues	<u>11,788,123</u>	<u>151,948,521</u>	<u>163,736,644</u>	<u>5,858,163</u>
Operating expenses:				
Operations	6,166,899	4,844,792	11,011,691	5,100,570
Maintenance	38,965	9,217,228	9,256,193	-
Depreciation and amortization	3,064,461	6,612,313	9,676,774	-
Administrative and general	1,047,298	6,191,799	7,239,097	152,730
Purchased power	-	118,058,876	118,058,876	-
Payroll taxes	-	415,217	415,217	-
Total operating expenses	<u>10,317,623</u>	<u>145,340,225</u>	<u>155,657,848</u>	<u>5,253,300</u>
Operating income	<u>1,470,500</u>	<u>6,608,296</u>	<u>8,078,796</u>	<u>604,863</u>
Non-operating revenues (expenses):				
Interest income	102	107,835	107,937	-
Miscellaneous income	78,845	-	78,845	-
Interest expense	(1,319,852)	(543,348)	(1,863,200)	-
Debt issuance costs	(75,205)	-	(75,205)	-
Gain on disposal of assets	151,413	-	151,413	-
Intergovernmental - in lieu of tax	-	(1,301,909)	(1,301,909)	-
	<u>(1,164,697)</u>	<u>(1,737,422)</u>	<u>(2,902,119)</u>	<u>-</u>
Income before transfers	305,803	4,870,874	5,176,677	604,863
Transfers to general fund - in lieu of tax	<u>(24,000)</u>	<u>(1,333,179)</u>	<u>(1,357,179)</u>	<u>-</u>
Change in net position	281,803	3,537,695	3,819,498	604,863
Net position, beginning	<u>45,253,837</u>	<u>134,465,004</u>	<u>179,718,841</u>	<u>2,083,646</u>
Net position, ending	<u>\$45,535,640</u>	<u>\$138,002,699</u>	<u>\$183,538,339</u>	<u>\$2,688,509</u>

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

CITY OF SEVIERVILLE, TENNESSEE

Statement of Cash Flows
 Proprietary Funds
 For the Fiscal Year Ended June 30, 2014

	Enterprise Funds			Internal Service Funds
	Water and Sewer Department Fund	Electric Department Fund	Total	
Cash flows from operating activities:				
Cash received from customers	\$ 11,937,716	\$152,910,732	\$164,848,448	\$ -
Cash received from employees, other participants and other funds	-	-	-	5,845,255
Cash payments to suppliers for goods and services	(5,074,505)	(131,263,736)	(136,338,241)	(528,375)
Cash payments to employees for services	(2,015,112)	(7,131,363)	(9,146,475)	-
Cash payments for claims	-	-	-	(4,757,280)
Net cash provided by operating activities	4,848,099	14,515,633	19,363,732	559,600
Cash flows from noncapital financing activities:				
Cash payment for in-lieu of taxes	(24,000)	(2,635,088)	(2,659,088)	-
Cash received from Tennessee Valley Authority Residential Energy Services Program, net	-	2,808	2,808	-
Decrease in due to other funds	-	-	-	(13,595)
Payments for issuance of debt costs	(75,205)	-	(75,205)	-
Government contributions	1,000	-	1,000	-
Net cash used by noncapital financing activities	(98,205)	(2,632,280)	(2,730,485)	(13,595)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,397,474)	(6,010,894)	(7,408,368)	-
Principal paid on long-term debt	(1,694,999)	(1,070,000)	(2,764,999)	-
Premium on bonds sold	(289,793)	-	(289,793)	-
Interest paid	(1,347,752)	(521,906)	(1,869,658)	-
Net cash used by capital and related financing activities	(4,730,018)	(7,602,800)	(12,332,818)	-
Cash flows from investing activities:				
Purchase of investments	-	(77,137)	(77,137)	-
Sale of investments	-	250,000	250,000	-
Interest received on investments	102	107,835	107,937	-
Decrease in due from component unit	296,693	-	296,693	-
(Increase) decrease in due from other funds	929,861	-	929,861	(43,751)
Net cash provided (used) by investing activities	1,226,656	280,698	1,507,354	(43,751)
Net increase in cash and cash equivalents	1,246,532	4,561,251	5,807,783	502,254
Cash and cash equivalents, beginning	5,161,811	19,023,888	24,185,699	2,316,127
Cash and cash equivalents, ending	\$ 6,408,343	\$ 23,585,139	\$ 29,993,482	\$ 2,818,381
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 1,470,500	\$ 6,608,296	\$ 8,078,796	\$ 604,863
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,064,461	6,813,686	9,878,147	-
Miscellaneous income	78,845	-	78,845	-
(Increase) decrease in assets:				
Receivables	113,994	312,917	426,911	(12,039)
Unbilled revenues	(67,180)	-	(67,180)	-
Materials and supplies inventory	(31,122)	(316,092)	(347,214)	-
Other assets	-	83,822	83,822	-
Increase (decrease) in liabilities:				
Accounts payable	154,641	608,133	762,774	-
Insurance claims reserve	-	-	-	(32,355)
Accrued expenses	12,617	(297,091)	(284,474)	-
Compensated absences	27,408	52,668	80,076	-
Other liabilities	-	-	-	(869)
Customer deposits	23,935	649,294	673,229	-
Net cash provided by operating activities	\$ 4,848,099	\$ 14,515,633	\$ 19,363,732	\$ 559,600

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

CITY OF SEVIERVILLE, TENNESSEE

Component Unit

The **Public Building Authority of the City of Sevierville (PBA)** was created to undertake responsibility to provide for construction, operation, and management of “qualified public use facilities” as determined by a government established Tourism Development Zone/Central Business District approved by the State of Tennessee.

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenses, and Change in Net Position
 Public Building Authority of the City of Sevierville
 For the Fiscal Year Ended June 30, 2014

Non-operating revenue (expense):	
Amortization expense	\$ (3,962)
	<u>(3,962)</u>
Total non-operating revenue (expense)	<u>(3,962)</u>
	<u>(3,962)</u>
Income (loss) before special items	<u>(3,962)</u>
Special items:	
Grant from primary government to component unit - financial resources	147,904
Grant to primary government from component unit - capital resources	<u>(105,810,113)</u>
Total special items	<u>(105,662,209)</u>
Change in net position	(105,666,171)
Net position, beginning	<u>105,666,171</u>
Net position, ending	<u><u>\$ -</u></u>

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

CITY OF SEVIERVILLE, TENNESSEE

Statement of Cash Flows
 Public Building Authority of the City of Sevierville
 For the Fiscal Year Ended June 30, 2014

Cash flows from noncapital financing activities:	
Grant to primary government from component unit - cash	\$ (983,711)
Net cash used by noncapital financing activities	<u>(983,711)</u>
Net decrease in cash and cash equivalents	(983,711)
Cash and cash equivalents, beginning	<u>983,711</u>
Cash and cash equivalents, ending	<u>\$ -</u>

Supplemental disclosure - non-cash transactions:

Effective July 1, 2013, the Public Building Authority of the City of Sevierville (PBA) transferred its golf course and convention center operations to the primary government. The activity that remains in the PBA are capital projects funded from the proceeds of bonds issued by the primary government. As a result of this transaction, the PBA no longer meets the definition of an enterprise fund. Also, the component unit will no longer be discretely presented but will be blended with the financial statements of the primary government. The following schedule displays the amounts and character of resources transferred between the discretely presented component unit and the blended component unit:

	<u>Capital Projects Fund</u>
Financial resources - cash	\$ 983,711
Financial resources - other	<u>(1,131,615)</u>
Total financial resources	(147,904)
Capital resources	<u>105,810,113</u>
	<u>\$ 105,662,209</u>

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

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Reporting Entity

The City of Sevierville, Tennessee (government) is a municipal corporation governed by a Home Rule Charter form of government. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. As of July 1, 2013, The Public Building Authority of the City of Sevierville, Tennessee (PBA), transferred its golf course and convention center operations to the primary government. The activity that remains in the PBA are capital projects funded from proceeds of bonds issued by the primary government. As a result of this transaction, the PBA no longer meets either the definition of an enterprise fund or a discretely presented component unit. The PBA is now reported as a blended component unit accounted for as a governmental capital projects fund. The PBA serves the geographic area of Sevierville and its corporate charter grants it legally separate corporate powers. The PBA was created in July, 2003 by the government under the provisions of The Tennessee Public Building Authorities Act of 1971, TCA 12-10-101, granting its permission to apply to the Tennessee Secretary of State for incorporation as a public nonprofit corporation to undertake responsibility to provide for construction, operation, and management of "Qualified Public Use Facilities" as outlined improvements for a Tourism Development Zone/Central Business Improvement District established by the government and approved by the State of Tennessee. The government has appointed seven Directors to the PBA's Board of Directors with staggered terms of service, none of which are elected government officials. The government also provides subsidies to the PBA to provide funding for operational revenue shortfalls and for capital outlay and infrastructure construction. There is no separate report issued for the PBA as of June 30, 2014.

Basis of Presentation - Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Government-Wide Financial Statements (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's electric, water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *Central Business Improvement District Fund* (CBID Fund) accounts for the use of certain bond funds and the servicing of certain long-term debt of the government.

The government reports the following major enterprise funds:

The *Water and Sewer Department Fund* accounts for all the activities of Sevierville Water Systems, a department of the government. Sevierville Water Systems operates the water distribution and sewer collection and treatment systems for residents of the government and surrounding areas.

The *Electric Department Fund* accounts for all the activities of Sevier County Electric System, a department of the government. Sevier County Electric System operates the electric utility for residents of the government and all of Sevier County. The Sevier County Electric System operates under a separate Board of Commissioners appointed by the government's ruling body. Complete comparative financial statements of this fund can be obtained from Sevier County Electric System, P.O. Box 4870, Sevierville, TN 37864-4870.

Additionally, the government reports the following fund types:

Internal Service Funds account for risk management services (including claims for health, dental and vision and childcare) provided to other departments or agencies of the government, or to other governments on a cost-reimbursement basis.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Financial Statements (Continued)

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Measurement Focus and Basis of Accounting

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The appropriated budget is prepared by fund, function, and department. All supplemental appropriations require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the individual fund level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget.

At June 30, 2014 the government had no encumbrances. Also, for the year ended June 30, 2014, the government did not have any excess expenditures over appropriations.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and all highly liquid investments (including restricted assets) having original maturity dates of three months or less from the date of acquisition. The cash and cash equivalents of various funds and PBA of the government are invested in pooled accounts. Funds or component units

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net
Position/Fund Balance (Continued)

Cash and Cash Equivalents (Continued)

with negative cash and cash equivalents report the negative amount as due to other funds of the primary government or due to component units, and the funds or component units lending funds report an offsetting due from other funds of the primary government or due from component units. Investment income earned on funds invested in pooled accounts is allocated to the respective funds and component units on the basis of relative balances.

Investments

Investments consist primarily of certificates of deposit and investments in the Tennessee Local Government Investment Pool. Certificates of deposit are reported at cost, which approximates fair value. Tennessee Local Government Investment Pool is maintained and managed by the State of Tennessee. This Pool is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the government's investments in the Pool have been determined based on the Pool's share price, which approximates fair value.

Property Taxes Receivable

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable on or before February 28 of the following year. All unpaid taxes become delinquent March 1 of the following year.

Property tax revenues are recognized when levied to the extent that they result in current receivables within sixty days of the end of the year. Property taxes recognized as a receivable before the period of revenue recognition are reported as deferred inflow of resources. A reserve representing delinquent taxes which remain uncollected and are unavailable to fund expenditures of the fiscal year June 30, 2014 is recorded. The balance of the reserve account at June 30, 2014 is \$153,700.

At June 30, 2014, the government's 2014 property taxes were not scheduled to be billed until October 2014. Consequently, unbilled property taxes and deferred inflows of resources \$2,268,840 are recorded.

Inventories and Prepaid Items

Inventories are valued at the lower of average cost or market and consist of items available for resale in the general fund and construction materials, supplies and repair parts in the enterprise funds. Inventories are determined on the weighted average method.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Inventories and Prepaid Items (Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the government-wide and fund financial statements. The costs of prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. For infrastructure assets the same estimated minimum useful life is used, but only those infrastructure projects that cost more than \$50,000 are reported as capital assets.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. During the year ended June 30, 2014, there were no capitalized interest costs.

Land and improvements and construction/retirement in progress are not depreciated. The other property, equipment, and infrastructure in governmental activities are depreciated using the straight line method over the following estimated useful lives:

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20141. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**Capital Assets (Continued)**

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	15 - 75 years
Infrastructure	50 - 100 years
Machinery and equipment	5 - 30 years

The other property, plant and equipment in business activities are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	10 - 50 years
Machinery and equipment	5 - 20 years
Utility plant	7½ - 50 years

The original cost of electric department fund plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then.

The government has items that qualify for reporting in these categories. The government analyzes its derivative financial instruments into hedging derivative instruments and investment derivative instruments. If a derivative is classified as a hedging derivative instrument, changes in its fair value are deferred on the Statement of Net Position as deferred outflows of resources. Certain sales taxes in the central business improvement district fund and certain property taxes in the general fund are unavailable resources in the current year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Net Position Flow Assumption

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

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

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

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Fund Balance Policies (Continued)

The committed fund balance classification consists of funds that are set aside for a specific purpose determined by the Board of Mayor and Aldermen. Formal action must be taken prior to the end of the fiscal year. Any funds set aside as committed fund balance requires the passage of an ordinance, the Board's most binding constraint. Once committed, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board of Mayor and Aldermen has by resolution authorized the finance director to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The fund balance policy establishes a minimum unassigned general fund balance equal to 25 percent of budgeted general fund expenditures. In the event that the balance drops below the established minimum level, the governing body will develop a plan to replenish the fund balance to the established minimum level within two years.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Compensated Absences

Compensated absences are reported in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the government will compensate the employees for the benefits through paid time off or some other means. The government records a liability for accumulated unused vacation time when earned for all employees. The entire compensated absences liability is reported on the government-wide financial statements.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenditures/Expenses (Continued)

Compensated Absences (Continued)

For governmental funds, the current portion of unpaid compensated absences is in the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. At June 30, 2014, there are no such amounts reported. The noncurrent portion of the liability is not reported, but if the long-term portion were required to be liquidated, the amount would be paid from the General Fund as has been done in prior years.

Government (excluding Electric Department Fund employees may accrue up to 160 hours (200 hours for fire department employees) of vacation leave per year, depending upon years of service. Any accrued vacation leave in excess of 240 hours (300 hours for fire department employees) at June 30th of each year is converted to accrued sick leave. Sick leave accrues at the rate of eight hours per month without a maximum limitation. Upon separation from the government, the employee will be paid 100% of accrued vacation leave up to a maximum of 240 hours (300 hours for fire department employees) if proper notice has been given.

Accrued sick leave does not vest and, accordingly, has not been recorded as a liability at June 30, 2014. However, the cost of accrued sick leave is recognized when earned for the Water and Sewer Department Fund employees who were employed on July 1, 2005 (pre-merger employees). Pre-merger employees were allowed to accumulate unlimited sick leave (eight hours per month). All accumulated sick leave is forfeited if any of these employees resign or is terminated. In the event of death or retirement, accumulated sick leave is payable to a maximum of 800 hours to these employees.

Electric Department Fund employees earn one and one-fourth days of sick leave per month with a maximum accumulation of two hundred twenty-five days. Upon retirement or death, employees are compensated for any accumulated sick leave up to one hundred eighty days. Although not required, the Electric Department Fund's policy is to accrue this amount in full, which totaled \$3,255,819 at June 30, 2014. In the event of termination, employees forfeit all unused sick leave.

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Other Accounting Policies

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Other Accounting Policies (Continued)****Plant Acquisition Adjustments**

Plant acquisition adjustments represent the excess of cost over net book value of utility properties acquired from other utility systems. Such excess cost is amortized over a period of twenty years.

Customer Advances for Construction

Customer advances for construction represents refundable receipts from developers.

Comparative Data

Comparative totals for the prior year have been presented in the budgetary comparison schedules in order to provide an understanding of changes in the government's financial position and operations. However, presentation of prior year totals by fund type has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read. Certain comparative data have been reclassified to present such amounts in a manner consistent with the current year's presentation.

Regulated Operations

The Electric Department Fund operates an electric utility that is regulated by Tennessee Valley Authority (TVA), an agency of the federal government. TVA exercises oversight in the rate setting process and requires the use of accounting policies for public electric utilities as prescribed by the Federal Energy Regulatory Commission (FERC). Specific accounting policies which are unique to FERC include: 1) When capital assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal costs less salvage is charged or credited to the accumulated depreciation account; and 2) Debt issuance costs are treated as a regulatory asset as defined in GASB Statement 62 and are capitalized when incurred and amortized over the life of the related debt issue using the straight-line method.

The Electric Department Fund also has a power contract with TVA whereby the Electric Department Fund purchases all of its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

Finally, the Electric Department Fund participates in TVA's Residential Energy Efficiency Program which provides loans to the Electric Department Fund's residential customers for heat pump and insulation costs.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements

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

2. DEPOSITS AND INVESTMENTS

At June 30, 2014, deposits and investments consisted of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Primary Government:			
Checking and savings accounts	<u>\$ 41,513,413</u>	<u>\$ 4,081,445</u>	<u>\$ 45,594,858</u>
Cash and cash equivalents	<u>\$ 41,513,413</u>	<u>\$ 4,081,445</u>	<u>\$ 45,594,858</u>
Tennessee Local Government Investment Pool	\$ 7,562,567	\$ 811,558	\$ 8,374,125
Certificates of Deposit	<u>12,127,898</u>	<u>4,545,000</u>	<u>16,672,898</u>
Investments	<u>\$ 19,690,465</u>	<u>\$ 5,356,558</u>	<u>\$ 25,047,023</u>

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2014**

2. DEPOSITS AND INVESTMENTS (Continued)

Government (excluding Electric Department Fund) - At June 30, 2014 the government's deposits with financial institutions were entirely covered by federal depository insurance or insured through the State of Tennessee Bank Collateral Pool.

Electric Department Fund - Cash on deposit with financial institutions at June 30, 2014 was entirely secured by federal depository insurance, collateral held by the Electric Department Fund's agent in the name of Sevier County Electric System, or insured through the State of Tennessee Bank Collateral Pool.

Investment policies of the government follow state law and bond requirements prohibiting investments that are not secured or insured by the U.S. Government.

