

CITY OF SEVIERVILLE, TENNESSEE

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2013

Prepared by:
Finance Department

CITY OF SEVIERVILLE, TENNESSEE

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013**

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For the Fiscal Year Ended June 30, 2013**

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INTRODUCTORY SECTION



December 31, 2013

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

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 report is published to fulfill that requirement for the fiscal year ended June 30, 2013.

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 the City of Sevierville's financial statements for the year ended June 30, 2013. 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 (the "City"), 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 City'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 City is empowered to assess and levy a tax on all property within the City not exempt by general law upon the same principles established in regard to state and county taxation. Assessments made by the County Tax Assessor are adopted by the City. It also is empowered by state statute to extend its corporate limits by annexation, which it has done from time to time.

The City 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 Mayor appoints the City's Administrator and Recorder.

The City provides a full range of services, including police and fire protection, highways and streets, traffic control, building inspection, sanitation and solid waste, recreational activities, utility services and general administrative services. This report includes business-type activities of the City regarding providing electric, water and sewer services to the City and the surrounding area or in the case of electric services the entire area of Sevier County. The City also is financially accountable for a legally separate Public Building Authority (PBA), which is reported separately within the City's financial statements. The PBA is the City's only component unit and is governed by an appointed board. In fiscal year 2013 this includes the operation of a convention center, operation of a 36-hole municipal golf course facility, roads and streets and other infrastructure within an established development zone/business improvement district of the City of Sevierville. 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 City'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 City of Sevierville 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 City 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 City's unemployment rate as of June 2013 was 8.2 percent compared to 7.7 percent nationally and 8.5 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. A leveling off and subsequent decline in unemployment rates are anticipated in calendar year 2014.

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 City was \$183,000 with an average household size of 2.66 persons.

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

Steady growth and development has 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 City'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 six 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 City'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. Improvements to the I-40 exit 407 interchange are planned to be contracted in 2014.

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 43.9 percent of total general fund 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 \$365,104 during the year ended June 30, 2013. In the event that the balance drops below the established minimum level, the City's governing body will develop a plan to replenish the fund balance to the minimum level within two years. Although the minimum is 25 percent, the City budgeted for 41 percent for 2013 and budgets 42 percent for 2014 to strengthen its ability to react to potential economic fluctuations. Beginning in 2014, the City will implement a plan to set aside 1.5 percent of annual budgeted revenue to strengthen reserves.

By policy, the City 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 City 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 2013-2014 Capital Improvement Program anticipates \$1,235,842 in general government expenditures, \$372,000 in the Solid Waste fund and \$7,417,500 in the water and sewer fund. Included in these appropriations are \$418,000 for traffic and road improvements and \$3,000,000 for a sewer treatment plant expansion.

Relevant financial policies

The City 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 City 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 City's finances.