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CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

3. CAPITAL ASSETS

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

	Balance July 1, 2013	Grant from Component Unit	Additions	Deductions	Balance June 30, 2014
<u>Governmental Activities</u>					
Capital assets, not being depreciated:					
Land	\$ 8,217,594	\$ 47,115,024	\$ -	\$ -	\$ 55,332,618
Construction work in progress	24,692	3,839,048	(38,168)	(8,280)	3,817,292
Total capital assets, not being depreciated	8,242,286	50,954,072	(38,168)	(8,280)	59,149,910
Capital assets, being depreciated:					
Buildings and improvements	33,291,081	61,939,743	88,055	-	95,318,879
Bridges	2,999,476	-	-	-	2,999,476
Street network	44,786,559	-	510,000	-	45,296,559
Traffic signals	1,559,385	-	-	-	1,559,385
Computers	392,681	82,004	131,636	(21,671)	584,650
Equipment	4,500,727	1,717,687	628,334	(154,378)	6,692,370
Furniture	80,967	585,614	4,325	(1,000)	669,906
Radios	526,469	-	2,001	(24,277)	504,193
Vehicles	9,904,155	95,853	675,195	(1,231,868)	9,443,335
Total capital assets, being depreciated	98,041,500	64,420,901	2,039,546	(1,433,194)	163,068,753
Less accumulated depreciation:					
Buildings and improvements	12,228,210	8,158,069	2,049,744	-	22,436,023
Bridges	679,030	-	37,492	-	716,522
Street network	6,293,492	-	281,496	-	6,574,988
Traffic signals	813,305	-	38,547	-	851,852
Computers	282,279	61,009	67,656	(21,670)	389,274
Equipment	3,238,883	841,024	581,904	(133,132)	4,528,679
Furniture	79,847	430,042	68,808	(1,000)	577,697
Radios	402,061	-	29,375	(24,165)	407,271
Vehicles	6,204,397	74,716	591,612	(1,225,867)	5,644,858
Total accumulated depreciation	30,221,504	9,564,860	3,746,634	(1,405,834)	42,127,164
Capital assets, being depreciated, net	67,819,996	54,856,041	(1,707,088)	(27,360)	120,941,589
Governmental activities capital assets, net	\$ 76,062,282	\$ 105,810,113	\$ (1,745,256)	\$ (35,640)	\$ 180,091,499

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 1,252,195
Public Safety	462,330
Public Works	881,233
Culture and Recreation	934,757
Community Development	216,119
Total depreciation expense	\$ 3,746,634

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

3. CAPITAL ASSETS (Continued)

	Balance July 1, 2013	Additions	Deductions	Other	Balance June 30, 2014
<u>Business-Type Activities</u>					
Capital assets, not being depreciated:					
Land and land rights	\$ 7,381,148	\$ -	\$ -	\$ -	\$ 7,381,148
Construction work in progress	6,597,936	40,266	-	-	6,638,202
Total capital assets, not being depreciated	13,979,084	40,266	-	-	14,019,350
Capital assets, being depreciated:					
Electric distribution system	186,004,473	4,945,481	875,137	-	190,074,817
Water and sewer plant	94,762,187	1,728,683	-	-	96,490,870
Machinery and equipment	8,746,254	409,019	728,764	-	8,426,509
Transportation equipment	6,364,146	132,001	73,735	20,768	6,443,180
Office furniture and fixtures	1,730,545	45,473	-	-	1,776,018
Other capital assets	2,136,396	336,288	-	-	2,472,684
Total capital assets, being depreciated	299,744,001	7,596,945	1,677,636	20,768	305,684,078
Less accumulated depreciation:					
Electric distribution system	68,988,632	6,460,719	1,166,159	-	74,283,192
Water and sewer plant	26,388,635	2,413,609	-	-	28,802,244
Machinery and equipment	4,848,228	420,878	418,922	-	4,850,184
Transportation equipment	4,163,243	312,832	(6,643)	-	4,482,718
Office furniture and fixtures	1,533,825	43,709	-	-	1,577,534
Other capital assets	281,518	212,952	-	-	494,470
Total accumulated depreciation	106,204,081	9,864,699	1,578,438	-	114,490,342
Capital assets, being depreciated, net	193,539,920	(2,267,754)	99,198	20,768	191,193,736
Business-type activities capital assets, net	\$ 207,519,004	\$ (2,227,488)	\$ 99,198	\$ 20,768	\$ 205,213,086

Depreciation expense was charged to business-type activities as follows:

Electric Department Fund	\$ 6,800,238
Water and Sewer Department Fund	3,064,461
Total depreciation expense	<u>\$ 9,864,699</u>

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

3. CAPITAL ASSETS (Continued)

	Balance June 30, 2013	Additions	Grant to Primary Government	Balance June 30, 2014
<u>Component Unit Activities</u>				
Capital assets, not being depreciated:				
Land	\$ 22,397,127	\$ -	\$ 22,397,127	\$ -
Land improvements	24,717,897	-	24,717,897	-
Construction work in progress	3,839,048	-	3,839,048	-
Total capital assets, not being depreciated	50,954,072	-	50,954,072	-
Capital assets, being depreciated:				
Convention center buildings and improvement	53,966,540	-	53,966,540	-
Convention center machinery and equipment	883,426	-	883,426	-
Golf course buildings and improvements	7,973,203	-	7,973,203	-
Golf course machinery and equipment	1,597,732	-	1,597,732	-
Total capital assets, being depreciated	64,420,901	-	64,420,901	-
Less accumulated depreciation:				
Convention center buildings and improvement	7,128,396	-	7,128,396	-
Convention center machinery and equipment	704,830	-	704,830	-
Golf course buildings and improvements	1,029,673	-	1,029,673	-
Golf course machinery and equipment	701,961	-	701,961	-
Total accumulated depreciation	9,564,860	-	9,564,860	-
Capital assets, being depreciated, net	54,856,041	-	54,856,041	-
Component unit activities capital assets, net	\$105,810,113	\$ -	\$ 105,810,113	\$ -

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20144. LONG-TERM LIABILITIESGeneral Obligation Bonds

The government issues general obligation bonds and general obligation revenue bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with varying amounts of principal maturing each year with maturities that range from 4 to 26 years. The general obligation bonds outstanding at June 30, 2014 are as follows:

<u>General Obligation Bonds</u>	<u>Issued</u>	<u>Original Borrowing</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Outstanding June 30, 2014</u>
Governmental Activities:					
Local Government Public Improvement Bonds, Series VII-D-1	02/26/09	\$ 35,886,720	Varies	2015	\$ 5,817,873
General Obligation Bond, Series 2009	04/09/09	1,030,000	Varies	2015	185,000
Local Government Public Improvement Bonds, Series VII-A-2	06/01/09	2,295,000	Varies	2015	380,000
Local Government Public Improvement Bonds, Series VII-L-1	06/01/12	16,215,000	Varies	2025	15,755,000
General Obligation Bond, Series 2012	06/29/12	1,060,000	Varies	2016	540,000
General Obligation Bond, Series 2013	05/30/13	9,160,000	Varies	2035	9,160,000
Local Government Public Improvement Bonds, Series VII-M-1	05/01/14	2,300,000	Varies	2032	2,300,000
Local Government Public Improvement Bonds, Series 2009B	12/30/09	24,500,000	Varies	2034	24,500,000
Local Government Public Improvement Bonds, Series 2010A	01/14/10	25,000,000	Varies	2033	25,000,000
Local Government Public Improvement Bonds, Series 2010B	09/15/10	26,100,000	Varies	2031	26,100,000
Local Government Public Improvement Bonds, Series VII-N-1	05/01/14	25,000,000	Varies	2028	25,000,000
Local Government Public Improvement Bonds, Series VII-O-1	05/01/14	45,305,000	Varies	2018	45,305,000
Total governmental activities					<u>\$ 180,042,873</u>
Business-Type Activities:					
Local Government Public Improvement Bonds, Series VII-D-1	02/26/09	\$ 23,653,280	Varies	2015	\$ 12,012,127
General Obligation Bond, Series 2009	04/09/09	3,720,000	Varies	2016	715,000
Local Government Public Improvement Bonds, Series VII-A-2	06/01/09	8,000,000	Varies	2035	8,000,000
Local Government Public Improvement Revenue Bonds, Series V-D-1	10/01/10	21,700,000	Varies	2024	14,030,000
General Obligation Bond, Series 2011	11/15/11	5,000,000	Varies	2032	5,000,000
Local Government Public Improvement Bonds, Series VII-L-1	06/01/12	800,000	Varies	2017	800,000
General Obligation Bond, Series 2012	06/29/12	4,745,000	Varies	2019	3,360,000
Local Government Public Improvement Bonds, Series VII-M-1	05/29/14	8,525,000	Varies	2035	8,525,000
Total business-type activities					<u>\$ 52,442,127</u>

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2014**

4. LONG-TERM LIABILITIES (Continued)

Current Refundings

The government issued \$25,000,000 in local government public improvement bonds (Series VII-N-1) with variable interest rates and \$45,305,000 in local government public improvement bonds (Series VII-O-1) with interest rates ranging from 3.0% to 5.0%. The proceeds of the bonds were used to refinance \$75,000,000 of outstanding Series 2009A local government public improvement bonds which had interest rates ranging from 3.25% to 5.0%. The net proceeds of \$76,195,400 (including a \$6,238,273 premium and after payment of \$347,873 in underwriting fees and other issuance costs) were used to pay the outstanding principal and interest on the refunded bonds.

The government also issued \$10,825,000 in local government public improvement bonds (Series-M-1) with variable interest rates. The proceeds of the bonds were used to refinance a portion of outstanding Series VII-D-1 local government public improvement bonds which had rates ranging from 3.25% to 5.0%. The net proceeds of \$10,729,505 (after payment of \$95,495 in other issuance costs) were used to pay a portion of the outstanding principal on the refund bonds.

In all instances, the reacquisition price was equal to the net carrying amount of the old debt and there was no economic gain or loss on the transaction.

Changes in long-term liabilities

Changes in the government's long-term liabilities for the year ended June 30, 2014 are as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Amounts Due</u> <u>Within One Year</u>
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 186,197,873	\$ 72,605,000	\$ 78,760,000	\$ 180,042,873	\$ 7,132,873
Premium	1,053,434	6,238,273	656,583	6,635,124	1,943,053
Total bonds payable	187,251,307	78,843,273	79,416,583	186,677,997	9,075,926
Compensated absences	521,721	699,992	553,485	668,228	550,000
Governmental activities long-term liabilities	<u>\$ 187,773,028</u>	<u>\$ 79,543,265</u>	<u>\$ 79,970,068</u>	<u>\$ 187,346,225</u>	<u>\$ 9,625,926</u>
Business-Type Activities:					
Bonds Payable:					
General obligation bonds	\$ 55,207,127	\$ 8,525,000	\$ 11,290,000	\$ 52,442,127	\$ 14,267,127
Premium	713,918	-	289,793	424,125	269,536
Total bonds payable	55,921,045	8,525,000	11,579,793	52,866,252	14,536,663
Compensated absences	3,910,731	1,182,108	1,102,032	3,990,807	1,000,000
Business-type activities long-term liabilities	<u>\$ 59,831,776</u>	<u>\$ 9,707,108</u>	<u>\$ 12,681,825</u>	<u>\$ 56,857,059</u>	<u>\$ 15,536,663</u>

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20144. LONG-TERM LIABILITIES (Continued)

The debt service requirements for the government's general obligation bonds are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 7,132,873	\$ 6,273,848	\$ 14,267,127	\$ 1,797,447	\$ 21,400,000	\$ 8,071,295
2016	1,250,000	6,059,478	2,945,000	1,174,293	4,195,000	7,233,771
2017	1,705,000	6,021,386	2,325,000	1,095,118	4,030,000	7,116,504
2018	47,345,000	5,804,671	2,330,000	1,034,449	49,675,000	6,839,120
2019	2,605,000	3,797,609	1,990,000	972,103	4,595,000	4,769,712
2020-2024	21,715,000	18,125,825	9,110,000	4,033,862	30,825,000	22,159,687
2025-2029	31,815,000	16,314,652	7,400,000	2,857,018	39,215,000	19,171,670
2030-2034	65,875,000	7,434,079	9,875,000	1,489,875	75,750,000	8,923,954
2035-2039	600,000	18,000	2,200,000	75,059	2,800,000	93,059
	<u>\$180,042,873</u>	<u>\$ 69,849,548</u>	<u>\$ 52,442,127</u>	<u>\$14,529,224</u>	<u>\$ 232,485,000</u>	<u>\$ 84,378,772</u>

5. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS

At June 30, 2014, the government had the following derivative instruments outstanding:

Instrument	Type	Objective	Original Notional Amount	Effective Date	Maturity Date	Terms
Governmental activities						
\$19.27 M Swap	Pay fixed interest rate swap	Floating to fixed rate swap	\$ 19,270,000	5/31/2012	6/1/2025	Pay 4.395% Receive 63.1% CMS LIBOR 5-year
\$38.15 M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate swap	\$ 38,150,000	6/1/2006	6/1/2034	Pay 3.49% Receive 59.0% CMS LIBOR 5-year
\$36.85 M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate swap	\$ 36,850,000	6/1/2006	6/1/2022	Pay 3.968% Receive 63.0% CMS LIBOR 5-year
Business-type activities						
\$17 M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate swap	\$ 17,000,000	10/27/2010	6/1/2024	Pay 4.34% Receive 63.5% of LIBOR
\$8 M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate swap	\$ 8,000,000	6/1/2006	6/1/2035	Pay 4.41% Receive 63.1% of LIBOR

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2014, classified by type, and the changes in fair value of such derivative instrument from the year then ended as reported in the 2014 financial statements are as follows:

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

5. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)

Type	Changes in Fair Value		Fair Value at 6/30/2014		6/30/2014 Notional Amount
	Classification	Amount	Classification	Amount	
Governmental activities					
Investment derivative - Pay fixed interest rate swaps: \$19.27 M Swap	Investment gain	\$ 140,154	Debt	\$ (2,447,176)	\$ 16,170,000
Investment derivative - Pay fixed interest rate swaps: \$38.15 M Swap	Investment loss	\$ (624,425)	Debt	\$ (7,263,359)	\$ 38,150,000
Hedging derivative - Pay fixed interest rate swaps: \$36.85 M Swap	Deferred Outflow of Resources	\$ (5,497)	Debt	\$ (5,227,335)	\$ 36,850,000
Business-type activities					
Hedging derivative - Pay fixed interest rate swaps: \$17 M Swap	Deferred Outflow of Resources	\$ (181,187)	Debt	\$ (1,860,468)	\$ 14,245,000
Hedging derivative - Pay fixed interest rate swaps: \$8 M Swap	Deferred Outflow of Resources	\$ (114,310)	Debt	\$ (2,381,610)	\$ 8,000,000

Interest rate swaps are classified as hedging derivative instruments if the hedging instruments meet effectiveness criteria established by Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. If a derivative is classified as a hedging derivative instrument, changes in its fair value are deferred on the Statement of Net Position as either deferred inflows or deferred outflows. Three of the swap agreements described above met the effectiveness criteria, and therefore are classified as hedging derivatives. If the derivative is classified as an investment derivative instrument, changes in its fair value are reported on the Statement of Activities in the period in which they occur. Two of the swap agreements described above did not meet the criteria to be classified as hedging derivatives, and therefore are classified as investment derivative instruments.

Derivative Swap Agreement Detail**Governmental Activities**

During May 1999, the government issued \$19,430,000 in Local Government Public Improvement Revenue Bonds, Adjustable Rate Series III-E-1 through the TN-LOANS program sponsored by the PBA. Under its loan agreement, the PBA, at the request of the government, has entered into an interest rate swap agreement for a portion of the outstanding Local Government Improvement Bonds, Series III-E-1.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the government requested the PBA, on its behalf, to enter into an interest rate swap in connection with \$19.43 million of its Series III-E-1 variable-rate bonds. The intention of the swap was to effectively change the government's variable interest rate on the bonds to a synthetic fixed rate. The Series III-E-1 bonds have since been refunded with a portion of the proceeds of the Series VII-D-1 bonds and the interest rate swap is now associated with the Series VII-D-1 bonds.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)**Governmental Activities (Continued)**

Terms. Under the swap, the PBA pays the counterparty a fixed payment of 4.395 percent and receives a variable payment computed as 63.10 percent of the five-year London Interbank Offered Rate (LIBOR). The bonds hedged by the interest rate swap agreement had an original outstanding principal amount of \$19.43 million. The notional amount on the interest rate swap agreement will always be associated with hedge bonds. The related swap agreement matures on June 1, 2025. As of June 30, 2014, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.395%
Variable payment from counterparty	% of LIBOR	-1.073%
Net interest rate swap payments		3.322%
True interest costs		1.068%
Synthetic interest rate on bonds		<u>4.391%</u>

Fair value. As of June 30, 2014, the swap had a negative fair value of \$(2,447,176). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk. As of June 30, 2014, the government was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the government would be exposed to credit risk in the amount of the swap agreement's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the government to basis risk should the rate on the bonds increase to above 63.10% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.10% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The swap agreement contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The PBA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the PBA would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the PBA for a payment equal to the swap's fair value.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)**Governmental Activities (Continued)**

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap Payment	Total
	Principal	Interest		
2015	\$ 485,000	\$ 172,774	\$ 537,216	\$ 1,194,990
2016	920,000	167,592	521,103	1,608,695
2017	1,275,000	157,762	490,538	1,923,300
2018	1,340,000	144,138	448,178	1,932,316
2019	1,405,000	129,821	403,659	1,938,480
2020-2024	8,705,000	399,933	1,243,537	10,348,470
2025	2,040,000	21,797	67,775	2,129,572
	<u>\$ 16,170,000</u>	<u>\$ 1,193,817</u>	<u>\$ 3,712,006</u>	<u>\$ 21,075,823</u>

During June 2004, the government issued \$75,000,000 in Local Government Public Improvement Revenue Bonds, Adjustable Rate Series 2004 through the TN-LOANS program sponsored by the PBA. Under its loan agreement, the PBA, at the request of the government, has entered into an interest rate swap agreement for a portion of the outstanding Local Government Improvement Bonds, Series 2004.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the government requested the PBA, on its behalf, to enter into an interest rate swap in connection with \$38.15 million of its Series 2004 variable-rate bonds. The intention of the swap was to effectively change the government's variable interest rate on the bonds to a synthetic fixed rate. \$24.35 million of the Series 2004 bonds have since been refunded with a portion of the proceeds of the Series 2009 BQ Bonds and the related portion of the interest rate swap is now associated with those bonds. Additionally, the remaining \$13.8 million of the Series 2004 bonds have been refunded with a portion of the Series 2010A Bonds and the related portion of the interest rate swap is now associated with the Series 2010A Bonds.

Terms. Under the swap, the PBA pays the counterparty a fixed payment of 3.49 percent and receives a variable payment computed as 59 percent of the 5-year London Interbank Offered Rate (LIBOR). The swap had a notional amount of \$38.15 million and the associated variable-rate bond has a \$38.15 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the related Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2034. As of June 30, 2014, rates were as follows:

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)**Governmental Activities (Continued)**

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.490%
Variable payment from counterparty	% of LIBOR	-1.003%
Net interest rate swap payments		2.487%
Variable-rate bond coupon payments		1.148%
Synthetic interest rate on bonds		<u>3.635%</u>

Fair value. As of June 30, 2014, the swap had a negative fair value of (\$7,263,359). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk. As of June 30, 2014, the government was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the government would be exposed to credit risk in the amount of the swap agreement's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard & Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the government to basis risk should the rate on the bonds increase to above 59% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 59% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The swap agreement contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The PBA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the PBA would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the PBA for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)Governmental Activities (Continued)

Fiscal Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap Payment	Total
	Principal	Interest		
2015	\$ -	\$ 438,147	\$ 948,791	\$ 1,386,938
2016	-	438,147	948,791	1,386,938
2017	-	438,147	948,791	1,386,938
2018	-	438,147	948,791	1,386,938
2019	-	438,147	948,791	1,386,938
2020-2024	-	2,190,733	4,743,953	6,934,686
2025-2029	-	2,190,733	4,743,953	6,934,686
2030-2034	38,150,000	1,766,942	3,826,250	43,743,192
	<u>\$ 38,150,000</u>	<u>\$ 8,339,143</u>	<u>\$ 18,058,111</u>	<u>\$ 64,547,254</u>

During June 2004, the government issued \$75,000,000 in Local Government Public Improvement Revenue Bonds, Adjustable Rate Series 2004 through the TN-LOANS program sponsored by the PBA. Under its loan agreement, the PBA, at the request of the government, has entered into an interest rate swap agreement for a portion of the outstanding Local Government Improvement Bonds, Series 2004.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the government requested the PBA, on its behalf, to enter into an interest rate swap in connection with \$36.85 million of its Series 2004 variable-rate bonds. The intention of the swap was to effectively change the government's variable interest rate on the bonds to a synthetic fixed rate. \$11.05 million of the Series 2004 bonds have since been refunded with a portion of the proceeds of the Series 2010A BQ Bonds and the related portion of the interest rate swap is now associated with those Bonds. After June 30, 2010, the remaining \$25.8 million of the Series 2004 bonds have been refunded with a portion of the Series 2010B Bonds and the related portion of the interest rate swap is now associated with the Series 2010B Bonds.

Terms. Under the swap, the PBA pays the counterparty a fixed payment of 3.968 percent and receives a variable payment computed as 63 percent of the 5-year London Interbank Offered Rate (LIBOR). The swap had a notional amount of \$36.85 million and the associated variable-rate bond has a \$36.85 million principal amount. The interest rate swap agreement is based on the same amortization schedule as the outstanding principal of the related bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association (the SIFMA). The bonds and the related swap agreement mature on June 1, 2031. As of June 30, 2014, rates were as follows:

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)**Governmental Activities (Continued)**

	<u>Terms</u>	<u>Rates</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.968%
Variable payment from counterparty	% of LIBOR	<u>-1.071%</u>
Net interest rate swap payments		2.897%
Variable-rate bond coupon payments		<u>1.325%</u>
Synthetic interest rate on bonds		<u>4.222%</u>

Fair value. As of June 30, 2014, the swap had a negative fair value of \$(5,227,335). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk. As of June 30, 2014, the government was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the government would be exposed to credit risk in the amount of the swap agreement's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard & Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the government to basis risk should the rate on the bonds increase to above 63% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The PBA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the PBA would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the PBA for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

5. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)

Derivative Swap Agreement Detail (Continued)

Governmental Activities (Continued)

Fiscal Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap Payment	Total
	Principal	Interest		
2015	\$ -	\$ 488,380	\$ 1,067,545	\$ 1,555,925
2016	-	488,380	1,067,545	1,555,925
2017	-	488,380	1,067,545	1,555,925
2018	-	488,380	1,067,545	1,555,925
2019	-	488,380	1,067,545	1,555,925
2020-2024	-	2,441,899	5,337,723	7,779,622
2025-2029	14,350,000	2,390,212	5,224,740	21,964,952
2030-2031	22,500,000	450,940	985,704	23,936,644
	<u>\$ 36,850,000</u>	<u>\$ 7,724,951</u>	<u>\$ 16,885,892</u>	<u>\$ 61,460,843</u>

Business-Type Activities

During March 1999, the Electric Department Fund issued \$17,000,000 in Local Government Public Improvement Revenue Bonds, Adjustable Rate Series II-A-1, through the TN-LOANS program sponsored by the PBA. Under its loan agreement, the PBA, at the request of the Electric Department Fund, has entered into an interest rate swap agreement for a portion of the outstanding Local Government Improvement Bonds, Series II-A-1.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates, the Electric Department Fund requested the PBA, on its behalf, to enter into an interest rate swap in connection with \$17 million of its Series II-A-1 variable-rate bonds. The intention of the swap was to effectively change the Electric Department Fund's variable interest rate on the bonds to a synthetic fixed rate. The Series II-A-1 bonds have since been refunded with a portion of the proceeds of the Series V-D-1 bonds and the interest rate swap is now associated with the Series V-D-1 bonds.

Terms. Under the swap, the PBA pays the counterparty a fixed payment of 4.34 percent and receives a variable payment computed as 63.50 percent of the five-year London Interbank Offered Rate (LIBOR). The bonds hedged by the interest rate swap agreement had an original outstanding principal amount of \$17 million. The notional amount on the interest rate swap agreement will always be associated with hedge bonds. The related swap agreement matures on June 1, 2024. As of June 30, 2014, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.340%
Variable payment from counterparty	% of LIBOR	-1.154%
Net interest rate swap payments		3.186%
Variable-rate bond coupon payments		0.090%
Synthetic interest rate on bonds		<u>3.276%</u>

CITY OF SEVIERVILLE, TENNESSEENotes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)**Business-Type Activities (Continued)**

Fair value. As of June 30, 2014, the swap had a negative fair value of \$(1,860,468). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk. As of June 30, 2014, the Electric Department Fund was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the Electric Department Fund would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard and Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the Electric Department Fund to basis risk should the rate on the bonds increase to above 63.50% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the bond rate to be below 63.50% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The PBA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the PBA would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the PBA for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their terms were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

5. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)

Derivative Swap Agreement Detail (Continued)

Business-Type Activities (Continued)

Fiscal Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap Payment	Total
	Principal	Interest		
2015	\$ 1,125,000	\$ 12,543	\$ 450,798	\$ 1,588,341
2016	1,180,000	11,526	414,814	1,606,340
2017	1,240,000	10,460	377,065	1,627,525
2108	1,305,000	9,338	337,392	1,651,730
2019	1,370,000	8,160	295,647	1,673,807
2020-2024	7,810,000	20,856	767,431	8,598,287
	<u>\$ 14,030,000</u>	<u>\$ 72,883</u>	<u>\$ 2,643,147</u>	<u>\$ 16,746,030</u>

Under its loan agreement, the PBA, at the request of the Water Department Fund, has entered into an interest rate swap agreement for a portion of the outstanding Local Government Public Improvement Bonds, Series A-2-E.

Objective of the interest rate swap: In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Water Department Fund requested the PBA, on its behalf, to enter into an interest rate swap in connection with \$8 million of its Series A-2-E variable-rate bonds. The intention of the swap was to effectively change the Water Department Fund's variable interest rate on the bonds to a synthetic fixed rate. The Series A-2-E bonds have since been refunded with a portion of the proceeds of the Series VII-A-2 bonds, and the interest rate swap is now associated with the Series VII-A-2 bonds.

Terms. Under the swap, the PBA pays the counterparty a fixed payment of 4.41 percent and receives a variable payment computed as 63.1 percent of the 5-year London Interbank Offered Rate (LIBOR). The swap had a notional amount of \$8 million along with the original associated variable-rate bonds. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series VII-A-2 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association (the "SIFMA"). The bonds and the related swap agreement mature on June 1, 2035. As of June 30, 2014, rates were as follows:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.410%
Variable payment from counterparty	% of LIBOR	-1.073%
Net interest rate swap payments		3.337%
Variable-rate bond coupon payments		1.401%
Synthetic interest rate on bonds		<u>4.738%</u>

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20145. DERIVATIVE INSTRUMENTS - INTEREST RATE SWAPS (Continued)Derivative Swap Agreement Detail (Continued)**Business-Type Activities (Continued)**

Fair value. As of June 30, 2014, the swap had a negative fair value of \$(2,381,610). The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

Credit risk. As of June 30, 2014, the government was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the government would be exposed to credit risk in the amount of the swap agreement's fair value. The swap counterparty, Morgan Keegan Financial Products ("MKFP") was rated "A+" by Standard & Poor's as of June 30, 2014, with its Credit Support Provider, Deutsche Bank, rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

Basis risk. As noted above, the swap exposes the government to basis risk should the rate on the bonds increase to above 63.10% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.10% of LIBOR, then the synthetic rate on the bonds will decrease.

Termination risk. The swap agreement contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The PBA or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the PBA would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the PBA for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2014, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap Payment	Total
	Principal	Interest		
2015	\$ -	\$ 112,084	\$ 266,984	\$ 379,068
2016	-	112,084	266,984	379,068
2017	-	112,084	266,984	379,068
2018	-	112,084	266,984	379,068
2019	-	112,084	266,984	379,068
2020-2024	-	560,422	1,334,920	1,895,342
2025-2029	500,000	560,422	1,334,920	2,395,342
2030-2034	6,050,000	364,275	867,698	7,281,973
2035	1,450,000	20,315	48,391	1,518,706
	<u>\$ 8,000,000</u>	<u>\$ 2,065,854</u>	<u>\$ 4,920,849</u>	<u>\$ 14,986,703</u>

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

6. LEASES

Electric Department Fund Distribution Facilities

The Electric Department Fund is party to certain agreements which provide for the joint use of the Department's distribution facilities by other utilities and certain customers. Rental revenue and expenses from these arrangements for the year ended June 30, 2014 were \$1,504,981 and \$133,895, respectively.

7. SELF-INSURANCE

The government self-insures the first \$110,000 of annual medical claims for each regular full-time employee. According to the reinsurance contract, the government's maximum aggregate annual liability for the period March 1, 2014 through February 28, 2015 will not exceed \$5,291,397. This plan also covers eligible employees of Sevierville Housing Authority and Sevier Solid Waste Authority. This plan does not include employees of the government's Electric Department Fund.

The Electric Department Fund self-insures the first \$85,000 of annual medical claims for each regular full-time employee. Liabilities for unpaid claims are estimated by the Department based on prior years' experience. During the year ended June 30, 2014, contributions totaling \$1,460,000 were made to a reserve fund. Claims, fees and insurance premiums totaling \$1,670,170 were paid from the reserve fund leaving an ending balance of \$1,782,002. Processed unpaid claims at June 30, 2014 totaled approximately \$57,000.

8. RETIREMENT PLANS

TCRS Political Subdivision Pension Plan

Plan Description

Employees of the government (excluding some enterprise fund employees) are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the government participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20148. RETIREMENT PLANS (Continued)TCRS Political Subdivision Pension Plan (Continued)Funding Policy

The government requires employees to contribute 5.0 percent of earnable compensation. The government is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 8.85% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the government is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2014, the government's annual pension cost of \$835,857 to TCRS was equal to the government's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in market value of total investments over a ten-year period. The government's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 2 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$ 804,664	100.00%	\$0.00
6/30/13	\$ 830,303	100.00%	\$0.00
6/30/14	\$ 835,857	100.00%	\$0.00

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 91.67% funded. The actuarial accrued liability for benefits was \$21.39 million, and the actuarial value of assets was \$19.61 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.78 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.49 million, and the ratio of the UAAL to the covered payroll was 18.78%.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

8. RETIREMENT PLANS (Continued)

TCRS Political Subdivision Pension Plan (Continued)

Funded Status and Funding Progress (Continued)

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/09	\$ 11,328	\$ 12,148	\$ 820	93.25%	\$ 8,316	9.85%
7/1/11	\$ 16,002	\$ 16,628	\$ 626	96.24%	\$ 9,707	6.45%
7/1/13	\$ 19,608	\$ 21,391	\$ 1,782	91.67%	\$ 9,487	18.78%

Sevier County Electric System Employees' Pension Plan

Plan Description

The Electric Department Fund administers the Sevier County Electric System Employees' Pension Plan (the Plan), a single-employer defined benefit pension plan. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Plan members consist of eligible employees of the Electric Department Fund and certain employees of the Water Department Fund.

The Electric Department Fund's board of directors establishes and amends all plan provisions. A copy of the June 30, 2013 financial statement and required supplementary information prepared by the actuary is available to the public upon request at the Electric Department Fund's office.

Funding Policy

The contribution requirements of plan members and the government are established and may be amended by the Electric Department Fund's board of directors. Plan members are required to contribute 5 percent of their annual covered salary reduced by group term life insurance premium for insurance over \$50,000. The Electric Department Fund is required to contribute at an actuarially determined rate. For the year ended June 30, 2014, the Electric Department Fund's contribution rate is 26.01 percent of annual covered payroll.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

8. RETIREMENT PLANS (Continued)

Sevier County Electric System Employees' Pension Plan (Continued)

Annual Pension Cost (APC) and Net Pension Asset (NPA)

The Electric Department Fund's APC and NPA for the Pension Plan for the year ended June 30, 2013 (latest information available) are as follows:

Annual required contribution (ARC)	\$1,712,860
Interest on NPA	(161,302)
Adjustment to the ARC	<u>210,966</u>
Annual pension costs (APC)	1,762,524
Contributions made	<u>1,799,079</u>
Increase in net pension asset	36,555
Net pension asset, beginning of year	<u>2,150,688</u>
Net pension asset, end of year	<u>\$2,187,243</u>

The Electric Department Fund's APC, percentage of APC contributed, and NPA for the plan for the current year and each of the two preceding years were as follows:

Fiscal Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2011	\$1,889,299	96.07%	\$1,293,794
2012	1,818,802	147.11%	2,150,688
2013	1,762,524	102.07%	2,187,243

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarially accrued liability (AAL)	\$32,769,307
Actuarial value of plan assets	<u>18,476,613</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$14,292,694</u>
Funded ratio (actuarial value of plan assets/AAL)	56.4%
Covered payroll (annual payroll of active employees covered by the plan)	\$ 7,619,836
UAAL as a percentage of covered payroll	187.6%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

8. RETIREMENT PLANS (Continued)

Sevier County Electric System Employees' Pension Plan (Continued)

Actuarial Methods and Assumptions

The ARC for the plan was determined as part of the July 1, 2013 actuarial valuation using the following methods and assumptions:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Investment return	7.50%
Projected salary increases	4.25%
General inflation rate	2.25%

401(k) Defined Contribution Plan

The Electric Department Fund's employees have self-directed 401(k) deferred salary retirement plan. The Electric Department Fund pays the administrative and operational costs of this plan for its employees. Employees are allowed to contribute up to twenty percent of their base pay. The Electric Department Fund matches the first three percent of the employee's contributions. The Electric Department Fund's contributions to the 401(k) plan totaled \$175,495 in 2014.

City of Sevierville Money Purchase Pension Plan

Certain employees of the government are members of the City of Sevierville Money Purchase Pension Plan, a defined contribution plan. Members consist of employees who participated in the plan prior to the adoption of the TCRS plan on July 1, 1996, and have chosen not to participate in the TCRS plan (approximately 12 employees). Employees are eligible for normal retirement upon reaching the age of sixty-two or the completion of five years of service, whichever is later. The plan is administered by ERISA Services, Inc., a third party administrator. The Board of Mayor and Alderman have authority for establishing or amending the Plan's provisions and contribution requirements. The employer is required to contribute 8.85% of covered payroll, and employees are not required to contribute. The employer contribution rate is the same for this plan as the government's required annual employer contribution rate for employees covered under the TCRS. Employees' interests fully vest after seven years of participation.

Total contributions to the plan for the year ended June 30, 2014 was approximately \$55,009. Total covered payroll amounted to \$636,821 for the year ended June 30, 2014. Total plan assets at June 30, 2014 were \$1,431,763 (including \$55,710 receivable from the government).

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

9. OTHER POSTEMPLOYMENT BENEFITS

City of Sevierville Postemployment Benefit Plan

Plan Description

This plan is a single-employer defined benefit other postemployment benefit plan administered by the government. Benefits include medical, dental and prescription coverage and are available only to certain employees of the government's Water and Sewer Department Fund who qualified for full early retirement under the Sevier County Electric System Employees Pension Plan. The Plan's provisions are established and may be amended by the Board of Mayor and Aldermen. The Plan does not issue a stand-alone financial report.

Funding Policy

The government pays the cost of the postemployment medical, dental and life insurance premiums for retirees and their spouses up to the full premium, or the contribution cap of \$13,000 a year for family coverage and \$6,156 a year for single coverage. Coverage ceases upon the earlier of death or the attainment of Medicare eligibility (age 65). Spousal coverage ceases upon the earlier of the spouses Medicare eligibility, or 5 years after the employee attains Medicare eligibility (age 65). Spouse can elect to pay the full single premium for coverage after the 5 year threshold.

The contribution requirements of the government are established and may be amended by the Board of Mayor and Aldermen. Plan members are currently not required to contribute. The government pays all current plan benefits ("pay-as-you-go"). The government has no intention to make future contributions to a trust to offset the difference between current benefit payments and annual OPEB cost.

Annual OPEB Cost and Net OPEB Obligation

Annual Required Contribution (ARC)	\$ 87,000
Interest on Net OPEB Obligation	4,000
Net OPEB Obligation Adjustment	<u>(4,000)</u>
Annual OPEB Cost	87,000
Actual Contribution	<u>61,000</u>
Increase in Net OPEB Obligation	26,000
Net OPEB Obligation - Beginning of Year	<u>89,000</u>
Net OPEB Obligation - End of Year	<u><u>\$115,000</u></u>

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

9. OTHER POSTEMPLOYMENT BENEFITS (Continued)

City of Sevierville Postemployment Benefit Plan (Continued)

The government's annual OPEB cost, the percentage of OPEB cost contributed, and the net OPEB obligation for the Plan for the current and two preceding years are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 96,000	61.5%	\$ 74,000
6/30/2013	86,000	82.6%	89,000
6/30/2014	87,000	70.1%	115,000

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Normal Cost (d)
7/1/2010	\$ -	\$ 1,306,000	\$ 1,306,000	0.0%	\$ 39,000
7/1/2012	-	1,147,000	1,147,000	0.0%	37,000

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, after this initial year, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

9. OTHER POSTEMPLOYMENT BENEFITS (Continued)

City of Sevierville Postemployment Benefit Plan (Continued)

Actuarial Methods and Assumptions (Continued)

The ARC for the plan's year was determined as part of the July 1, 2012 actuarial valuation using the following methods and assumptions:

Actuarial cost method	Entry Age Normal
Inflation rate	2.50%
Interest Rate	4.00%
2012 Medical Trend Rates	9.00%
Ultimate Medical Trend Rate	5.00%
Year Ultimate Trend Rates Reached	2020
Amortization Method	Level dollar - open
Remaining Amortization Period	30 Years

Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan

Plan Description

This Plan is a single-employer defined benefit healthcare plan administered by Electric Department Fund. The Plan provides medical, dental and life insurance benefits to eligible retirees and their spouses. The Electric Department Fund's Board has the authority to establish and amend benefit provisions.

A brief description of the Retiree Medical, Dental and Life Insurance Plan follows:

Type of Coverage

Medical: Self Insured Blue Preferred (PPO) Plan administered by Blue Cross Blue Shield of Tennessee.