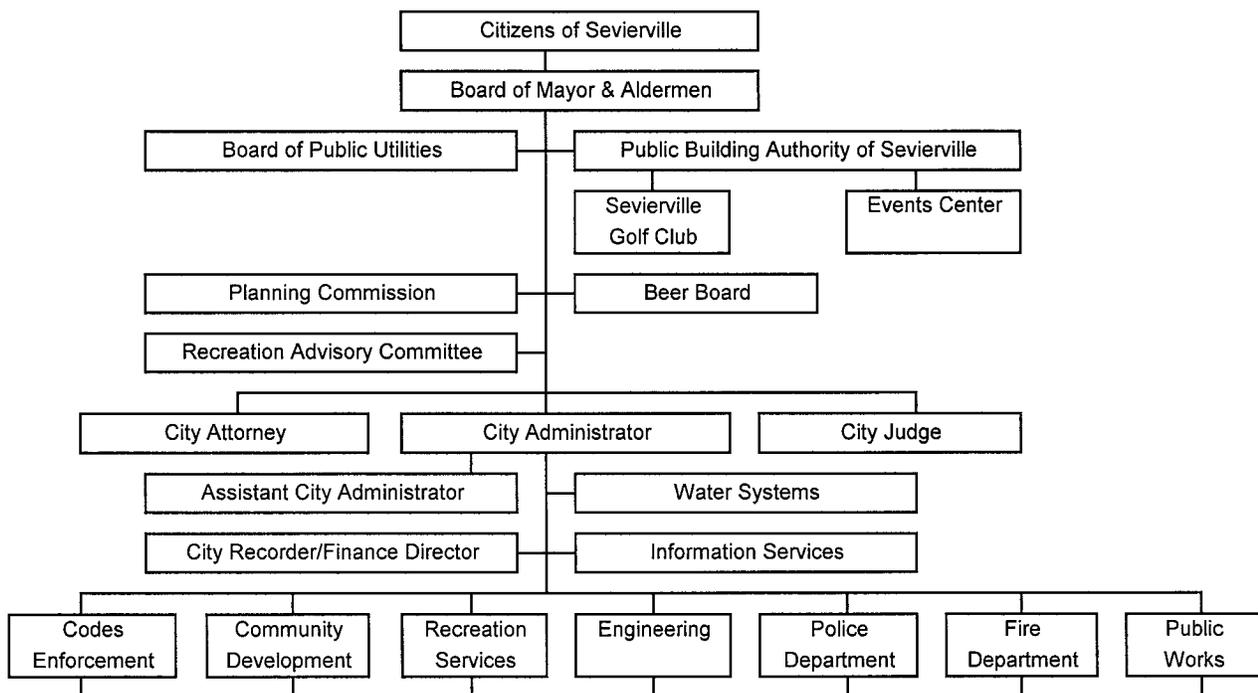
Respectfully submitted,

City of Sevierville


Lynn K. McClurg
City Recorder/Chief Financial Officer

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 |
| Interim Director of Planning | Judi Forkner |
| City Recorder/Chief Financial Officer | Lynn McClurg |
| City Judge | Lanning Wynn |
| City Attorney | Ed Owens |
| Police Chief | Don Myers |
| Fire Chief | Matt Henderson |
| City Engineer | Jerry Hickman |
| 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 |
| PBA Accounting and Finance Director | 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, 2013, 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, 2013, 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.

Emphasis of Matter

As described in Note 1, the City of Sevierville, Tennessee has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus* (an amendment of GASB Statements No. 14 and No. 34); Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*; Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions* (an amendment of GASB Statement No. 53) which became effective for the year ended June 30, 2013. The City of Sevierville, Tennessee early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, which have an effective date of June 30, 2014. Our opinion is not modified with respect to these matters.

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 9 through 15 and the schedules of funding progress on page 86 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, combining fund financial statements, schedule of expenditures of federal and state awards, other supplementary information, and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and the schedule of expenditures of federal and state awards are the responsibility of management and were 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 combining fund financial statements and the schedule of expenditures of federal and state awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section, other supplementary information, 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, 2013, 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.

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

Knoxville, Tennessee
December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Sevierville, Tennessee (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. 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 City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$85,833,943 (*net position*). Of this amount, (\$109,563,673) represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors. Net position will increase significantly in fiscal year 2014 as completed component unit (PBA) projects are transferred to the primary government.
- The City's total net position increased \$9,573,092 due primarily to electric department operating results and changes in derivative instrument values.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$24,852,366, a decrease of \$414,925 in comparison with the prior year. Approximately 45% of this amount (\$11,193,463) 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 \$11,553,814, or approximately 45% of total general fund expenditures.
- The City's total outstanding long-term debt decreased by \$4,400,801 during the current fiscal year because of regular scheduled principal retirement of outstanding amounts.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City'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 City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the City'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 City is improving or deteriorating.

The *statement of activities* presents information showing how the City'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 City 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*). The governmental activities of the City include general government, public safety, public works, recreation, contingency reserve, community development, debt administration, and capital budget. The business-type activities of the City include a water and sewer system and an electric system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate public building authority for which the City 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 16 - 18 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 City, 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 City 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 City maintains five individual governmental funds. 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 City adopts an annual appropriated budget for its governmental funds. Budgetary comparison statements have been provided for the City's major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19 - 22 and the budgetary comparison statements can be found on pages 23 - 29 of this report.

Proprietary Funds. The City 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 City 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 City's various functions. The City 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 City. 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 30 - 33 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 - 85 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on page 86 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 87 - 104 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 City, assets and deferred outflows of resources exceeded liabilities by \$85,833,943, at the close of the most recent fiscal year.

| City of Sevierville's Net Position | | | | | | |
|---|----------------------------|-----------------|-----------------------------|----------------|---------------|---------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current and other assets | \$ 37,382,828 | \$ 39,618,436 | \$ 60,969,806 | \$ 58,483,083 | \$ 98,352,634 | \$ 98,101,519 |
| Capital assets | 76,062,282 | 77,854,110 | 207,596,331 | 210,472,434 | 283,658,613 | 288,326,544 |
| Total assets | 113,445,110 | 117,472,546 | 268,566,137 | 268,955,517 | 382,011,247 | 386,428,063 |
| Total deferred outflows of resources | 5,221,838 | 8,235,942 | 4,308,956 | 6,545,104 | 9,530,794 | 14,781,046 |
| Long-term liabilities | 202,221,130 | 212,420,732 | 60,230,001 | 65,679,643 | 262,451,131 | 278,100,375 |
| Other liabilities | 1,026,541 | 1,103,757 | 32,926,251 | 33,249,540 | 33,952,792 | 34,353,297 |
| Total liabilities | 203,247,671 | 213,524,489 | 93,156,252 | 98,929,183 | 296,403,923 | 312,453,672 |
| Total deferred inflows of resources | 9,304,175 | 9,533,068 | - | - | 9,304,175 | 9,533,068 |
| Net investment in capital assets | 36,823,645 | 41,919,578 | 151,675,286 | 151,337,895 | 188,498,931 | 193,257,473 |
| Restricted | 4,670,528 | 344,425 | 2,228,157 | 2,208,566 | 6,898,685 | 2,552,991 |
| Unrestricted | (135,379,071) | (139,613,072) | 25,815,398 | 23,024,977 | (109,563,673) | (116,588,095) |
| Total net position | \$ (93,884,898) | \$ (97,349,069) | \$ 179,718,841 | \$ 176,571,438 | \$ 85,833,943 | \$ 79,222,369 |