Dental: Self Insured Dental Plan administered by Blue Cross Blue Shield of Tennessee.

Life Insurance: \$50,000 Group Life Insurance for retirees up to age 70 with Jefferson Pilot Life Insurance Company.

Eligibility

Age 52 with 84 points. Points being age plus years of service.

Cost Sharing

SCES pays single or, if married, family coverage for any employee who retires but is not eligible for Medicare benefits at the time. This coverage will cease when the employee and spouse are certified as being eligible for Medicare benefits. If the employee is eligible for Medicare and the spouse is not, SCES will carry the spouse up to 5 years. If the spouse is still not eligible for Medicare benefits at that time, the spouse may choose to keep the coverage and pay the cost.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20149. OTHER POSTEMPLOYMENT BENEFITS (Continued)Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan
(Continued)Plan Description (Continued)

<u>Spouse Coverage</u>	Yes
<u>Surviving Spouse Coverage</u>	Up to six months following the death of an employee.
<u>Disability Coverage</u>	SCES provides family coverage for an employee who has been declared disabled, while the disability continues for a period not exceeding thirty-six months. At the end of thirty-six months, SCES will provide individual coverage for the employee while the disability continues or until the employee becomes eligible for Primary Medicare benefits.

Funding Policy

The Electric Department Fund pays the cost of the postemployment medical, dental and life insurance premiums for retirees and their spouses while they are covered by the Plan. Surviving spouses of retirees may elect to continue coverage at their own expense. Substantially all of the Electric Department Fund's employees may become eligible for these benefits if they reach normal retirement age while working for the Electric Department Fund.

The contribution requirements of the Electric Department Fund are established and may be amended by the Electric Department Fund's Board. Plan members are currently not required to contribute. The Electric Department Fund pays all plan benefits currently and, in addition, is funding a trust to provide future benefit payments. During the year ended June 30, 2014, the Electric Department Fund funded the trust with an additional \$839,897. The Electric Department Fund intends to make future contributions to the trust to offset the difference between current benefit payments and annual OPEB cost.

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost is equal to the annual required contribution (ARC), determined by an actuarial valuation performed at July 1, 2011, plus interest on the net OPEB obligation and the adjustment to the ARC. The end of the year net OPEB obligation is determined as follows:

	<u>Sevier County Electric System</u>
1. Annual Required Contribution (ARC)	\$ 426,387
2. Interest on Net OPEB Obligation	57,634
3. Adjustment to ARC	(51,765)
	<hr/>
4. Annual OPEB Cost	432,256
5. Contribution Made	976,932
	<hr/>
6. Decrease in Net OPEB Obligation	(544,676)
7. Net OPEB Obligation - beginning of Year	768,447
	<hr/>
8. Net OPEB Obligation - end of Year	<u>\$ 223,771</u>

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

9. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan
(Continued)Annual OPEB Cost and Net OPEB Obligation (Continued)

Electric Department Fund's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year are as follows:

<u>Year Ending</u>	<u>OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation</u>
6/30/2012	\$ 340,367	115.4%	\$ 744,573
6/30/2013	\$ 407,716	94.1%	\$ 768,447
6/30/2014	\$ 432,256	226.0%	\$ 223,771

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the funded status of the plan was as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (AAL) ((b-a)/c)</u>
7/1/2011	\$0	\$3,428,504	\$3,428,504	0.0%	N/A	N/A

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, after this initial year, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

9. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan
(Continued)

Actuarial Methods and Assumptions (Continued)

The ARC for the plan's year was determined as part of the July 1, 2011 actuarial valuation using the following methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Interest Rate	7.50%
2011 Medical Trend Rates	10.00%
Ultimate Medical Trend Rate	5.00%
Year Ultimate Trend Rates Reached	2016
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	25.35 Years
Annual Payroll Increase	2.50%

10. LITIGATION

At June 30, 2014, several lawsuits are pending in which the City of Sevierville is involved. Government management and the government's legal counsel believe these suits will not result in any material unfavorable outcome to the government.

11. INTERFUND RECEIVABLES/PAYABLES

Interfund receivable/payable balances at June 30, 2014 are as follows:

<u>Due From:</u>	<u>Due To:</u>	
	<u>General Fund</u>	<u>Insurance Fund</u>
PBA - Capital Budget Fund	\$ 167,281	\$ -
Flexible Spending Fund	\$ -	\$ 43,751

These amounts are related to short-term operational financing and are expected to be paid within the next twelve months.

12. SEVIERVILLE/SEVIER COUNTY JOINT VENTURE

The government has entered into a joint venture with Sevier County, Tennessee for the leasing, operation and management of a multi-use stadium facility and tourism welcome center located in Sevierville, Tennessee. The joint venture collects lease payments from the lessee for use of the stadium facility, parking lot and restaurant. The joint venture receives local and state sales tax collections pursuant to TCA 67-6-103(d) derived from the facility's events. The joint venture is responsible for the maintenance of the facility. The government has a 70% undivided interest in this joint venture.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2014

12. SEVIERVILLE/SEVIER COUNTY JOINT VENTURE (Continued)

For the year ended June 30, 2013, the joint venture's financial statements reflected net position totaling \$2,497,116 and a change in net position of \$105,185. Complete audited financial statements of Sevierville/Sevier County Joint Venture for the year ended June 30, 2013 (latest available) can be obtained from:

Lynn McClurg, Finance Director
City of Sevierville
P.O. Box 5500
Sevierville, TN 37864-5500

13. RISK MANAGEMENT

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. The government purchases commercial insurance for all of these risks of loss. Settled claims have not exceeded this commercial coverage in any of the last three years.

14. DEFERRED TAP REVENUE

Certain real estate developers were allowed to purchase future tap installations in advance prior to fees being increased. This revenue has been deferred and will be recognized when the taps are set.

15. INTERFUND TRANSFERS

Operating transfers for the year ended June 30, 2014 are as follows:

Governmental Activities

	<u>Transfers To:</u>		
	<u>Capital Budget Fund</u>	<u>PBA - Capital Budget Fund</u>	<u>Total</u>
<u>Transfers From:</u>			
General Fund	\$ 550,949	\$ -	\$ 550,949
CBID Fund	-	500,000	500,000
Total	<u>\$ 550,949</u>	<u>\$ 500,000</u>	<u>\$ 1,050,949</u>

The purpose of the transfer from the General Fund to the Capital Budget Fund was to fund capital outlay activity of the Fund.

The purpose of the transfer Central Business Improvement District Fund to the PBA-Capital Budget Fund is to provide funding for capital outlay and infrastructure construction.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2014**

16. OTHER RELATED ENTITIES

The government provides an operating contribution to the Sevier Economic Development Council, Inc. to assist the entity with its coordinating activities of attracting businesses and industries to Sevier County. The government has minority board representation on the entity's Board of Directors, but has no financial obligation other than its budgeted annual contribution.

The government participates in the Sevier Water Board, Inc. and has a minority representation on the entity's Board of Directors, however, the government's only financial obligation is direct debt reflected in the balance sheet of the government's Water Department.

The government participates in the Sevier Solid Waste, Inc. and has a minority representation on the entity's Board of Directors. The government has no financial obligation to this entity other than charges paid in connection with services provided.

17. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2014, the government made a prior period adjustment on the Statement of Activities for various expenditures that should have been reported in a prior period.

At June 30, 2014, the government also made a prior period adjustment in the General Fund for compensated absences that were overstated in the prior year.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 31, 2014, the date on which the financial statements were available to be issued.

Required Supplementary Information

Required supplementary information included in this section is a required part of the basic financial statements. The purpose of presenting this supplementary information is to provide additional analysis of the government's financial position and results of operations.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2014

RETIREMENT PLANS -

TCRS Political Subdivision Pension Plan
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2009	\$11,328	\$12,148	\$820	93.25%	\$8,316	9.85%
7/1/2011	\$16,002	\$16,628	\$626	96.24%	\$9,707	6.45%
7/1/2013	\$19,608	\$21,391	\$1,782	91.67%	\$9,487	18.78%

Sevier County Electric System Employees' Pension Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2011	\$12,734,039	\$25,569,300	\$12,835,261	49.8%	\$7,231,840	177.5%
7/1/2012	\$15,818,238	\$27,798,160	\$11,979,922	56.9%	\$7,240,406	165.5%
7/1/2013	\$18,476,613	\$32,769,307	\$14,292,694	56.4%	\$7,619,836	187.6%

OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) -

City of Sevierville Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2010	\$0	\$1,306,000	\$1,306,000	0.00%	N/A	N/A
7/1/2012	\$0	\$1,147,000	\$1,147,000	0.00%	N/A	N/A

Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
7/1/2008	\$0	\$4,354,421	\$4,354,421	0.00%	N/A	N/A
7/1/2011	\$0	\$3,428,504	\$3,428,504	0.00%	N/A	N/A

See independent auditor's report.

Other Supplementary Information

Other supplementary information included in this section is not a required part of the basic financial statements. The purpose of presenting this supplementary information is to provide additional analysis of the government's financial position and results of operations.

COMBINING FUND FINANCIAL STATEMENTS

Nonmajor Governmental Funds

Special Revenue and Capital Projects Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than capital projects.

State Street Aid Fund – established to account for legally restricted state shared funds received from the State of Tennessee to be expended for street improvements.

Drug Enforcement Fund – established to account for all expenditures made through the Drug Enforcement Fund. Revenues are from fines and costs from drug related cases.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Capital Budget Fund – established to account for all expenditures for the acquisition and construction of major assets of the government other than those financed by proprietary funds. The Capital Budget Fund is funded by transfers from the General Fund. Major projects include traffic signalization, street paving, equipment purchases and park improvements.

PBA Capital Budget Fund – was created to undertake responsibility to provide for construction, operation, and management of “qualified public use facilities” as determined by a government established Tourism Development Zone/Central Business District approved by the State of Tennessee.

CITY OF SEVIERVILLE, TENNESSEE

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2014

	Special Revenue Funds			Capital Projects Funds			Total Nonmajor Governmental Funds
	State Street Aid Fund	Drug Enforcement Fund	Total	Capital Budget Fund	PBA - Capital Budget Fund	Total	
<u>ASSETS</u>							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1,721,741	\$ 193,089	\$ 1,914,830	\$ 1,914,830
Due from other governments	-	-	-	-	-	-	-
Restricted assets:							
Cash and cash equivalents	308,488	215,558	524,046	-	-	-	524,046
Due from other governments	69,432	-	69,432	-	-	-	69,432
Total assets	\$ 377,920	\$ 215,558	\$ 593,478	\$ 1,721,741	\$ 193,089	\$ 1,914,830	\$ 2,508,308
<u>LIABILITIES AND FUND EQUITIES</u>							
Liabilities:							
Accounts payable	\$ 210,676	\$ 508	\$ 211,184	\$ 26,510	\$ 3,030	\$ 29,540	\$ 240,724
Due to other funds	-	-	-	-	167,281	167,281	167,281
Total liabilities	210,676	508	211,184	26,510	170,311	196,821	408,005
Fund equity:							
Restricted	167,244	215,050	382,294	-	-	-	382,294
Assigned	-	-	-	1,695,231	22,778	1,718,009	1,718,009
Total fund equity	167,244	215,050	382,294	1,695,231	22,778	1,718,009	2,100,303
Total liabilities and fund equity	\$ 377,920	\$ 215,558	\$ 593,478	\$ 1,721,741	\$ 193,089	\$ 1,914,830	\$ 2,508,308

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Nonmajor Governmental Funds
 For the Fiscal Year Ended June 30, 2014

	State Street Aid Fund			Drug Enforcement Fund			Total Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:									
Intergovernmental revenue	\$ 394,992	\$ 394,992	\$ 383,088	\$ -	\$ -	\$ -	\$ 394,992	\$ 394,992	\$ 383,088
Fines, forfeits and penalties	-	-	-	20,000	20,000	55,005	20,000	20,000	55,005
Other revenues	-	-	-	75,000	75,000	-	75,000	75,000	-
Total revenues	394,992	394,992	383,088	95,000	95,000	55,005	489,992	489,992	438,093
Expenditures:									
Contractual services	-	-	-	7,000	7,000	-	7,000	7,000	-
Supplies	-	-	-	8,000	8,000	6,400	8,000	8,000	6,400
Building materials	394,992	394,992	385,347	-	-	-	394,992	394,992	385,347
Grants, contributions and other	-	-	-	55,025	55,025	26,021	55,025	55,025	26,021
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	394,992	394,992	385,347	70,025	70,025	32,421	465,017	465,017	417,768
Revenues over (under) expenditures	-	-	(2,259)	24,975	24,975	22,584	24,975	24,975	20,325
Other financing sources (uses):									
Transfers from other funds	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Revenues and other financing sources over (under) expenditures and other financing uses	-	-	(2,259)	24,975	24,975	22,584	24,975	24,975	20,325
Special items:									
Grant from primary government to component unit - financial resources	-	-	-	-	-	-	-	-	-
Net change in fund balances	-	-	(2,259)	24,975	24,975	22,584	24,975	24,975	20,325
Fund balances, beginning	169,503	169,503	169,503	192,466	192,466	192,466	361,969	361,969	361,969
Fund balances, ending	\$ 169,503	\$ 169,503	\$ 167,244	\$ 217,441	\$ 217,441	\$ 215,050	\$ 386,944	\$ 386,944	\$ 382,294

(Continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Nonmajor Governmental Funds (Continued)
 For the Fiscal Year Ended June 30, 2014

	Capital Budget Fund			PBA - Capital Budget Fund			Total Capital Projects Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenues:									
Intergovernmental revenue	\$ 423,833	\$ 423,833	\$ -	\$ -	\$ -	\$ -	\$ 423,833	\$ 423,833	\$ -
Fines, forfeits and penalties	-	-	-	-	-	-	-	-	-
Other revenues	-	-	-	-	-	-	-	-	-
Total revenues	423,833	423,833	-	-	-	-	423,833	423,833	-
Expenditures:									
Contractual services	-	-	-	-	-	260,030	-	-	260,030
Supplies	-	-	-	-	-	-	-	-	-
Building materials	-	-	-	-	-	-	-	-	-
Grants, contributions and other	-	-	-	-	-	-	-	-	-
Capital outlay	1,155,842	1,155,842	525,471	13,433,326	13,433,326	69,288	14,589,168	14,589,168	594,759
Total expenditures	1,155,842	1,155,842	525,471	13,433,326	13,433,326	329,318	14,589,168	14,589,168	854,789
Revenues over (under) expenditures	(732,009)	(732,009)	(525,471)	(13,433,326)	(13,433,326)	(329,318)	(14,165,335)	(14,165,335)	(854,789)
Other financing sources (uses):									
Transfers from other funds	550,949	550,949	550,949	13,433,326	13,433,326	500,000	13,984,275	13,984,275	1,050,949
Total other financing sources (uses)	550,949	550,949	550,949	13,433,326	13,433,326	500,000	13,984,275	13,984,275	1,050,949
Revenues and other financing sources over (under) expenditures and other financing uses	(181,060)	(181,060)	25,478	-	-	170,682	(181,060)	(181,060)	196,160
Special items:									
Grant from primary government to component unit - financial resources	-	-	-	-	-	(147,904)	-	-	(147,904)
Net change in fund balance	(181,060)	(181,060)	25,478	-	-	22,778	(181,060)	(181,060)	48,256
Fund balances, beginning	1,669,753	1,669,753	1,669,753	-	-	-	1,669,753	1,669,753	1,669,753
Fund balances, ending	\$ 1,488,693	\$ 1,488,693	\$ 1,695,231	\$ -	\$ -	\$ 22,778	\$ 1,488,693	\$ 1,488,693	\$ 1,718,009

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Nonmajor Governmental Funds (Continued)
 For the Fiscal Year Ended June 30, 2014

	Total Nonmajor Governmental Funds		
	Original Budget	Final Budget	Actual
Revenues:			
Intergovernmental revenue	\$ 818,825	\$ 818,825	\$ 383,088
Fines, forfeits and penalties	20,000	20,000	55,005
Other revenues	75,000	75,000	-
Total revenues	913,825	913,825	438,093
Expenditures:			
Contractual services	7,000	7,000	260,030
Supplies	8,000	8,000	6,400
Building materials	394,992	394,992	385,347
Grants, contributions and other	55,025	55,025	26,021
Capital outlay	14,589,168	14,589,168	594,759
Total expenditures	15,054,185	15,054,185	1,272,557
Revenues over (under) expenditures	<u>(14,140,360)</u>	<u>(14,140,360)</u>	<u>(834,464)</u>
Other financing sources (uses):			
Transfers from other funds	13,984,275	13,984,275	1,050,949
Total other financing sources (uses)	13,984,275	13,984,275	1,050,949
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(156,085)</u>	<u>(156,085)</u>	<u>216,485</u>
Special items:			
Grant from primary government to component unit - financial resources	-	-	(147,904)
Net change in fund balance	(156,085)	(156,085)	68,581
Fund balances, beginning	2,031,722	2,031,722	2,031,722
Fund balances, ending	\$ 1,875,637	\$ 1,875,637	\$ 2,100,303

See independent auditor's report.

Internal Service Funds

Insurance Fund – to account for the operation of a medical and dental self-insurance fund covering virtually all full-time employees of the government and employees of Sevier Solid Waste Authority and Sevierville Housing Authority. The government operates under a self-insured retention and commercial insurance coverage purchases, with claims primarily administered by an outside agency.

Flexible Spending Fund – to account for the activity under the government's Flexible Spending Plan. The Plan provides coverage for medical, dental and daycare expense through salary reduction of participating employees.