By far, the largest portion of the City's net position (219.6%) 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 City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City'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 City's net position (8.0%) represents resources that are subject to external restrictions on how they may be used. The remaining deficit balance of \$(109,563,673) is unrestricted. The reason there is such a large unrestricted net deficit is because the debt for the component unit is carried in the primary government's net position and the related capital assets are reported by the component unit.

The City's overall net position increased \$6,611,574 from the prior fiscal year. This amount is made up of two parts: 1) current year increase in net position of \$9,573,092, and 2) a prior period adjustment of (\$2,961,518). The prior period adjustment is attributable to an accounting pronouncement that became effective in the current year and resulted in a change in accounting principle. 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 \$5,808,834 from the prior fiscal year (as restated) for an ending net position negative balance of \$93,884,898. A combination of factors affected this result, most notably a significant increase in sales tax collected within the tourist development zone (\$1,799,574), an increase in lodging tax revenue due to a temporary 1% tax increase (\$620,298) and a gain on investment derivatives (\$5,980,094).

| City of Sevierville's Change in Net Position | | | | | | |
|--|----------------------------|------------------------|-----------------------------|-----------------------|----------------------|----------------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 2,079,624 | \$ 2,563,060 | \$ 159,018,665 | \$ 154,772,830 | \$ 161,098,289 | \$ 157,335,890 |
| Operating grants and contributions | 840,006 | 638,434 | - | - | 840,006 | 638,434 |
| Capital grants and contributions | 79,670 | 378,881 | - | - | 79,670 | 378,881 |
| General revenues: | | | | | | |
| Sales taxes | 22,397,631 | 20,516,632 | - | - | 22,397,631 | 20,516,632 |
| Other taxes | 7,512,277 | 6,560,106 | - | - | 7,512,277 | 6,560,106 |
| Other revenues | 181,387 | 182,268 | 193,922 | 304,644 | 375,309 | 486,912 |
| Total revenues | 33,090,595 | 30,839,381 | 159,212,587 | 155,077,474 | 192,303,182 | 185,916,855 |
| Expenses: | | | | | | |
| General government | 5,744,298 | 5,663,701 | - | - | 5,744,298 | 5,663,701 |
| Public safety | 8,358,140 | 8,340,104 | - | - | 8,358,140 | 8,340,104 |
| Public works | 6,203,632 | 6,314,456 | - | - | 6,203,632 | 6,314,456 |
| Recreation | 2,847,302 | 2,863,326 | - | - | 2,847,302 | 2,863,326 |
| Contingency reserve | 166,457 | 55,199 | - | - | 166,457 | 55,199 |
| Community development | 216,120 | 398,009 | - | - | 216,120 | 398,009 |
| Interest on long-term debt | 7,948,138 | 8,206,869 | - | - | 7,948,138 | 8,206,869 |
| Debt administration - other | 732,297 | 753,009 | - | - | 732,297 | 753,009 |
| Capital budget | 530,641 | 1,011,734 | - | - | 530,641 | 1,011,734 |
| Sevierville Water System | - | - | 11,556,009 | 11,673,086 | 11,556,009 | 11,673,086 |
| Sevier County Electric System | - | - | 142,556,411 | 134,907,359 | 142,556,411 | 134,907,359 |
| Total program expenses | 32,747,025 | 33,606,407 | 154,112,420 | 146,580,445 | 186,859,445 | 180,186,852 |
| Increase (decrease) in net position, before other items | 343,570 | (2,767,026) | 5,100,167 | 8,497,029 | 5,443,737 | 5,730,003 |
| Other items: | | | | | | |
| Transfer - in lieu of tax payment | 1,327,296 | 1,304,638 | (1,327,296) | (1,304,638) | - | - |
| Gain (loss) on sale of fixed assets | (299,826) | 50,720 | (8,613) | - | (308,439) | 50,720 |
| Gain (loss) on investment derivatives | 5,980,094 | (8,633,692) | - | - | 5,980,094 | (8,633,692) |
| Capital contribution from component unit | - | 15,778,551 | - | 1,410,770 | - | 17,189,321 |
| Capital contribution to component unit | (650,000) | (2,310,964) | - | - | (650,000) | (2,310,964) |
| Operating contribution to component unit | (892,300) | (881,974) | - | - | (892,300) | (881,974) |
| Total other items | 5,465,264 | 5,307,279 | (1,335,909) | 106,132 | 4,129,355 | 5,413,411 |
| Change in net position | 5,808,834 | 2,540,253 | 3,764,258 | 8,603,161 | 9,573,092 | 11,143,414 |
| Net position - beginning, as previously stated | (97,349,069) | (99,889,322) | 176,571,438 | 167,968,277 | 79,222,369 | 68,078,955 |
| Prior period adjustment | (2,344,663) | - | (616,855) | - | (2,961,518) | - |
| Net position - beginning, as restated | (99,693,732) | (99,889,322) | 175,954,583 | 167,968,277 | 76,260,851 | 68,078,955 |
| Net position - ending | \$ (93,884,898) | \$ (97,349,069) | \$ 179,718,841 | \$ 176,571,438 | \$ 85,833,943 | \$ 79,222,369 |