CITY OF SEVIERVILLE, TENNESSEE

Combining Statement of Net Position
Internal Service Funds
June 30, 2014

	Insurance Fund	Flexible Spending Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,787,542	\$ 30,839	\$ 2,818,381
Other receivables	14,005	9,747	23,752
Due from other funds	43,751	-	43,751
Total assets	<u>2,845,298</u>	<u>40,586</u>	<u>2,885,884</u>
<u>LIABILITIES</u>			
Liabilities:			
Due to other funds	-	43,751	43,751
Reserve for health insurance claims	153,624	-	153,624
Total liabilities	<u>153,624</u>	<u>43,751</u>	<u>197,375</u>
<u>NET POSITION</u>			
Net position:			
Unrestricted	<u>2,691,674</u>	<u>(3,165)</u>	<u>2,688,509</u>
Total net position	<u>\$ 2,691,674</u>	<u>\$ (3,165)</u>	<u>\$ 2,688,509</u>

See independent auditor's report

CITY OF SEVIERVILLE, TENNESSEE

Combining Statement of Revenues, Expenses, and Change in Net Position
Internal Service Funds
For the Fiscal Year Ended June 30, 2014

	Insurance Fund	Flexible Spending Fund	Total
Operating revenues:			
Premiums	\$ 5,757,369	\$ -	\$ 5,757,369
Other revenues	-	100,794	100,794
Total operating revenues	<u>5,757,369</u>	<u>100,794</u>	<u>5,858,163</u>
Operating expenses:			
Operations:			
Insurance claims	4,612,574	-	4,612,574
Insurance premiums	375,645	-	375,645
Medical, dental and childcare payments	-	112,351	112,351
Total operations	<u>4,988,219</u>	<u>112,351</u>	<u>5,100,570</u>
Administration:			
Commissions	49,437	-	49,437
Administrative services	103,293	-	103,293
Total administration	<u>152,730</u>	<u>-</u>	<u>152,730</u>
Total operating expenses	<u>5,140,949</u>	<u>112,351</u>	<u>5,253,300</u>
Change in net position	616,420	(11,557)	604,863
Net position, beginning	<u>2,075,254</u>	<u>8,392</u>	<u>2,083,646</u>
Net position, ending	<u>\$ 2,691,674</u>	<u>\$ (3,165)</u>	<u>\$ 2,688,509</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Combining Statement of Cash Flows
 Internal Service Funds
 For the Fiscal Year Ended June 30, 2014

	Insurance Fund	Flexible Spending Fund	Total
Cash flows from operating activities:			
Cash received from employees, other participants and other funds	\$ 5,744,988	\$ 100,267	\$ 5,845,255
Cash payments to suppliers for goods and services	(528,375)	-	(528,375)
Cash payments for claims	(4,644,929)	(112,351)	(4,757,280)
Net cash provided (used) by operating activities	<u>571,684</u>	<u>(12,084)</u>	<u>559,600</u>
Cash flows from noncapital financing activities:			
Decrease in due to other funds	-	(13,595)	(13,595)
Net cash used by noncapital financing activities	<u>-</u>	<u>(13,595)</u>	<u>(13,595)</u>
Cash flows from investing activities:			
Increase in due from other funds	(43,751)	-	(43,751)
Net cash used by investing activities	<u>(43,751)</u>	<u>-</u>	<u>(43,751)</u>
Net increase (decrease) in cash and cash equivalents	527,933	(25,679)	502,254
Cash and cash equivalents, beginning	<u>2,259,609</u>	<u>56,518</u>	<u>2,316,127</u>
Cash and cash equivalents, ending	<u>\$ 2,787,542</u>	<u>\$ 30,839</u>	<u>\$ 2,818,381</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 616,420	\$ (11,557)	\$ 604,863
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Increase in other receivables	(11,512)	(527)	(12,039)
Decrease in insurance claims reserve	(32,355)	-	(32,355)
Decrease in other liabilities	(869)	-	(869)
Net cash provided (used) by operating activities	<u>\$ 571,684</u>	<u>\$ (12,084)</u>	<u>\$ 559,600</u>

See independent auditor's report.

Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2014

Grantor Agency	Program Identification or Contract #	CFDA Number	Balance July 1, 2013 Receivable (Unexpended)	Receipts	Expenditures	Balance June 30, 2014 Receivable (Unexpended)
Federal Awards:						
U.S. Department of Transportation -						
GHSO Grant - DUI Prevention	Z-13-GHS277	20.607	\$ 20,335	\$ 29,446	\$ 9,111	\$ -
GHSO Grant - PACE	Z-14-GHS306	20.600	-	20,271	28,516	8,245
Total U.S. Department of Transportation			<u>20,335</u>	<u>49,717</u>	<u>37,627</u>	<u>8,245</u>
U.S. Department of Justice -						
Bulletproof Vest Program	2011	16.607	736	736	-	(1) -
Bulletproof Vest Program	2012	16.607	4,722	4,722	81	(1) 81
Bulletproof Vest Program	2013	16.607	-	-	2,725	(1) 2,725
Bulletproof Vest Program	2014	16.607	-	-	691	(1) 691
2012 COPS Hiring Program	2012ULWX0031	16.710	-	59,749	72,746	12,997
Organized Crime Drug Enforcement Task Force	SE-TNE-0240(H)	N/A	-	2,662	2,662	-
Total U.S. Department of Justice			<u>5,458</u>	<u>67,869</u>	<u>78,905</u>	<u>16,494</u>
U.S. Department of Homeland Security -						
Federal Emergency Management Agency 2011 Assistance to Firefighter Grant	EMW-2011FO-00412	97.044	1,467	1,467	-	(2) -
Federal Emergency Management Agency 2012 Assistance to Firefighter Grant	EMW-2012FO-00788	97.044	-	43,062	43,062	(2) -
Total U.S. Department of Homeland Security			<u>1,467</u>	<u>44,529</u>	<u>43,062</u>	<u>-</u>
Total Federal Awards			<u>27,260</u>	<u>162,115</u>	<u>159,594</u>	<u>24,739</u>
State Awards:						
Tennessee Department of Transportation -						
2014 Trolley Operating Grant	GG-14-40476-01	N/A	-	281,663	281,663	-
Tennessee Department of Health -						
Child Passenger Safety Seat	N/A	N/A	(993)	7,870	7,195	(1,668)
Total State Awards			<u>(993)</u>	<u>289,533</u>	<u>288,858</u>	<u>(1,668)</u>
Total Federal and State Awards			<u>\$ 26,267</u>	<u>\$ 451,648</u>	<u>\$ 448,452</u>	<u>\$ 23,071</u>

Basis of Presentation: The accompanying Schedule of Expenditures of Federal and State Awards summarizes the expenditures of the government under programs of the federal and state governments for the year ended June 30, 2014. The schedule is presented using the modified accrual basis of accounting.

- (1) Total for CFDA No. 16.607 is \$3,497
(2) Total for CFDA No. 97.044 is \$43,062

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Long-Term Debt Principal and Interest Requirements
 Governmental Activities
 June 30, 2014

Year Ending June 30,	\$35,886,720 Local Government Public Improvement Bonds Series VII-D-1 3.25% - 5.00%		\$2,295,000 Local Government Public Improvement Bonds Series VII-A-2 Variable (1)		\$1,030,000 General Obligation Bonds Series 2009 3.25% - 3.5%		\$16,215,000 Local Government Public Improvement Bonds Series VII-L-1 Variable (2)		\$1,060,000 General Obligation Bonds Series 2012 2.00% - 3.00%		\$9,160,000 General Obligation Bonds Series 2013 2.00% - 3.00%	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ 5,817,873	\$ 173,324	\$ 380,000	\$ 4,869	\$ 185,000	\$ 6,012	\$ 485,000	\$ 408,767	\$ 265,000	\$ 16,200	\$ -
2016	-	-	-	-	-	-	525,000	386,849	275,000	8,250	100,000	265,075
2017	-	-	-	-	-	-	1,255,000	362,565	-	-	100,000	263,075
2018	-	-	-	-	-	-	1,340,000	330,203	-	-	100,000	261,075
2019	-	-	-	-	-	-	1,405,000	295,941	-	-	100,000	259,075
2020	-	-	-	-	-	-	1,475,000	260,112	-	-	100,000	257,075
2021	-	-	-	-	-	-	1,675,000	222,381	-	-	100,000	255,075
2022	-	-	-	-	-	-	1,760,000	181,421	-	-	110,000	253,075
2023	-	-	-	-	-	-	1,850,000	138,354	-	-	100,000	250,875
2024	-	-	-	-	-	-	1,945,000	93,111	-	-	100,000	248,375
2025	-	-	-	-	-	-	2,040,000	45,500	-	-	125,000	245,875
2026	-	-	-	-	-	-	-	-	-	-	400,000	242,750
2027	-	-	-	-	-	-	-	-	-	-	1,000,000	231,750
2028	-	-	-	-	-	-	-	-	-	-	1,000,000	201,750
2029	-	-	-	-	-	-	-	-	-	-	1,000,000	171,750
2030	-	-	-	-	-	-	-	-	-	-	1,000,000	141,750
2031	-	-	-	-	-	-	-	-	-	-	1,000,000	111,750
2032	-	-	-	-	-	-	-	-	-	-	1,000,000	81,750
2033	-	-	-	-	-	-	-	-	-	-	550,000	51,750
2034	-	-	-	-	-	-	-	-	-	-	575,000	35,250
2035	-	-	-	-	-	-	-	-	-	-	600,000	18,000
	<u>\$ 5,817,873</u>	<u>\$ 173,324</u>	<u>\$ 380,000</u>	<u>\$ 4,869</u>	<u>\$ 185,000</u>	<u>\$ 6,012</u>	<u>\$ 15,755,000</u>	<u>\$ 2,725,204</u>	<u>\$ 540,000</u>	<u>\$ 24,450</u>	<u>\$ 9,160,000</u>	<u>\$ 4,111,975</u>

- (1) The interest rate used for this calculation was 1.39778%, which was the actual interest rate at June 30, 2014.
- (2) The interest rate used for this calculation was 1.06580%, which was the actual interest rate at June 30, 2014.

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Long-Term Debt Principal and Interest Requirements
 Governmental Activities (Continued)
 June 30, 2014

Year Ending June 30,	\$2,300,000 Local Government Public Improvement Bonds Series VII-M-1 Variable (3)		\$24,500,000 Local Government Public Improvement Bonds Series 2009B Variable (4)		\$25,000,000 Local Government Public Improvement Bonds Series 2010A Variable (5)		\$26,100,000 Local Government Public Improvement Bonds Series 2010B Variable (6)		\$25,000,000 Local Government Public Improvement Bonds Series VII-N-1 Variable (7)		\$45,305,000 Local Government Public Improvement Bonds Series VII-O-1 3.25% - 5.00%		Total Governmental Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2015	\$ -	\$ 36,089	\$ -	\$ 909,153	\$ -	\$ 973,794	\$ -	\$ 1,138,090	\$ -	\$ 198,925	\$ -	\$ 2,143,550	\$ 7,132,873
2016	100,000	35,958	-	909,153	-	973,794	-	1,138,090	250,000	198,759	-	2,143,550	1,250,000	6,059,478
2017	100,000	34,389	-	909,153	-	973,794	-	1,138,090	250,000	196,770	-	2,143,550	1,705,000	6,021,386
2018	100,000	32,820	-	909,153	-	973,794	-	1,138,090	500,000	194,615	45,305,000	1,964,921	47,345,000	5,804,671
2019	100,000	31,251	-	909,153	-	973,794	-	1,138,090	1,000,000	190,305	-	-	2,605,000	3,797,609
2020	100,000	29,682	-	909,153	-	973,794	-	1,138,090	2,000,000	181,685	-	-	3,675,000	3,749,591
2021	100,000	28,113	-	909,153	-	973,794	-	1,138,090	2,350,000	165,539	-	-	4,225,000	3,692,145
2022	100,000	26,544	-	909,153	-	973,794	-	1,138,090	2,450,000	146,773	-	-	4,420,000	3,628,850
2023	100,000	24,975	-	909,153	-	973,794	-	1,138,090	2,550,000	127,213	-	-	4,600,000	3,562,454
2024	100,000	23,406	-	909,153	-	973,794	-	1,138,090	2,650,000	106,856	-	-	4,795,000	3,492,785
2025	100,000	21,837	-	909,153	-	973,794	-	1,138,090	2,850,000	85,637	-	-	5,115,000	3,419,886
2026	100,000	20,268	-	909,153	-	973,794	-	1,138,090	3,000,000	62,860	-	-	3,500,000	3,346,915
2027	100,000	18,699	-	909,153	-	973,794	-	1,138,090	3,150,000	38,890	-	-	4,250,000	3,310,376
2028	100,000	17,130	-	909,153	-	973,794	4,100,000	1,123,719	2,000,000	14,588	-	-	7,200,000	3,240,134
2029	250,000	15,365	-	909,153	-	973,794	10,500,000	927,279	-	-	-	-	11,750,000	2,997,341
2030	250,000	11,442	-	909,153	-	973,794	11,000,000	465,036	-	-	-	-	12,250,000	2,501,175
2031	250,000	7,519	-	909,153	11,125,000	935,572	500,000	20,097	-	-	-	-	12,875,000	1,984,091
2032	250,000	3,596	-	909,153	12,175,000	477,486	-	-	-	-	-	-	13,425,000	1,471,985
2033	-	-	11,075,000	874,921	1,700,000	58,073	-	-	-	-	-	-	13,325,000	984,744
2034	-	-	13,425,000	456,834	-	-	-	-	-	-	-	-	14,000,000	492,084
2035	-	-	-	-	-	-	-	-	-	-	-	-	600,000	18,000
	<u>\$ 2,300,000</u>	<u>\$ 419,083</u>	<u>\$24,500,000</u>	<u>\$17,696,509</u>	<u>\$25,000,000</u>	<u>\$17,051,835</u>	<u>\$26,100,000</u>	<u>\$17,331,301</u>	<u>\$25,000,000</u>	<u>\$ 1,909,415</u>	<u>\$45,305,000</u>	<u>\$ 8,395,571</u>	<u>\$180,042,873</u>	<u>\$69,849,548</u>

- (3) Interest is payable quarterly at variable rates. The interest rate used for this calculation was 1.56911%, the projected long-term rate at June 30, 2014.
- (4) Interest is payable at variable rates. The government has entered into an interest rate swap agreement for a portion of these bonds. The interest rate used for this calculation consists of two components: 1) interest on \$24,350,000 was 3.72663%, consisting of actual interest rate at June 30, 2014 of 1.14582%, plus 3.49% (the fixed component of the interest rate swap agreement) less 0.909190% (59% CMS LIBOR 5-year rate at June 30, 2014); and 2) interest on \$150,000 was 1.14582%.
- (5) Interest is payable at variable rates. The government has entered into two separate interest rate swap agreements for a portion of these bonds. The interest rate used for this calculation consists of three components: 1) interest on \$11,050,000 was 4.14299%, consisting of actual interest rate at June 30, 2014 of 1.14582%, plus 3.968% (the fixed component of the interest rate swap agreement) less 0.97083% (63% CMS LIBOR 5-year rate at June 30, 2014); 2) interest on \$13,800,000 was 3.72663%, consisting of actual interest rate at June 30, 2014 of 1.14582%, plus 3.49% (the fixed component of the swapped interest rate) less 0.909190% (59% CMS LIBOR 5-year rate at June 30, 2014); and 3) interest on \$150,000 was 1.14582%.
- (6) Interest is payable at variable rates. The government has entered into an interest rate swap agreement for a portion of these bonds. The interest rate used for this calculation consists of two components: 1) interest on \$25,800,000 was 4.39495%, consisting of actual interest rate at June 30, 2014 of 1.39778%, plus 3.968% (the fixed component of the interest rate swap agreement) less 0.97083% (63% CMS LIBOR 5-year rate at June 30, 2014); and 2) interest on \$300,000 was 1.39778%.
- (7) Interest is payable quarterly at variable rates. The interest rate used for this calculation was 0.79570%, the current rate at June 30, 2014. The government anticipates refinancing these maturities back to their original amortization schedules, pending market conditions.

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Long-Term Debt Principal and Interest Requirements
Business-Type Activities
June 30, 2014

WATER AND SEWER DEPARTMENT FUND

Year Ending June 30,	\$23,653,280 Local Government Public Improvement Bonds Series VII-D-1 3.25% - 5.00%		\$8,000,000 Local Government Public Improvement Bonds Series VII-A-2 Variable (1)		\$3,720,000 General Obligation Bonds Series 2009 3.00% to 3.50%		\$5,000,000 General Obligation Bonds Series 2011 2.625% - 3.125%		\$4,745,000 General Obligation Bonds Series 2012 2.00% to 3.00%		\$800,000 Local Government Public Improvement Bonds Series VII-L-1 Variable (2)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 12,012,127	\$ 550,556	\$ -	\$ 386,833	\$ 415,000	\$ 23,987	\$ -	\$ 148,469	\$ 715,000	\$ 81,750	\$ -	\$ 8,744
2016	-	-	-	386,833	300,000	10,500	-	148,469	740,000	60,300	725,000	8,084
2017	-	-	-	386,833	-	-	-	148,469	760,000	38,100	75,000	751
2018	-	-	-	386,833	-	-	-	148,469	775,000	22,900	-	-
2019	-	-	-	386,833	-	-	-	148,469	370,000	7,400	-	-
2020	-	-	-	386,833	-	-	-	148,469	-	-	-	-
2021	-	-	-	386,833	-	-	-	148,469	-	-	-	-
2022	-	-	-	386,833	-	-	-	148,469	-	-	-	-
2023	-	-	-	386,833	-	-	-	148,469	-	-	-	-
2024	-	-	-	386,833	-	-	-	148,469	-	-	-	-
2025	-	-	-	386,833	-	-	550,000	148,469	-	-	-	-
2026	-	-	-	386,833	-	-	1,000,000	134,031	-	-	-	-
2027	-	-	-	386,833	-	-	1,050,000	104,031	-	-	-	-
2028	-	-	-	386,833	-	-	1,100,000	72,531	-	-	-	-
2029	-	-	500,000	384,818	-	-	700,000	39,531	-	-	-	-
2030	-	-	1,100,000	358,223	-	-	175,000	18,531	-	-	-	-
2031	-	-	1,150,000	304,832	-	-	200,000	13,281	-	-	-	-
2032	-	-	1,200,000	249,024	-	-	225,000	7,031	-	-	-	-
2033	-	-	1,250,000	190,797	-	-	-	-	-	-	-	-
2034	-	-	1,350,000	129,952	-	-	-	-	-	-	-	-
2035	-	-	1,450,000	64,271	-	-	-	-	-	-	-	-
	<u>\$ 12,012,127</u>	<u>\$ 550,556</u>	<u>\$ 8,000,000</u>	<u>\$ 7,097,579</u>	<u>\$ 715,000</u>	<u>\$ 34,487</u>	<u>\$ 5,000,000</u>	<u>\$ 2,022,126</u>	<u>\$ 3,360,000</u>	<u>\$ 210,450</u>	<u>\$ 800,000</u>	<u>\$ 17,579</u>

(1) Interest is payable at variable rates. The government has entered into an interest rate swap agreement for these bonds. The interest rate used for this calculation was 4.83541%, consisting of actual interest rate at June 30, 2014 of 1.39778%, plus 4.41% (the fixed component of the interest rate swap agreement) less 0.97237% (63.1% CMS LIBOR 5-year rate at June 30, 2014).

(2) The interest rate used for this calculation was 1.06580%, which was the actual interest rate at June 30, 2014.