Business-type Activities. For the City'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 179,718,841. The total increase in net position for business-type activities was \$3,764,258 or 2.14% 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 \$4,690,272 over the previous year's amount.

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City'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 City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City's Council.

At June 30, 2013, the City's governmental funds reported combined fund balances of \$24,852,366, a decrease of \$414,925 in comparison with the prior year. Approximately 45% of this amount (\$11,193,463) 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 (\$4,662,136), 2) committed for particular purposes (\$6,966,663), or 3) assigned for particular purposes (\$2,030,104).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$11,193,463, while total fund balance increased to \$11,553,814. 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 43.9 percent of total general fund expenditures, while total fund balance represents approximately 45.2 percent of that same amount.

The fund balance of the City's general fund increased by \$365,104 during the current fiscal year. The increase is due largely to a temporary increase in the lodging tax rate from 2% to 3%, a significant decrease in bond escrow agent payment, and premium on refunding bonds issued.

The Central Business Improvement District Fund, a major fund, had a \$454,763 decrease in fund balance during the current fiscal year which put the overall fund balance at \$11,266,830. The fund reports restricted fund balance of \$4,300,167 and committed fund balance of \$6,966,663. Restricted fund balance is restricted to debt service of long-term debt issued (and being repaid) by the Fund. The committed fund balance represents the remaining unexpended debt proceeds that are to be used for public improvements.

Proprietary Funds. The City'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 \$6,556,662 and for the electric department fund was \$19,258,736. The total change in net position for both funds (excluding the effect of change in accounting principle) was (\$25,023) and \$3,789,281, respectively. As noted earlier in the discussion of business-type activities, the decrease for the water and sewer department fund results from a decrease in water consumption 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 City's investment in capital assets for its governmental and business-type activities as of June 30, 2013 amounts to \$283,658,613 (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 decrease in capital assets for the current fiscal year was approximately 1.6%.

| City of Sevierville's Capital Assets | | | | | | |
|---|----------------------------|---------------|-----------------------------|----------------|----------------|----------------|
| | Governmental Activities | | Business-Type Activities | | Total | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | \$ 8,217,594 | \$ 8,217,594 | \$ 7,381,148 | \$ 7,305,956 | \$ 15,598,742 | \$ 15,523,550 |
| Buildings | 33,291,081 | 33,291,081 | - | - | 33,291,081 | 33,291,081 |
| Machinery, equipment, and vehicles | 15,404,999 | 17,292,103 | 18,977,341 | 17,874,971 | 34,382,340 | 35,167,074 |
| Infrastructure | 49,345,420 | 49,345,420 | - | - | 49,345,420 | 49,345,420 |
| Water and sewer utility plant | - | - | 94,762,187 | 94,758,132 | 94,762,187 | 94,758,132 |
| Electric utility plant | - | - | 186,004,473 | 180,973,814 | 186,004,473 | 180,973,814 |
| Construction work in progress | 24,692 | 8,280 | 6,525,662 | 7,039,906 | 6,550,354 | 7,048,186 |
| Retirement work in progress | - | - | 72,274 | 72,274 | 72,274 | 72,274 |
| Plant acquisition adjustments, net of amortization | - | - | 77,327 | 90,775 | 77,327 | 90,775 |
| Total capital assets | 106,283,786 | 108,154,478 | 313,800,412 | 308,115,828 | 420,084,198 | 416,270,306 |
| Less: accumulated depreciation | 30,221,504 | 30,300,368 | 106,204,081 | 97,643,394 | 136,425,585 | 127,943,762 |
| Net capital assets | \$ 76,062,282 | \$ 77,854,110 | \$ 207,596,331 | \$ 210,472,434 | \$ 283,658,613 | \$ 288,326,544 |

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

- Various projects related to water and sewer projects at a cost of \$544,551 and additional CWIP of \$175,120.
- Various projects related to electric department projects at a cost of \$726,072 and a cost of \$5,902,759 for the electric distribution system. There was a decrease in CWIP of \$689,364.
- The purchase of various machinery and equipment at a cost of \$532,628.
- The purchase of various transportation equipment and vehicles at a cost of \$275,658.
- Various projects related to component unit with an increase in CWIP of \$473,916.

Additional information on the City's capital assets can be found in Note 3 on pages 51 - 52 of this report.

Long-term debt. At the end of the current fiscal year, the City had a total bonded debt outstanding of \$241,405,000. All of this amount is debt backed by the full faith and credit of the government.

The City's total debt decreased by \$4,010,000 (1.6%) during the current year. The reason for the decrease was that the only new debt issuance during the year was for an amount that was less than the regularly scheduled principal reductions on the existing outstanding debt. The new issuance was a current refunding of a portion of one outstanding debt issue with a face value of \$9,160,000. The City issued general obligation bonds to refinance previously outstanding general obligation bonds reported in governmental activities. This refinancing was done to take advantage of favorable interest rates.

The City maintains an “AA” 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 City’s long-term debt can be found in Note 4 on pages 54 - 72 of this report.

Economic Factors and Next Year’s Budgets and Rates

The following economic factors currently affect the City and were considered in developing the 2013-2014 fiscal year budget.

- The unemployment rate for Sevier County is currently 8.2%, which is a minor increase from a rate of 8.1% a year ago. While the unemployment rate is likely to decrease, it is not expected to reach the pre-recession level for several years.
- The housing market has seen some growth and investment. As the population continues to increase, the housing market is expected to increase as well.
- The City’s sales tax revenue has maintained a moderate growth rate over the last five years, and it is anticipated to continue.
- The City’s population has seen an increase of an approximate 21% over the last ten years.
- The City has implemented a new restaurant tax of 2% and an amusement tax of 2% effective July 1, 2013.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City of Sevierville’s finances and to show the City’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, 2013

| | 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 | \$ 11,343,290 | \$ 24,117,542 | \$ 35,460,832 | \$ 691,952 |
| Investments | 8,497,766 | 11,141,846 | 19,639,612 | - |
| Receivables: | | | | |
| Property taxes (net of allowance for doubtful accounts of \$185,676) | 77,787 | - | 77,787 | - |
| Customers (net of allowance for doubtful accounts of \$1,928 and \$1,373,749 respectively) | 37,714 | 7,253,226 | 7,290,940 | - |
| Rent | - | 582,720 | 582,720 | - |
| Other | 473,808 | 140,214 | 614,022 | 133,300 |
| Unbilled revenue | 2,239,874 | 8,589,044 | 10,828,918 | - |
| Due from component unit | 606,538 | 296,693 | 903,231 | - |
| Internal balances | (929,861) | 929,861 | - | - |
| Due from other governments | 3,262,217 | - | 3,262,217 | - |
| Materials and supplies inventory | - | 2,000,117 | 2,000,117 | 99,023 |
| Prepaid expenses | - | - | - | 45,529 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 1,219,271 | 68,157 | 1,287,428 | 291,759 |
| Investments | 3,420,829 | 2,160,000 | 5,580,829 | - |
| Due from other governments | 7,133,595 | - | 7,133,595 | - |
| Total current assets | 37,382,828 | 57,279,420 | 94,662,248 | 1,261,563 |
| Capital assets, not being depreciated: | | | | |
| Land and improvements | 8,217,594 | 7,381,148 | 15,598,742 | 47,115,024 |
| Construction work in progress | 24,692 | 6,525,662 | 6,550,354 | 3,839,048 |
| Retirement work in progress | - | 72,274 | 72,274 | - |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 33,291,081 | - | 33,291,081 | 61,939,743 |
| Infrastructure | 49,345,420 | - | 49,345,420 | - |
| Machinery and equipment | 15,404,999 | - | 15,404,999 | 2,481,158 |
| Utility plant | - | 299,744,001 | 299,744,001 | - |
| Less accumulated depreciation | (30,221,504) | (106,204,081) | (136,425,585) | (9,564,860) |
| Plant acquisition adjustments, at amortized costs | - | 77,327 | 77,327 | - |
| Total capital assets | 76,062,282 | 207,596,331 | 283,658,613 | 105,810,113 |
| Non-current assets: | | | | |
| Receivable - Tennessee Valley Authority Residential Energy Services Program | - | 2,740,586 | 2,740,586 | - |
| Other investments | - | 306,626 | 306,626 | - |
| Regulatory assets, unamortized | - | 447,757 | 447,757 | - |
| Organizational costs, net of amortization | - | - | - | 3,962 |
| Other | - | 195,417 | 195,417 | - |
| Total non-current assets | - | 3,690,386 | 3,690,386 | 3,962 |
| Total assets | 113,445,110 | 268,566,137 | 382,011,247 | 107,075,638 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Accumulated decreases in fair value of hedging derivatives | 5,221,838 | 4,308,956 | 9,530,794 | - |
| Total deferred outflows of resources | 5,221,838 | 4,308,956 | 9,530,794 | - |