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Long-Term Debt Principal and Interest Requirements
 Business-Type Activities (Continued)
 June 30, 2014

Year Ending June 30,	WATER AND SEWER DEPARTMENT FUND				ELECTRIC DEPARTMENT FUND					
	\$8,525,000 Local Government Public Improvement Bonds Series VII-M-1 Variable (3)		Total Water and Sewer Department Fund		Local Government Public Improvement Revenue Bonds		Total Electric Department Fund		Total Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest*	Principal	Interest	Principal	Interest
2015	\$ -	\$ 133,767	\$ 13,142,127	\$ 1,334,106	\$ 1,125,000	\$ 463,341	\$ 1,125,000	\$ 463,341	\$ 14,267,127	\$ 1,797,447
2016	-	133,767	1,765,000	747,953	1,180,000	426,340	1,180,000	426,340	2,945,000	1,174,293
2017	250,000	133,440	1,085,000	707,593	1,240,000	387,525	1,240,000	387,525	2,325,000	1,095,118
2018	250,000	129,517	1,025,000	687,719	1,305,000	346,730	1,305,000	346,730	2,330,000	1,034,449
2019	250,000	125,594	620,000	668,296	1,370,000	303,807	1,370,000	303,807	1,990,000	972,103
2020	250,000	121,671	250,000	656,973	1,445,000	258,727	1,445,000	258,727	1,695,000	915,700
2021	250,000	117,749	250,000	653,051	1,520,000	211,190	1,520,000	211,190	1,770,000	864,241
2022	250,000	113,826	250,000	649,128	1,600,000	156,710	1,600,000	156,710	1,850,000	805,838
2023	250,000	109,903	250,000	645,205	1,685,000	108,542	1,685,000	108,542	1,935,000	753,747
2024	300,000	105,915	300,000	641,217	1,560,000	53,119	1,560,000	53,119	1,860,000	694,336
2025	500,000	100,946	1,050,000	636,248	-	-	-	-	1,050,000	636,248
2026	500,000	93,101	1,500,000	613,965	-	-	-	-	1,500,000	613,965
2027	500,000	85,255	1,550,000	576,119	-	-	-	-	1,550,000	576,119
2028	500,000	77,409	1,600,000	536,773	-	-	-	-	1,600,000	536,773
2029	500,000	69,564	1,700,000	493,913	-	-	-	-	1,700,000	493,913
2030	500,000	61,718	1,775,000	438,472	-	-	-	-	1,775,000	438,472
2031	500,000	53,873	1,850,000	371,986	-	-	-	-	1,850,000	371,986
2032	725,000	45,733	2,150,000	301,788	-	-	-	-	2,150,000	301,788
2033	750,000	34,324	2,000,000	225,121	-	-	-	-	2,000,000	225,121
2034	750,000	22,556	2,100,000	152,508	-	-	-	-	2,100,000	152,508
2035	750,000	10,788	2,200,000	75,059	-	-	-	-	2,200,000	75,059
	<u>\$ 8,525,000</u>	<u>\$ 1,880,416</u>	<u>\$ 38,412,127</u>	<u>\$ 11,813,193</u>	<u>\$ 14,030,000</u>	<u>\$ 2,716,031</u>	<u>\$ 14,030,000</u>	<u>\$ 2,716,031</u>	<u>\$ 52,442,127</u>	<u>\$ 14,529,224</u>

* Interest is payable quarterly at a swapped fixed rate which may vary according to market fluctuations due to basis differentials between LIBOR and variable rates. An interest rate of 3.2756% was assumed for this calculation.

(3) The interest rate used for this calculation was 1.56911%, which was the actual interest rate at June 30, 2014.

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Plant
 Water and Sewer Department Fund
 June 30, 2014

	Assets				Accumulated Depreciation				Net
	Balance July 1, 2013	Additions	Retirements and Reclassifications	Balance June 30, 2014	Balance July 1, 2013	Expense	Retirements and Reclassifications	Balance June 30, 2014	
Land	\$ 427,269	\$ -	\$ -	\$ 427,269	\$ -	\$ -	\$ -	\$ -	\$ 427,269
Water treatment and disposal tanks	28,905,231	-	-	28,905,231	4,999,111	959,375	-	5,958,486	22,946,745
Wastewater treatment plant	12,189,358	-	-	12,189,358	7,130,990	389,716	-	7,520,706	4,668,652
Transmission and distribution lines	25,369,429	1,309,994	-	26,679,423	6,821,192	498,658	-	7,319,850	19,359,573
Collection lines	28,298,169	418,689	-	28,716,858	7,437,342	565,860	-	8,003,202	20,713,656
Water meters	2,693,836	43,685	(626,336)	2,111,185	1,488,148	168,123	(339,265)	1,317,006	794,179
Pump and lift stations	2,686,488	182,109	-	2,868,597	654,068	94,901	-	748,969	2,119,628
Transportation equipment	1,638,110	-	20,768	1,658,878	1,129,093	111,459	19,767	1,260,319	398,559
Machinery and equipment	2,013,159	174,470	(75,900)	2,111,729	1,769,594	63,417	(53,130)	1,779,881	331,848
Other capital assets	2,136,396	336,288	-	2,472,684	281,518	212,952	-	494,470	1,978,214
	106,357,445	2,465,235	(681,468)	108,141,212	31,711,056	3,064,461	(372,628)	34,402,889	73,738,323
Construction work in progress	4,871,831	(608,508)	-	4,263,323	-	-	-	-	4,263,323
Total	\$ 111,229,276	\$ 1,856,727	\$ (681,468)	\$ 112,404,535	\$ 31,711,056	\$ 3,064,461	\$ (372,628)	\$ 34,402,889	\$ 78,001,646

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Plant
Electric Department Fund
June 30, 2014

	Assets				Accumulated Depreciation				Net		
	Balance July 1, 2013	Additions	Deductions	Other	Balance June 30, 2014	Balance July 1, 2013	Current Year Depreciation	Retirements		Other	Balance June 30, 2014
Land and land rights	\$ 6,953,879	\$ -	\$ -	\$ -	\$ 6,953,879	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,953,879
Office furniture and fixtures	1,730,545	45,473	-	-	1,776,018	1,533,825	43,709	-	-	1,577,534	198,484
Transportation equipment	4,726,036	132,001	(73,735)	-	4,784,302	3,034,150	201,373	(13,124)	-	3,222,399	1,561,903
Machinery and equipment	1,352,771	8,755	(26,528)	-	1,334,998	936,418	94,437	(26,527)	-	1,004,328	330,670
Electric distribution system	186,004,473	4,945,481	(875,137)	-	190,074,817	68,988,632	6,460,719	(1,166,159)	-	74,283,192	115,791,625
	200,767,704	5,131,710	(975,400)	-	204,924,014	74,493,025	6,800,238	(1,205,810)	-	80,087,453	124,836,561
Construction work in progress	1,726,105	648,774	-	-	2,374,879	-	-	-	-	-	2,374,879
Total	\$ 202,493,809	\$ 5,780,484	\$ (975,400)	\$ -	\$ 207,298,893	\$ 74,493,025	\$ 6,800,238	\$ (1,205,810)	\$ -	\$ 80,087,453	\$ 127,211,440

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Rates, Tap Fees and Number of Customers
For the Fiscal Year Ended June 30, 2014

Water Rates

	<u>Inside</u>	<u>Outside</u>	
First 1,500 gallons each month	\$8.86	\$17.73	minimum
All over 1,500 gallons each month	4.15	8.32	per thousand gallons

Sewer Rates

Gravity system:

First 1,500 gallons each month	\$10.02	\$20.03	minimum
All over 1,500 gallons each month	5.27	10.56	per thousand gallons

Low pressure system:

First 1,500 gallons each month	\$12.02	\$24.04	minimum
All over 1,500 gallons each month	6.32	12.67	per thousand gallons

Tap Fees

	<u>Inside City</u>		
	<u>Limits*</u>		
	<u>Water</u>	<u>Sewer</u>	
5/8" tap - short side	\$ 750	\$1,200	
5/8" tap - long side	1,500	2,400	
1" tap and larger - short side	1,500	2,000	per inch
1" tap and larger - long side	3,000	4,000	per inch

Access Fees

	<u>Inside/Outside</u>		
	<u>City Limits</u>		
	<u>Water</u>	<u>Sewer</u>	
5/8" by 3/4"	\$ 500	\$ 750	
1" and larger	1,000	1,500	per inch

Number of Customers

Water	12,640
Sewer	8,169

* Tap fees for locations outside the city limits are 1½ times tap fees for locations inside the city limits. For additional add-on commercial and developer fees, please contact Sevierville Water Systems.

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Rates, Tap Fees and Number of Customers (Continued)
For the Fiscal Year Ended June 30, 2014

Electric Power Rates

RESIDENTIAL RATE - SCHEDULE RSBase Charges

Customer charge	\$12.50
Energy Charge per kWh	6.931¢
TVA Fuel Cost Adjustment	2.733¢

COMMERCIAL RATE - SCHEDULE GSABase Charges

1. Demand 0 to 50 kW for customer with or without contract demand:

Customer Charge	\$20.00
Energy Charge 0 to 15,000 kWh per kWh	8.126¢
TVA Fuel Cost Adjustment	2.703¢

2. Demand 50 kW to 1,000 kW or demand less than 50 kW but kWh more than 15,000 kWh:

Customer Charge	\$50.00
<u>Demand Charge in dollars per kW of demand:</u>	
First 50 kW of billing demand per month	No charge
Over 50 kW of billing demand per month	\$12.60

Energy Charge per kWh:

First 15,000 kW per month	8.115¢
TVA Fuel Cost Adjustment	2.703¢
Additional kWh per month	4.026¢
TVA Fuel Cost Adjustment	2.668¢

3. Demand greater than 1,000 kW:

Customer Charge	\$200.00
<u>Demand Charge in dollars per kW of demand:</u>	
First 1,000 kW of billing demand per month	\$12.70
Next 1,500 kW of billing demand per month	\$13.93
Over 2,500 kW of billing demand per month	\$14.33

Plus an additional \$14.33 per kW per month for each kW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kW or its contract demand.

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Rates, Tap Fees and Number of Customers (Continued)
 For the Fiscal Year Ended June 30, 2014

Electric Power Rates (Continued)

COMMERCIAL RATE - SCHEDULE GSA (Continued)

Base Charges (Continued)

3. Demand greater than 1,000 kW (continued):

Energy Charge per kWh	4.026¢
TVA Fuel Cost Adjustment	2.668¢

Number of Customers

Power	55,504
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See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

**Schedule of Changes in Property Taxes Receivable
For the Fiscal Year Ended June 30, 2014**

<u>Tax Year</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Collections/ Reductions</u>	<u>Adjustments/ Abatements</u>	<u>Balance June 30, 2014</u>
2013	\$ -	\$ 2,240,108	\$ 2,109,346	\$ (2,462)	\$ 128,300
2012	163,520	-	127,189	(6,915)	29,416
2011	51,200	-	40,530	(4,045)	6,625
2010	32,965	-	22,613	-	10,352
2009	5,439	-	1,194	184	4,429
2008	4,689	-	2,658	-	2,031
2007	410	-	9	-	401
2006	307	-	-	(3)	304
2005	405	-	-	-	405
2004	1,610	-	-	-	1,610
2003	335	-	-	-	335
2002	2,388	-	-	-	2,388
2001	195	-	-	-	195
Total	\$ 263,463	\$ 2,240,108	\$ 2,303,539	\$ (13,241)	186,791
					<u>2,268,840</u>
					<u>\$ 2,455,631</u>

January 1, 2014 property assessment not
to be billed until October 1, 2014

See independent auditor's report.

AWWA WLCC Free Water Audit Software: Reporting Worksheet				Back to Instructions
Copyright © 2010, American Water Works Association. All Rights Reserved.				WAS v4.2
?	Click to access definition	Water Audit Report for: City of Sevierville Water system		
		Reporting Year: 2014 / 7/2013 - 6/2014		
Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades				
All volumes to be entered as: MILLION GALLONS (US) PER YEAR				
WATER SUPPLIED << Enter grading in column 'E'				
Volume from own sources:	?	9	1,526.414	Million gallons (US) /yr (MG/Yr)
Master meter error adjustment (enter positive value):	?	7	5.000	over-registered MG/Yr
Water imported:	?		0.000	MG/Yr
Water exported:	?		0.000	MG/Yr
WATER SUPPLIED:			1,521.414	MG/Yr
AUTHORIZED CONSUMPTION				
Billed metered:	?	10	954.783	MG/Yr
Billed unmetered:	?	10	0.000	MG/Yr
Unbilled metered:	?	10	123.638	MG/Yr
Unbilled unmetered:	?	8	18.748	MG/Yr
AUTHORIZED CONSUMPTION:			1,097.169	MG/Yr
WATER LOSSES (Water Supplied - Authorized Consumption)				
			424.245	MG/Yr
Apparent Losses				
Unauthorized consumption:	?		3.804	MG/Yr
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed				
Customer metering inaccuracies:	?	8	56.759	MG/Yr
Systematic data handling errors:	?	10	13.773	MG/Yr
Apparent Losses:	?		74.336	
Real Losses (Current Annual Real Losses or CARL)				
Real Losses = Water Losses - Apparent Losses:	?		349.909	MG/Yr
WATER LOSSES:			424.245	MG/Yr
NON-REVENUE WATER				
NON-REVENUE WATER:	?		566.631	MG/Yr
= Total Water Loss + Unbilled Metered + Unbilled Unmetered				
SYSTEM DATA				
Length of mains:	?	10	324.3	miles
Number of active AND inactive service connections:	?	9	12,640	
Connection density:	?		39	conn./mile main
Average length of customer service line:	?	3	30.0	ft (pipe length between curbstop and customer meter or property boundary)
Average operating pressure:	?	7	110.0	psi
COST DATA				
Total annual cost of operating water system:	?	10	\$6,042,444	\$/Year
Customer retail unit cost (applied to Apparent Losses):	?	8	\$5.11	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	?	10	\$1.59	\$/Million gallons
PERFORMANCE INDICATORS				
Financial Indicators				
Non-revenue water as percent by volume of Water Supplied:			37.2%	
Non-revenue water as percent by cost of operating system:			6.3%	
Annual cost of Apparent Losses:			\$379,855	
Annual cost of Real Losses:			\$556	
Operational Efficiency Indicators				
Apparent Losses per service connection per day:			16.11	gallons/connection/day
Real Losses per service connection per day*:			75.84	gallons/connection/day
Real Losses per length of main per day*:			N/A	
Real Losses per service connection per day per psi pressure:			0.69	gallons/connection/day/psi
Unavoidable Annual Real Losses (UARL):	?		168.19	million gallons/year
From Above, Real Losses = Current Annual Real Losses (CARL):			349.91	million gallons/year
Infrastructure Leakage Index (ILI) [CARL/UARL]:	?		2.08	
* only the most applicable of these two indicators will be calculated				
WATER AUDIT DATA VALIDITY SCORE: <div style="border: 1px solid red; padding: 5px; margin: 5px 0; text-align: center; font-weight: bold; color: red; font-size: large;"> *** YOUR SCORE IS: 87 out of 100 *** </div> <p style="font-size: x-small; text-align: center;">A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score</p> PRIORITY AREAS FOR ATTENTION: Based on the information provided, audit accuracy can be improved by addressing the following components: <div style="border: 1px solid red; padding: 2px; margin: 2px 0;">1: Master meter error adjustment</div> <div style="border: 1px solid red; padding: 2px; margin: 2px 0;">2: Volume from own sources</div> <div style="border: 1px solid red; padding: 2px; margin: 2px 0;">3: Unauthorized consumption</div> <div style="border: 1px solid blue; padding: 2px; margin: 5px auto; text-align: center; font-size: small;"> For more information, click here to see the Grading Matrix worksheet </div>				

CITY OF SEVIERVILLE, TENNESSEE

 Balance Sheet
 Solid Waste Department Activity
 June 30, 2014

	<u>Total</u>
<u>ASSETS</u>	
Receivable from customers - garbage fees (net of allowance for doubtful accounts of \$2,795)	\$ 38,952
Due from other funds	<u>155,530</u>
Total assets	<u>\$ 194,482</u>
<u>LIABILITIES AND FUND EQUITIES</u>	
Liabilities:	
Accounts payable	\$ 70,217
Accrued expenses	<u>10,204</u>
Total liabilities	<u>80,421</u>
Fund equity:	
Assigned	<u>114,061</u>
Total fund equity	<u>114,061</u>
Total liabilities and fund equities	<u>\$ 194,482</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Solid Waste Department Activity
 For the Fiscal Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues:			
Licenses and permits	\$ 300	\$ 300	\$ 400
Charges for services	773,800	773,800	741,696
Other revenues	<u>1,000</u>	<u>1,000</u>	<u>840</u>
Total revenues	<u>775,100</u>	<u>775,100</u>	<u>742,936</u>
Expenditures:			
Personal services	681,585	681,585	651,030
Contractual services	642,394	642,394	597,201
Supplies	235,500	235,500	225,285
Debt service	191,413	191,413	191,615
Capital outlay	373,600	373,600	371,858
Grants, contributions and other	<u>-</u>	<u>-</u>	<u>1,629</u>
Total expenditures	<u>2,124,492</u>	<u>2,124,492</u>	<u>2,038,618</u>
Revenues over (under) expenditures	<u>(1,349,392)</u>	<u>(1,349,392)</u>	<u>(1,295,682)</u>
Other financing sources (uses):			
Transfers from general fund	<u>1,049,392</u>	<u>1,049,392</u>	<u>1,049,392</u>
Total other financing sources (uses)	<u>1,049,392</u>	<u>1,049,392</u>	<u>1,049,392</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(300,000)	(300,000)	(246,290)
Fund balance, beginning	<u>360,351</u>	<u>360,351</u>	<u>360,351</u>
Fund balance, ending	<u>\$ 60,351</u>	<u>\$ 60,351</u>	<u>\$ 114,061</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Balance Sheet
 Sevierville Golf Club Department Activity
 June 30, 2014

	<u>Total</u>
<u>ASSETS</u>	
Cash	\$ 1,316
Inventory	62,529
Receivables:	
Receivable from customers	12,462
Other	18,590
	<u>94,897</u>
Total assets	<u>\$ 94,897</u>
<u>LIABILITIES AND FUND EQUITIES</u>	
Liabilities:	
Accounts payable	\$ 39,408
Accrued expenses	46,968
Due to other funds	300,137
Customer deposits	29,662
	<u>416,175</u>
Total liabilities	<u>416,175</u>
Fund equity:	
Nonspendable:	
Inventories	62,530
Assigned	(383,808)
	<u>(321,278)</u>
Total fund equity	<u>(321,278)</u>
Total liabilities and fund equities	<u>\$ 94,897</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Sevierville Golf Club Department Activity
 For the Fiscal Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues:			
Charges for services	\$ 2,279,098	\$ 2,279,098	\$ 1,733,803
Total revenues	<u>2,279,098</u>	<u>2,279,098</u>	<u>1,733,803</u>
Expenditures:			
Personal services	1,488,071	1,488,071	1,087,426
Contractual services	223,762	223,762	434,156
Supplies	580,364	580,364	504,815
Fixed charges	37,934	37,934	54,986
Capital outlay	2,700	2,700	593
Total expenditures	<u>2,332,831</u>	<u>2,332,831</u>	<u>2,081,976</u>
Revenues over (under) expenditures	<u>(53,733)</u>	<u>(53,733)</u>	<u>(348,173)</u>
Fund balance, beginning, as previously stated	-	-	-
Prior period adjustment	26,895	26,895	26,895
Fund balance, beginning, as restated	<u>26,895</u>	<u>26,895</u>	<u>26,895</u>
Fund balance (deficit), ending	<u>\$ (26,838)</u>	<u>\$ (26,838)</u>	<u>\$ (321,278)</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

 Balance Sheet
 Sevierville Convention Center Department Activity
 June 30, 2014

	Total
<u>ASSETS</u>	
Cash	\$ 3,049
Receivables:	
Receivable from customers	14,337
Other	25,017
Due from other funds	230,711
Prepaid expenses	<u>30,342</u>
Total assets	<u>\$ 303,456</u>
<u>LIABILITIES AND FUND EQUITIES</u>	
Liabilities:	
Accounts payable	\$ 11,856
Accrued expenses	13,314
Customer deposits	<u>155,203</u>
Total liabilities	<u>180,373</u>
Fund equity:	
Nonspendable:	
Prepaid expenses	30,342
Assigned	<u>92,741</u>
Total fund equity	<u>123,083</u>
Total liabilities and fund equities	<u>\$ 303,456</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
 Sevierville Convention Center Department Activity
 For the Fiscal Year Ended June 30, 2014

	Original Budget	Final Budget	Actual
Revenues:			
Charges for services	\$ 1,112,704	\$ 1,112,704	\$ 1,206,951
Total revenues	<u>1,112,704</u>	<u>1,112,704</u>	<u>1,206,951</u>
Expenditures:			
Personal services	844,739	844,739	882,865
Contractual services	742,246	742,246	689,689
Supplies	29,558	29,558	34,311
Fixed charges	1,020	1,020	89,167
Capital outlay	<u>2,000</u>	<u>2,000</u>	<u>31,092</u>
Total expenditures	<u>1,619,563</u>	<u>1,619,563</u>	<u>1,727,124</u>
Revenues over (under) expenditures	<u>(506,859)</u>	<u>(506,859)</u>	<u>(520,173)</u>
Other financing sources (uses):			
Transfers from general fund	-	-	632,113
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>632,113</u>
Net change in fund balance	<u>(506,859)</u>	<u>(506,859)</u>	<u>111,940</u>
Fund balance, beginning, as previously stated	-	-	-
Prior period adjustment	11,143	11,143	11,143
Fund balance, beginning, as restated	<u>11,143</u>	<u>11,143</u>	<u>11,143</u>
Fund balance (deficit), ending	<u>\$ (495,716)</u>	<u>\$ (495,716)</u>	<u>\$ 123,083</u>

See independent auditor's report.

Statistical Section

This part of the government's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Contents	Page
Financial Trends	101 - 106
<i>These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.</i>	
Revenue Capacity	107 - 110
<i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i>	
Debt Capacity	111 - 113
<i>These schedules present information to help the reader assess the affordability of the government's current level of outstanding debt and the government's ability to issue additional debt in the future.</i>	
Demographic and Economic Information	114 - 115
<i>These schedules present information to help the reader understand the environment within which the government's financial activities take place.</i>	
Operating Information	116 - 118
<i>These schedules contain service infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.</i>	

CITY OF SEVIERVILLE, TENNESSEE

Net Position by Component
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities:										
Net investment in capital assets	\$ (9,830,370)	\$ 36,823,645	\$ 41,919,578	\$ 25,401,392	\$ 23,142,876	\$ 26,189,372	\$ 24,516,801	\$ 19,247,692	\$ 16,487,871	\$ 12,168,782
Restricted	6,997,266	4,670,528	4,449,355	282,323	248,728	256,396	257,576	438,879	401,226	482,507
Unrestricted	16,311,988	(135,379,071)	(143,718,002)	(125,573,037)	(118,941,900)	(102,920,560)	(91,321,334)	(65,516,259)	(19,284,999)	17,609,545
Total governmental activities net position	13,478,884	(93,884,898)	(97,349,069)	(99,889,322)	(95,550,296)	(76,474,792)	(66,546,957)	(45,829,688)	(2,395,902)	30,260,834
Business-type activities:										
Net investment in capital assets	152,410,713	151,675,286	151,337,895	147,561,767	142,279,488	137,850,960	122,684,895	118,352,348	105,791,083	99,347,902
Restricted	2,273,933	2,228,157	2,208,566	1,840,644	-	-	-	-	-	-
Unrestricted	28,853,693	25,815,398	23,024,977	18,565,866	16,345,344	14,573,850	15,141,273	11,173,754	14,282,032	13,048,845
Total business-type activities net position	183,538,339	179,718,841	176,571,438	167,968,277	158,624,832	152,424,810	137,826,168	129,526,102	120,073,115	112,396,747
Primary government:										
Net investment in capital assets	142,580,343	188,498,931	193,257,473	172,963,159	165,422,364	164,040,332	147,201,696	137,600,040	122,278,954	111,516,684
Restricted	9,271,199	6,898,685	6,657,921	2,122,967	248,728	256,396	257,576	438,879	401,226	482,507
Unrestricted	45,165,681	(109,563,673)	(120,693,025)	(107,007,171)	(102,596,556)	(88,346,710)	(76,180,061)	(54,342,505)	(5,002,967)	30,658,390
Total primary government net position	\$ 197,017,223	\$ 85,833,943	\$ 79,222,369	\$ 68,078,955	\$ 63,074,536	\$ 75,950,018	\$ 71,279,211	\$ 83,696,414	\$117,677,213	\$142,657,581

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Change in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses:										
Governmental activities:										
General government	\$ 10,191,778	\$ 5,744,298	\$ 5,663,701	\$ 5,549,751	\$ 6,806,990	\$ 6,959,909	\$ 6,866,614	\$ 6,554,887	\$ 5,828,480	\$ 4,383,974
Public safety	9,313,909	8,358,140	8,340,104	8,709,746	8,596,904	8,342,424	8,185,444	6,632,751	6,338,741	6,078,962
Public works	6,130,079	6,203,632	6,314,456	6,283,358	6,312,314	7,126,379	6,233,894	5,532,806	4,638,431	3,589,467
Recreation	5,657,997	2,847,302	2,863,326	2,773,723	2,742,164	2,752,089	2,588,815	2,856,339	2,636,745	3,622,580
Contingency reserve	118,788	166,457	55,199	233,612	245,017	98,118	222,627	157,394	102,715	86,383
Community development	216,119	-	-	-	-	-	-	-	-	-
Debt administration	7,962,492	8,680,435	8,959,878	8,432,132	7,689,200	7,651,505	9,880,988	8,701,888	5,619,595	4,386,476
Capital outlays	-	746,761	1,409,743	1,013,346	1,323,387	1,112,707	324,365	236,119	379,382	453,498
Total governmental activities	39,591,162	32,747,025	33,606,407	32,995,668	33,715,976	34,043,131	34,302,747	30,672,184	25,544,089	22,601,340
Business-type activities:										
Water and sewer	11,712,680	11,556,009	11,673,086	11,266,471	10,414,000	11,021,669	10,178,866	8,930,087	8,090,551	7,506,087
Electric	147,185,482	142,556,411	134,907,359	144,431,655	129,979,593	137,684,205	117,639,049	108,427,014	97,433,691	85,506,926
Total business-type activities	158,898,162	154,112,420	146,580,445	155,698,126	140,393,593	148,705,874	127,817,915	117,357,101	105,524,242	93,013,013
Total expenses	\$ 198,489,324	\$ 186,859,445	\$ 180,186,852	\$ 188,693,794	\$ 174,109,569	\$ 182,749,005	\$ 162,120,662	\$ 148,029,285	\$ 131,068,331	\$ 115,614,353
Program revenues:										
Governmental activities:										
Charges for services:										
General government	\$ 1,237,262	\$ 18,253	\$ 107,107	\$ 153,865	\$ 165,245	\$ 157,481	\$ 147,758	\$ 139,929	\$ 91,804	\$ 63,846
Public safety	492,703	515,571	505,257	649,889	645,684	686,469	863,138	537,276	475,102	543,848
Public works	1,107,267	1,063,926	1,436,696	685,636	660,177	625,567	593,403	526,920	485,101	440,856
Recreation	2,245,293	481,874	514,000	458,327	468,918	495,981	465,352	431,236	390,036	1,623,077
Operating grants and contributions	1,017,890	840,006	638,434	1,030,109	1,849,503	1,903,843	1,619,573	1,485,691	1,410,610	129,125
Capital grants and contributions	510,000	79,670	378,881	606,995	1,127,284	141,754	466,247	-	341,509	2,060,807
Total governmental activities	6,610,415	2,999,300	3,580,375	3,584,821	4,916,811	4,011,095	4,155,471	3,121,052	3,194,162	4,861,559
Business-type activities:										
Charges for services:										
Water and sewer	11,788,123	11,509,719	11,946,309	11,070,835	10,503,553	11,175,255	11,033,626	10,207,570	9,712,058	8,624,545
Electric	151,948,521	147,508,946	142,826,521	154,872,887	136,833,596	145,424,738	123,782,202	114,889,026	101,812,528	88,751,844
Operating grants and contributions	-	-	-	-	-	-	858,163	648,471	1,236,347	712,118
Capital grants and contributions	-	-	-	-	-	7,137,040	-	-	295	65,387
Total business-type activities	163,736,644	159,018,665	154,772,830	165,943,722	147,337,149	163,737,033	135,673,991	125,745,067	112,761,228	98,153,894
Total program revenues	\$ 170,347,059	\$ 162,017,965	\$ 158,353,205	\$ 169,528,543	\$ 152,253,960	\$ 167,748,128	\$ 139,829,462	\$ 128,866,119	\$ 115,955,390	\$ 103,015,453
Net revenue (expense):										
Governmental activities	\$ (32,980,747)	\$ (29,747,725)	\$ (30,026,032)	\$ (29,410,847)	\$ (28,799,165)	\$ (30,032,036)	\$ (30,147,276)	\$ (27,551,132)	\$ (22,349,927)	\$ (17,739,781)
Business-type activities	4,838,482	4,906,245	8,192,385	10,245,596	6,943,556	15,031,159	7,856,076	8,387,966	7,236,986	5,140,881
Total net revenue (expense)	\$ (28,142,265)	\$ (24,841,480)	\$ (21,833,647)	\$ (19,165,251)	\$ (21,855,609)	\$ (15,000,877)	\$ (22,291,200)	\$ (19,163,166)	\$ (15,112,941)	\$ (12,598,900)

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Change in Net Position (Continued)
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities:										
General revenues:										
Sales taxes	\$ 23,341,677	\$ 22,397,631	\$ 20,516,632	\$ 19,344,375	\$ 18,574,604	\$ 18,297,860	\$ 18,708,528	\$ 16,751,221	\$ 14,858,984	\$ 12,706,490
Property taxes	2,295,448	2,303,049	2,262,550	2,215,023	2,161,739	2,005,687	1,943,740	1,871,813	1,718,381	1,703,914
Wholesale beer tax	1,237,159	1,286,449	1,221,871	1,119,312	1,063,394	1,001,388	911,787	820,172	711,088	669,589
Business taxes	1,073,237	1,142,652	1,022,341	1,008,676	982,094	1,017,422	1,128,091	989,056	-	-
Hotel/motel taxes	1,362,130	1,853,546	1,233,248	1,124,411	1,074,609	933,227	737,704	710,983	-	-
Restaurant taxes	3,038,174	-	-	-	-	-	-	-	-	-
Other taxes	1,224,229	926,581	820,096	811,011	812,727	899,699	806,623	797,777	2,342,889	2,508,553
Interest earned	14,418	25,872	71,949	137,383	320,811	985,878	2,974,558	5,335,479	3,450,353	1,408,087
Miscellaneous	169,570	155,515	110,319	23,023	1,147,524	171,568	79,994	14,206	49,339	11,953
Gain (loss) on disposal of assets	66,415	(299,826)	50,720	20,688	193,468	(42,893)	(22,288)	41,236	509,728	376
Gain (loss) on investment derivatives	(484,271)	5,980,094	(8,633,692)	2,301,767	(3,886,869)	-	-	-	-	-
Contributions:										
Capital contribution to county government	-	-	-	-	-	(127,111)	-	-	-	-
Capital contribution from county government	-	-	-	70,000	163,800	204,568	810,146	28,259	15,380	425,794
Capital contribution to component unit	-	(650,000)	(2,310,964)	(3,500,000)	(9,000,000)	(6,300,000)	(19,675,000)	(44,006,634)	(35,574,196)	(4,830,412)
Operating contribution to component unit	-	(892,300)	(881,974)	(781,974)	-	-	-	(109,460)	-	-
Capital contribution from component unit	-	-	15,778,551	-	-	-	-	-	-	-
Transfers:										
In-lieu of tax - enterprise fund transfers	1,357,179	1,327,296	1,304,638	1,178,125	1,103,324	1,056,908	1,108,169	873,238	861,245	854,646
Other items:										
Amounts from joint venture	-	-	-	-	-	-	-	-	-	210,000
Amounts to joint venture	-	-	-	-	-	-	(82,043)	-	-	-
Loss on sale of asset to component unit	-	-	-	-	-	-	-	-	-	(904,343)
Loss on defeasance of debt	-	-	-	-	-	-	-	-	-	(773,443)
Grant to primary government from component unit	105,662,209	-	-	-	-	-	-	-	-	-
Total general revenues, contributions, transfers and other items	140,357,574	35,556,559	32,566,285	25,071,820	14,711,225	20,104,201	9,430,009	(15,882,654)	(11,056,809)	13,991,204
Business-type activities:										
General revenues:										
Interest earned	107,937	155,225	298,423	267,349	328,126	549,951	1,090,201	1,795,077	1,223,598	753,405
Miscellaneous	78,845	38,697	6,221	8,625	29,164	74,440	165,458	143,182	77,035	118,787
Gain (loss) on disposal of assets	151,413	(8,613)	-	-	2,500	-	296,500	-	-	-
Contributions:										
Capital contribution (to) from component unit	-	-	1,410,770	-	-	-	-	-	-	(2,593,800)
Transfers:										
In-lieu of tax - enterprise fund transfers	(1,357,179)	(1,327,296)	(1,304,638)	(1,178,125)	(1,103,324)	(1,056,908)	(1,108,169)	(873,238)	(861,245)	(854,646)
Total general revenues, contributions and transfers	(1,018,984)	(1,141,987)	410,776	(902,151)	(743,534)	(432,517)	443,990	1,065,021	439,388	(2,576,254)
Total primary government	\$ 139,338,590	\$ 34,414,572	\$ 32,977,061	\$ 24,169,669	\$ 13,967,691	\$ 19,671,684	\$ 9,873,999	\$ (14,817,633)	\$ (10,617,421)	\$ 11,414,950
Change in net position:										
Governmental activities	\$ 107,376,827	\$ 5,808,834	\$ 2,540,253	\$ (4,339,027)	\$ (14,087,940)	\$ (9,927,835)	\$ (20,717,267)	\$ (43,433,786)	\$ (33,406,736)	\$ (3,748,577)
Business-type activities	3,819,498	3,764,258	8,603,161	9,343,445	6,200,022	14,598,642	8,300,066	9,452,987	7,676,374	2,564,627
Total change in net position	\$ 111,196,325	\$ 9,573,092	\$ 11,143,414	\$ 5,004,418	\$ (7,887,918)	\$ 4,670,807	\$ (12,417,201)	\$ (33,980,799)	\$ (25,730,362)	\$ (1,183,950)

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General fund:										
Nonspendable	\$ 92,894	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unassigned	206,802	360,351	328,133	2,915,568	-	-	-	-	-	-
Unassigned	12,274,002	11,193,463	10,860,577	9,985,573	-	-	-	-	-	-
Reserved	-	-	-	-	-	-	-	-	171,407	22,970
Unreserved	-	-	-	-	14,176,246	14,410,552	16,878,751	18,065,315	19,073,374	15,741,775
Total general fund	<u>\$ 12,573,698</u>	<u>\$ 11,553,814</u>	<u>\$ 11,188,710</u>	<u>\$ 12,901,141</u>	<u>\$ 14,176,246</u>	<u>\$ 14,410,552</u>	<u>\$ 16,878,751</u>	<u>\$ 18,065,315</u>	<u>\$ 19,244,781</u>	<u>\$ 15,764,745</u>
All other governmental funds:										
Restricted	\$ 6,997,266	\$ 4,662,136	\$ 4,449,355	\$ 6,805,997	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Committed	-	6,966,663	7,616,663	9,066,663	-	-	-	-	-	-
Assigned	8,184,672	1,669,753	2,012,563	2,538,473	-	-	-	-	-	-
Reserved	-	-	-	-	20,994,813	30,880,857	36,266,235	57,306,494	100,711,935	43,629,969
Unreserved	-	-	-	-	3,396,209	4,530,107	5,409,158	6,597,426	6,729,491	730,562
Total all other governmental funds	<u>\$ 15,181,938</u>	<u>\$ 13,298,552</u>	<u>\$ 14,078,581</u>	<u>\$ 18,411,133</u>	<u>\$ 24,391,022</u>	<u>\$ 35,410,964</u>	<u>\$ 41,675,393</u>	<u>\$ 63,903,920</u>	<u>\$ 107,441,426</u>	<u>\$ 44,360,531</u>

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
REVENUES										
Local taxes	\$24,028,421	\$20,992,110	\$20,097,120	\$18,812,433	\$18,656,038	\$18,603,979	\$18,669,837	\$18,329,865	\$18,822,776	\$16,901,916
Licenses and permits	155,993	98,256	143,010	120,908	125,570	243,056	482,854	192,342	150,993	159,125
Intergovernmental	10,722,346	9,975,950	8,470,393	8,447,478	8,171,508	6,778,493	6,947,778	4,591,383	2,767,264	3,013,944
Charges for services	4,372,202	1,419,123	1,429,895	1,313,724	1,310,219	1,261,348	1,187,337	1,085,450	967,259	2,127,255
Fines, forfeitures and penalties	393,505	423,765	387,290	412,573	406,685	364,240	317,182	276,519	274,129	339,324
Other revenue	286,043	276,798	365,995	321,949	2,009,906	1,297,027	3,196,018	5,474,685	3,566,999	2,408,656
Total revenues	39,958,510	33,186,002	30,893,703	29,429,065	30,679,926	28,548,143	30,801,006	29,950,244	26,549,420	24,950,220
EXPENDITURES										
Current:										
General government	9,037,238	5,718,972	5,660,003	5,387,339	5,163,663	5,290,642	5,151,379	4,388,105	5,670,412	4,329,934
Public safety	9,074,365	8,744,093	8,756,056	8,425,717	8,383,231	8,244,569	7,614,114	6,683,637	6,198,417	6,007,930
Public works	5,332,407	5,734,514	5,792,485	5,691,219	5,393,459	5,325,796	5,637,814	5,218,155	4,322,628	3,425,646
Culture and recreation	4,816,233	2,607,093	2,649,661	2,476,748	2,379,220	2,437,668	2,324,180	2,712,745	2,434,236	3,571,188
Contingency reserves	118,788	166,457	55,199	233,612	245,017	124,118	202,628	157,388	102,715	132,546
Debt administration:										
Principal	3,760,000	996,300	1,532,590	1,025,106	1,134,971	951,875	914,500	859,500	674,500	884,464
Interest	7,709,175	8,334,005	8,519,236	7,927,305	7,327,381	9,904,993	8,909,879	7,654,344	4,921,344	3,562,264
Debt service charges	448,742	537,437	617,678	694,633	590,946	809,921	846,401	922,838	625,625	494,900
Bond issuance costs	461,158	194,860	155,293	339,672	300,000	502,115	-	-	-	-
Capital outlay	1,491,378	547,052	1,477,978	1,678,859	2,312,343	2,298,112	3,966,328	2,827,648	4,304,547	6,605,173
Total expenditures	42,249,484	33,580,783	35,216,179	33,880,210	33,230,231	35,889,809	35,567,223	31,424,360	29,254,424	29,014,045
Excess (deficiency) of revenues over expenditures	(2,290,974)	(394,781)	(4,322,476)	(4,451,145)	(2,550,305)	(7,341,666)	(4,766,217)	(1,474,116)	(2,705,004)	(4,063,825)