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position (Continued)
June 30, 2013

| | 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 | \$ 557,947 | \$ 11,211,151 | \$ 11,769,098 | \$ 126,637 |
| Accrued expenses | 206,053 | 5,405,420 | 5,611,473 | 93,751 |
| Accrued interest | - | 192,040 | 192,040 | - |
| Due to primary government | - | - | - | 903,231 |
| Due to other governments | 36,827 | - | 36,827 | - |
| Reserve for health insurance claims | 185,979 | 1,992,172 | 2,178,151 | - |
| Other | 869 | 454,250 | 455,119 | 39,690 |
| Customer deposits, including interest of \$327,584 | - | 10,908,731 | 10,908,731 | 246,158 |
| Non-current liabilities - due within one year | 78,876,101 | 11,290,000 | 90,166,101 | - |
| Payable from restricted assets: | | | | |
| Accounts payable | 33,812 | - | 33,812 | - |
| Due to others | 5,054 | - | 5,054 | - |
| Total current liabilities | 79,902,642 | 41,453,764 | 121,356,406 | 1,409,467 |
| Non-current liabilities: | | | | |
| Due in more than one year | 108,896,927 | 44,631,045 | 153,527,972 | - |
| Derivative instrument - interest rate swap | 14,448,102 | 4,308,956 | 18,757,058 | - |
| Advances from Tennessee Valley Authority Residential Energy Services Program | - | 2,762,487 | 2,762,487 | - |
| Total non-current liabilities | 123,345,029 | 51,702,488 | 175,047,517 | - |
| Total liabilities | 203,247,671 | 93,156,252 | 296,403,923 | 1,409,467 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property tax revenue | 2,239,874 | - | 2,239,874 | - |
| Sales tax revenue | 7,064,301 | - | 7,064,301 | - |
| Total deferred inflows of resources | 9,304,175 | - | 9,304,175 | - |
| NET POSITION | | | | |
| Net investment in capital assets | 36,823,645 | 151,675,286 | 188,498,931 | 105,810,113 |
| Restricted: | | | | |
| Debt service | 4,300,167 | 2,228,157 | 6,528,324 | - |
| State street aid | 169,503 | - | 169,503 | - |
| Drug enforcement | 192,466 | - | 192,466 | - |
| Flexible spending accounts | 8,392 | - | 8,392 | - |
| Construction | - | - | - | 291,759 |
| Unrestricted | (135,379,071) | 25,815,398 | (109,563,673) | (435,701) |
| Total net position | \$ (93,884,898) | \$ 179,718,841 | \$ 85,833,943 | \$ 105,666,171 |

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, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net Revenue (Expense) and Change in Net Position | | | Component Unit Public Building Authority of the City of Sevierville |
|--|-----------------------|------------------------|--|--|---|-----------------------------|----------------------|---|
| | | 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 | \$ 5,744,298 | \$ 18,253 | \$ - | \$ - | \$ (5,726,045) | \$ - | \$ (5,726,045) | \$ - |
| Public safety | 8,358,140 | 515,571 | 217,861 | 78,423 | (7,546,285) | - | (7,546,285) | - |
| Public works | 6,203,632 | 1,063,926 | 622,145 | 1,247 | (4,516,314) | - | (4,516,314) | - |
| Recreation | 2,847,302 | 481,874 | - | - | (2,365,428) | - | (2,365,428) | - |
| Contingency reserve | 166,457 | - | - | - | (166,457) | - | (166,457) | - |
| Community development | 216,120 | - | - | - | (216,120) | - | (216,120) | - |
| Interest | 7,948,138 | - | - | - | (7,948,138) | - | (7,948,138) | - |
| Debt administration - other | 732,297 | - | - | - | (732,297) | - | (732,297) | - |
| Capital budget | 530,641 | - | - | - | (530,641) | - | (530,641) | - |
| Total governmental activities | 32,747,025 | 2,079,624 | 840,006 | 79,670 | (29,747,725) | - | (29,747,725) | - |
| Business-type activities: | | | | | | | | |
| Water and Sewer Department | 11,556,009 | 11,509,719 | - | - | - | (46,290) | (46,290) | - |
| Electric Department | 142,556,411 | 147,508,946 | - | - | - | 4,952,535 | 4,952,535 | - |
| Total business-type activities | 154,112,420 | 159,018,665 | - | - | - | 4,906,245 | 4,906,245 | - |
| Total primary government | \$ 186,859,445 | \$ 161,098,289 | \$ 840,006 | \$ 79,670 | (29,747,725) | 4,906,245 | (24,841,480) | - |
| Component units: | | | | | | | | |
| Public Building Authority of the City of Sevierville | \$ 5,870,106 | \$ 3,175,390 | \$ - | \$ - | - | - | - | (2,694,716) |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Sales taxes - local | | | | | 16,276,256 | - | 16,276,256 | - |
| Sales taxes - state | | | | | 6,121,375 | - | 6,121,375 | - |
| Property taxes | | | | | 2,303,049 | - | 2,303,049 | - |
| In-lieu of tax - TVA | | | | | 168,856 | - | 168,856 | - |
| In-lieu of tax - other | | | | | 185,243 | - | 185,243 | - |
| Wholesale beer tax | | | | | 1,286,449 | - | 1,286,449 | - |
| Income tax | | | | | 180,907 | - | 180,907 | - |
| Mixed drink tax | | | | | 145,053 | - | 145,053 | - |
| Other state shared revenue | | | | | 104,862 | - | 104,862 | - |
| Business taxes | | | | | 1,142,652 | - | 1,142,652 | - |
| Hotel/Motel tax | | | | | 1,853,546 | - | 1,853,546 | - |
| Cable TV franchise tax | | | | | 141,660 | - | 141,660 | - |
| Interest earned | | | | | 25,872 | 155,225 | 181,097 | 614 |
| Miscellaneous | | | | | 155,515 | 38,697 | 194,212 | - |
| Gain (loss) on disposal of assets | | | | | (299,826) | (8,613) | (308,439) | - |
| Gain (loss) on investment derivatives | | | | | 5,980,094 | - | 5,980,094 | - |
| Contributions: | | | | | | | | |
| Capital contribution to component unit | | | | | (650,000) | - | (650,000) | 650,000 |
| Operating contribution to component unit | | | | | (892,300) | - | (892,300) | 892,300 |
| Transfers: | | | | | | | | |
| In-lieu of tax - enterprise fund transfers | | | | | 1,327,296 | (1,327,296) | - | - |
| Total general revenues, contributions and transfers | | | | | 35,556,559 | (1,141,987) | 34,414,572 | 1,542,914 |
| Change in net position | | | | | 5,808,834 | 3,764,258 | 9,573,092 | (1,151,802) |
| Net position - beginning, as previously stated | | | | | (97,349,069) | 176,571,438 | 79,222,369 | 106,817,973 |
| Prior period adjustment (see note 17) | | | | | (2,344,663) | (616,855) | (2,961,518) | - |
| Net position - beginning, as restated | | | | | (99,693,732) | 175,954,583 | 76,260,851 | 106,817,973 |
| Net position - ending | | | | | \$ (93,884,898) | \$ 179,718,841 | \$ 85,833,943 | \$ 105,666,171 |

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

CITY OF SEVIERVILLE, TENNESSEE

Balance Sheet
 Governmental Funds
 June 30, 2013

| <u>ASSETS</u> | General Fund | Central Business Improvement District Fund | Nonmajor Governmental Funds | Total |
|---|----------------------|---|-----------------------------------|----------------------|
| Cash and cash equivalents | \$ 8,893,735 | \$ 6,966,663 | \$ 1,672,923 | \$ 17,533,321 |
| Receivables: | | | | |
| Property taxes (less allowance for doubtful accounts of \$185,676) | 77,787 | - | - | 77,787 |
| Garbage fees (less allowance for doubtful accounts of \$1,928) | 37,714 | - | - | 37,714 |
| Unbilled property taxes | 2,239,874 | - | - | 2,239,874 |
| Other | 462,097 | - | - | 462,097 |
| Due from other funds | 57,345 | - | - | 57,345 |
| Due from component unit | 606,538 | - | - | 606,538 |
| Due from other governments | 3,262,217 | - | - | 3,262,217 |
| Restricted assets: | | | | |
| Cash and cash equivalents | 5,054 | 4,300,167 | 326,487 | 4,631,708 |
| Due from other governments | - | 7,064,301 | 69,294 | 7,133,595 |
| Total assets | \$ 15,642,361 | \$ 18,331,131 | \$ 2,068,704 | \$ 36,042,196 |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</u> | | | | |
| Liabilities: | | | | |
| Accounts and other payables | \$ 554,777 | \$ - | \$ 36,982 | \$ 591,759 |
| Accrued expenses | 322,154 | - | - | 322,154 |
| Due to other governments | 36,827 | - | - | 36,827 |
| Due to other funds | 929,861 | - | - | 929,861 |
| Due to others | 5,054 | - | - | 5,054 |
| Total liabilities | 1,848,673 | - | 36,982 | 1,885,655 |
| Deferred inflows of resources: | | | | |
| Property tax revenue | 2,239,874 | - | - | 2,239,874 |
| Sales tax revenue | - | 7,064,301 | - | 7,064,301 |
| Total deferred inflows of resources | 2,239,874 | 7,064,301 | - | 9,304,175 |
| Fund balances: | | | | |
| Restricted: | | | | |
| State street aid fund | - | - | 169,503 | 169,503 |
| Drug enforcement fund | - | - | 192,466 | 192,466 |
| Debt service | - | 4,300,167 | - | 4,300,167 |
| Committed: | | | | |
| Public Building Authority | - | 6,966,663 | - | 6,966,663 |
| Assigned: | | | | |
| Solid waste fund | 360,351 | - | - | 360,351 |
| Capital budget fund | - | - | 1,669,753 | 1,669,753 |
| Unassigned | 11,193,463 | - | - | 11,193,463 |
| Total fund balances | 11,553,814 | 11,266,830 | 2,031,722 | 24,852,366 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 15,642,361 | \$ 18,331,131 | \$ 2,068,704 | \$ 36,042,196 |