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Changes in Fund Balances of Governmental Funds (Continued)
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
OTHER FINANCING SOURCES (USES)										
Transfers in (out)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (250,000)
Operating and capital contributions to component unit	-	(1,542,300)	(3,192,938)	(4,281,974)	(10,107,267)	(8,224,759)	(19,675,000)	(44,116,094)	(15,555,826)	(4,000,000)
Capital contributions	-	-	10,500	-	-	-	-	-	-	-
Operating and capital contributions to joint venture	-	-	-	-	-	-	(82,043)	-	-	-
Contribution from proprietary fund	-	-	-	-	-	-	-	-	654,666	-
In-lieu of tax - Sevierville Water Department	24,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	-	-
In-lieu of tax - Sevier County Electric System	1,333,179	1,307,296	1,284,638	1,158,125	1,083,324	1,036,908	1,088,169	853,238	-	-
Gain on sale of development property	-	-	-	-	-	-	-	-	509,779	-
Refunding bonds issued	72,605,000	9,160,000	17,275,000	-	-	-	-	-	-	-
Premium on refunding bonds issued	6,238,273	284,860	58,039	-	-	6,695,169	-	-	-	-
Proceeds from issuance of bonds	-	-	-	26,100,000	49,500,000	114,211,720	-	-	83,657,316	-
Payments to refunded bond escrow agent	(75,000,000)	(9,250,000)	(17,177,746)	(25,800,000)	(49,200,000)	(115,130,000)	-	-	-	(2,833,443)
Issuance of bond anticipation notes	-	-	-	-	-	-	-	-	-	-
Retirement of bond anticipation notes	-	-	-	-	-	-	-	-	-	(21,144,375)
Total other financing sources (uses)	<u>5,200,452</u>	<u>(20,144)</u>	<u>(1,722,507)</u>	<u>(2,803,849)</u>	<u>(8,703,943)</u>	<u>(1,390,962)</u>	<u>(18,648,874)</u>	<u>(43,242,856)</u>	<u>69,265,935</u>	<u>(28,227,818)</u>
SPECIAL ITEMS:										
Grant from primary government to component unit	(147,904)	-	-	-	-	-	-	-	-	-
Net change in fund balances	<u>\$ 2,761,574</u>	<u>\$ (414,925)</u>	<u>\$ (6,044,983)</u>	<u>\$ (7,254,994)</u>	<u>\$ (11,254,248)</u>	<u>\$ (8,732,628)</u>	<u>\$ (23,415,091)</u>	<u>\$ (44,716,972)</u>	<u>\$ 66,560,931</u>	<u>\$ (32,291,643)</u>
Debt service as a percentage of noncapital expenditures	43.62%	43.81%	47.24%	44.96%	43.37%	56.80%	50.98%	49.25%	33.22%	28.29%

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Assessed Value and Estimated Actual Value of Taxable Property (1)
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Residential Property	Real Commercial Property	Personal Property	Public Utilities	Total Taxable Assessed Value	Taxable Assessed Value as a Percentage of Estimated Actual Value	Estimated Actual Taxable Value	Total Direct Rate
2014	\$ 311,244,825	\$ 364,183,920	\$ 38,817,396	\$ 226,050	\$ 714,472,191	31.26%	\$ 2,285,241,230	\$ 0.31
2013	308,956,500	361,528,760	40,925,690	226,050	711,637,000	31.26%	2,276,477,744	0.31
2012	310,134,350 (2)	351,967,760 (2)	40,420,145 (2)	226,050 (2)	702,748,305 (2)	31.16% (2)	2,255,601,069 (2)	0.31 (2)
2011	316,588,175	365,160,520	39,277,053	241,450	721,267,198	31.08%	2,320,524,314	0.31
2010	297,070,250	363,563,080	37,878,109	241,450	698,752,889	31.21%	2,238,692,313	0.31
2009	271,671,625	337,365,880	38,101,306	241,450	647,380,261	31.46%	2,057,540,903	0.31
2008	254,443,475	318,827,880	37,538,896	241,450	611,051,701	31.49%	1,940,403,657	0.31
2007	237,994,325 (2)	307,008,280 (2)	34,746,251 (2)	241,450 (2)	579,990,306 (2)	31.59% (2)	1,835,756,677 (2)	0.31 (2)
2006	177,958,325	231,677,560	25,691,235	226,050	435,553,170	31.35%	1,389,528,087	0.38
2005	170,643,375	230,711,960	29,441,780	226,050	431,023,165	31.74%	1,357,893,325	0.38

(1) Overall assessment ratios and effective rates for 1973 and thereafter are weighted averages due to varying constitutional assessment ratios which became effective statewide January 1, 1973. Assessment ratios are Residential Property - Real at 25 percent; Commercial and Industrial Property - Real at 40 percent and Personal at 30 percent; Public Utilities - All Property both Real and Personal at 55 percent.

(2) All properties were reappraised in tax year 2006 (fiscal year 2007) and tax year 2011 (fiscal year 2012).

Source: Finance Department

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Property Tax Rates
 Direct and Overlapping Governments
 Last Ten Fiscal Years

Fiscal Year	Direct Rate	Overlapping Rate	Total
	City of Sevierville	Sevier County	Direct and Overlapping Rates
2014	\$0.31	\$1.63	\$1.94
2013	0.31	1.63	1.94
2012	0.31	1.63	1.94
2011	0.31	1.63	1.94
2010	0.31	1.54	1.85
2009	0.31	1.54	1.85
2008	0.31	1.54	1.85
2007	0.31	1.34	1.65
2006	0.38	1.34	1.72
2005	0.38	1.34	1.72

Source: Finance Department and Sevier County Property Assessor's Office

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Principal Property Taxpayers
Current Year and Nine Years Ago

Rank	Taxpayer	2013		2004			
		Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Assessed Value
1	Wyndham	\$ 38,423,315	1	5.30%			
2	Five Oaks Development Group	36,142,805	2	4.99%	\$ 22,459,385	1	5.40%
3	Wilderness Tenn Venture	25,186,011	3	3.47%			
4	M & S Properties	8,775,690	4	1.21%	9,258,430	2	2.23%
5	Charles Blalock & Sons	8,151,930	5	1.12%	2,754,141	7	0.66%
6	Miller Land Properties	7,685,405	6	1.06%	5,246,765	3	1.26%
7	B S & J Enterprises, L.P.	6,936,203	7	0.96%			
8	Ogle, Ronald & Betty	6,784,890	8	0.94%	4,109,520	6	0.99%
9	Sevier County Bank	6,285,466	9	0.87%			
10	The Universe, LLC	6,282,900	10	0.87%			
	Fairfield Resorts				4,710,100	4	1.13%
	Governor's Crossing Outlet Mall				4,679,736	5	1.13%
	Riverwalk Properties				2,595,095	8	0.62%
	Fairfield Communities				2,543,675	9	0.61%
	FFD Development				2,050,343	10	0.49%
		<u>\$150,654,615</u>		<u>20.79%</u>	<u>\$ 60,407,190</u>		<u>14.52%</u>

Source: Finance Department

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount Collected	Percentage of Levy		Amount Collected	Percentage of Levy
2014	\$ 2,237,646	\$ 2,109,346	94.27%	\$ -	\$ 2,109,346	94.27%
2013	2,223,347	2,066,742	92.96%	127,189	2,193,931	98.68%
2012	2,224,208	2,066,742	92.92%	150,841	2,217,583	99.70%
2011	2,198,474	2,020,397	91.90%	167,725	2,188,122	99.53%
2010	2,254,215	2,014,702	89.37%	235,084	2,249,786	99.80%
2009	2,193,853	2,046,177	93.27%	145,645	2,191,822	99.91%
2008	2,011,734	1,935,183	96.19%	76,150	2,011,333	99.98%
2007	1,921,562	1,836,997	95.60%	84,261	1,921,258	99.98%
2006	1,846,129	1,782,075	96.53%	63,649	1,845,724	99.98%
2005	1,679,436	1,562,608	93.04%	115,218	1,677,826	99.90%

Source: Finance Department

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds (1)	Capital Outlay Notes	General Obligation Bonds	State Revolving Loans	Total Outstanding Debt	Percentage of Personal Income (2)	Population (3)	Debt Per Capita
	Governmental Activities		Business-Type Activities					
2014	\$ 186,677,997	\$ -	\$ 52,866,252	\$ -	\$ 239,544,249	**	**	**
2013	187,251,307	-	55,921,045	-	243,172,352	75.84%	16,011	\$ 15,188
2012	188,438,614	-	59,134,539	-	247,573,153	75.84%	15,613	15,857
2011	190,173,454	-	54,659,079	5,570,194	250,402,727	77.38%	15,037	16,652
2010	191,432,757	-	57,860,002	6,355,582	255,648,341	77.23%	14,834	17,234
2009	192,636,925	-	60,706,060	7,301,199	260,644,184	74.17%	17,295	15,070
2008	192,200,000	101,875	62,025,958	8,215,029	262,542,862	**	16,846	15,585
2007	193,080,000	136,375	63,104,990	9,098,148	265,419,513	**	16,051	16,536
2006	193,905,000	170,875	63,970,022	9,951,610	267,997,507	**	15,489	17,302
2005	110,295,000	205,375	31,796,045	10,776,441	153,072,861	**	12,451	12,294

Sources: (1) Presented net of original issuance discounts and premiums.

(2) Personal income is disclosed on page 114.

(3) United States Census Bureau

** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Fiscal Year	General Obligation Bonds (1)	Less: Amounts Available for Debt Service (2)	Total	Percentage of Estimated Actual Taxable Value of Property (3)	Debt Per Capita (4)
2014	\$ 239,544,249	\$ 2,273,933	\$ 237,270,316	10.38%	**
2013	243,172,352	2,228,157	240,944,195	10.58%	\$ 15,049
2012	247,573,153	2,208,566	245,364,587	10.88%	15,715
2011	244,832,533	1,840,644	242,991,889	10.47%	16,160
2010	249,292,759	-	249,292,759	11.14%	16,805
2009	253,342,985	-	253,342,985	12.31%	14,648
2008	254,225,958	-	254,225,958	13.10%	15,091
2007	256,184,990	-	256,184,990	13.96%	15,961
2006	257,875,022	-	257,875,022	18.56%	16,649
2005	142,091,045	-	142,091,045	10.46%	11,412

Note: Details regarding the government's outstanding debt can be found in the notes to the financial statements.

Sources:

- (1) This is the general bonded debt of both governmental and business-type activities, of original issuance discounts and premiums.
- (2) This is the amount restricted for debt service principal payments.
- (3) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 107 for property value data.
- (4) Population data can be found in the Schedule of Demographic and Economic Statistics on page 114.

** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Direct and Overlapping Governmental Activities Debt
As of June 30, 2014

<u>Jurisdiction</u>	<u>Net Direct Outstanding Debt</u>	<u>Percentage Applicable to Government</u>	<u>Direct and Overlapping Debt</u>
City of Sevierville	\$ 180,042,873	100.00%	\$ 180,042,873
Sevier County	<u>124,476,013</u>	15.98%	<u>19,891,267</u>
	<u>\$ 304,518,886</u>		<u>\$ 199,934,140</u>

Sources: Outstanding debt and applicable percentages provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with geographic boundaries of the government. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the government. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the property taxpayers should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Demographic and Economic Statistics
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (1)</u>	<u>Per Capita Income (2)</u>	<u>Personal Income</u>	<u>Unemployment Rate (3)</u>
2014	**	**	**	7.90%
2013	16,011	\$ 20,026	\$ 320,636,286	8.80%
2012	15,613	\$ 20,907	\$ 326,420,991	8.70%
2011	15,037	\$ 21,519	\$ 323,581,203	10.00%
2010	14,834	\$ 22,314	\$ 331,005,876	10.30%
2009	17,295	\$ 20,319	\$ 351,417,105	10.80%
2008	16,846	**	**	6.90%
2007	16,051	**	**	5.80%
2006	15,489	**	**	3.10%
2005	12,451	**	**	4.60%

Sources: (1) U.S. Census Bureau, estimates as of beginning of each fiscal year; Population variation due to actual census in April 2010, other reported numbers are estimates.

(2) U.S. Census Bureau, American Community 5-year Rolling Survey

(3) Tennessee Department of Labor and Workforce Development unemployment rate for the County (not seasonally adjusted); It is annualized for the year ending December during fiscal year.

** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Principal Employers
Current Year and Nine Years Ago

Employer	2014			2005		
	Employees	Rank	Percentage of Total Gov't Employment	Employees	Rank	Percentage of Total Gov't Employment
Sevier County School System	2,423	1	16.92%	**	**	**
Collier Food Groups	670	2	4.68%	**	**	**
Wilderness of the Smokies	634	3	4.43%	**	**	**
Tanger Five Oaks Outlet	600	4	4.19%	**	**	**
LeConte Medical Center	550	5	3.84%	**	**	**
Sevier County	519	6	3.63%	**	**	**
Wal-Mart	506	7	3.53%	**	**	**
City of Sevierville	375	8	2.62%	**	**	**
Bass Pro Shoppe	314	9	2.19%	**	**	**
TRW - Fuji Valve	265	10	1.85%	**	**	**
	<u>6,856</u>		<u>47.89%</u>	<u>**</u>		<u>0.00%</u>

Source: Sevier County Economic Development Council
 Note: Companies listed may not be actual employer
 ** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Full-Time Equivalent Employees by Function
Last Ten Fiscal Years

Function	Full-Time Equivalent Employees as of June 30								
	2014	2013	2012	2011	2010	2009	2008	2007	2006
General government	41	32	32	32	40	40	32	32	37
Public safety									
Police									
Officers	60	60	59	58	58	57	56	56	52
Civilians	14	14	14	15	15	14	14	14	13
Fire									
Firefighters and officers	33	33	33	33	33	34	33	33	33
Civilians									
Codes enforcement	7	7	7	7	7	7	7	7	7
Public works									
Highways and streets	14	17	17	17	17	16	15	15	15
City garage	8	8	8	8	8	8	8	7	7
Sanitation	11	11	11	11	11	12	13	12	11
Culture and recreation	39	26	25	25	24	24	24	31	40
Water	47	48	48	48	48	48	45	45	41
Public Building Authority									
Administrative	0	3	3	3	3	3	3	0	0
Convention Center	0	8	8	8	8	9	10	0	0
Recreation - Golf Club	0	15	15	17	10	10	10	0	0
Transit									
Total	274	282	280	282	282	282	270	252	256

Sources: Various Departments

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Operating Indicators by Function
Last Ten Years

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	
General government:										
Building permits issued	206	184	231	219	256	244	296	361	309	
Public safety:										
Number of police (regular employees)	74	74	73	73	73	71	70	70	65	
Number of arrests	3,427	2,893	3,585	3,670	3,730	4,053	3,620	2,471	2,058	
Number of traffic violations	7,722	6,834	7,112	6,308	7,993	8,261	7,318	5,585	4,542	
Number of parking violations	2	2	12	8	11	10	20	27	63	
Number of paid firefighters (regular employees)	34	33	33	33	33	34	33	33	33	
Number of fire emergency responses	1,875	1,712	1,803	1,844	1,788	1,789	1,700	1,676	1,606	
Number of fires extinguished	75	77	86	74	73	103	124	113	96	
Number of fire inspections	906	432	265	382	251	250	247	150	250	
Public works:										
Tons collected and disposed:										
Solid waste	10,693	10,912	10,221	9,612	9,225	8,795	8,618	**	**	
Metal	9	18	**	**	**	**	**	**	**	
Papers	**	82	**	**	**	**	**	**	**	
Recyclable containers	70	98	49	39	**	**	**	**	**	
Leaves (tonnage)	395	327	403	344	342	287	286	**	**	
Number of shade trees:										
Planted - Parks and Recreation	50	56	49	**	**	**	**	**	**	
Removed - Parks and Recreation	15	86	76	**	**	**	**	**	**	
Trimmed - Parks and Recreation	500	462	798	**	**	**	**	**	**	
Stumps removed - Parks and Recreation	**	5	4	**	**	**	**	**	**	
Recreation and parks:										
Field permits issued	20	20	20	20	**	**	**	**	**	
Recreation permits issued - memberships and shelter reservations	6,800	6,221	758	606	**	**	**	**	**	
Number of youth programs	4	4	3	4	**	**	**	**	**	
Number of adult programs	4	4	4	4	**	**	**	**	**	
Number for senior citizens programs	1	1	1	1	**	**	**	**	**	
Water:										
Average daily distribution (gallons)	3,785,970	3,671,416	3,521,583	3,598,333	3,250,000	3,940,000	3,512,050	3,158,700	3,143,400	
Number of metered accounts (water customers)	12,640	12,312	12,183	12,023	11,917	11,670	11,457	11,032	10,533	
Number of fire lines	188	189	189	188	184	178	170	164	160	

Sources: Various departments

** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Capital Asset Statistics by Function
Last Ten Fiscal Years

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	
General government:										
Number of general government buildings	1	1	1	1	1	1	1	1	1	
Public safety:										
Number of police stations (station and substations)	2	2	2	2	2	2	2	2	2	
Number of fire stations (stations and substations)	2	2	2	2	2	2	2	1	1	
Parking department:										
Number of parking garages	1	1	1	1	1	1	1	0	0	
Public works:										
Number of public works buildings	4	4	4	4	3	3	3	3	3	
Miles of streets (approximate)	202	202	201	200	198	195	190	185	180	
Miles of sanitary sewers (sewer mains)	299	296	255	255	250	247	247	231	219	
Miles of storm water drains (approximate)	15	15	15	15	15	15	14	14	14	
Recreation and parks:										
Number of parks and recreation facilities	22	20	20	19	19	19	19	19	19	
Acres of parks/areas maintained	130	123	123	121	119	119	119	119	119	
Water:										
Miles of water mains	375	374	314	314	313	312	312	299	290	
Number of fire hydrants	1,175	1,153	990	965	865	859	660	748	685	

Source: Various departments

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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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 Mayor and Aldermen
City of 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 governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Sevierville, Tennessee as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Sevierville, Tennessee's basic financial statements and have issued our report thereon dated December 31, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sevierville, Tennessee'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 City of Sevierville, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Sevierville, Tennessee'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 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 City of Sevierville, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report 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.

Brown Jake McDaniel, PC

CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
December 31, 2014