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, 2013

| | | | |
|--|--|----|---------------------|
| Total fund balances--governmental funds | | \$ | 24,852,366 |
| 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 are \$106,283,786 and the accumulated depreciation is \$30,221,504. | | | 76,062,282 |
| 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 \$2,327,839 and the total liabilities are \$244,193. | | | 2,083,646 |
| 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 | \$ | (186,197,873) |
| | Compensated absences | | (405,620) |
| | Unamortized bond premium | | (1,053,434) |
| | Accumulated decreases in fair value of hedging derivatives | | 5,221,838 |
| | Derivative instrument - interest rate swap | | (14,448,102) |
| | | | (196,883,191) |
| Rounding | | | (1) |
| Total net position--governmental activities | | \$ | <u>(93,884,898)</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, 2013

| | General Fund | Central Business Improvement District Fund | Nonmajor Governmental Funds | Total |
|--|-------------------|---|-----------------------------------|-------------------|
| Revenues: | | | | |
| Local taxes | \$ 20,992,110 | \$ - | \$ - | \$ 20,992,110 |
| Licenses and permits | 98,256 | - | - | 98,256 |
| Intergovernmental revenue | 2,295,023 | 7,298,573 | 382,354 | 9,975,950 |
| Charges for services | 1,419,123 | - | - | 1,419,123 |
| Fines, forfeits and penalties | 393,555 | - | 30,210 | 423,765 |
| Other revenues | 255,997 | 9,754 | 11,047 | 276,798 |
| Total revenues | 25,454,064 | 7,308,327 | 423,611 | 33,186,002 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 5,718,972 | - | - | 5,718,972 |
| Public safety | 8,712,305 | - | 31,788 | 8,744,093 |
| Public works | 5,364,477 | - | 370,037 | 5,734,514 |
| Recreation | 2,607,093 | - | - | 2,607,093 |
| Contingency reserve | 166,457 | - | - | 166,457 |
| Debt service: | | | | |
| Principal | 996,300 | - | - | 996,300 |
| Interest | 1,675,766 | 6,658,239 | - | 8,334,005 |
| Debt service charges | 82,586 | 454,851 | - | 537,437 |
| Bond issuance costs | 194,860 | - | - | 194,860 |
| Capital outlay: | | | | |
| Public safety | - | - | 328,114 | 328,114 |
| Public works | - | - | 202,526 | 202,526 |
| Recreation | - | - | 16,412 | 16,412 |
| Total expenditures | 25,518,816 | 7,113,090 | 948,877 | 33,580,783 |
| Excess (deficiencies) of revenues over (under) expenditures | (64,752) | 195,237 | (525,266) | (394,781) |
| Other financing sources (uses): | | | | |
| Operating transfers in (out) | (200,000) | - | 200,000 | - |
| Capital and operating contributions to component unit | (892,300) | (650,000) | - | (1,542,300) |
| In-lieu of tax - Water and Sewer Department | 20,000 | - | - | 20,000 |
| In-lieu of tax - Electric Department | 1,307,296 | - | - | 1,307,296 |
| Issuance of refunding bonds | 9,160,000 | - | - | 9,160,000 |
| Premium on refunding bonds issued | 284,860 | - | - | 284,860 |
| Payment to refunded bond escrow agent | (9,250,000) | - | - | (9,250,000) |
| Total other financing sources (uses) | 429,856 | (650,000) | 200,000 | (20,144) |
| Net change in fund balances | 365,104 | (454,763) | (325,266) | (414,925) |
| Fund balances, beginning | 11,188,710 | 11,721,593 | 2,356,988 | 25,267,291 |
| Fund balances, ending | \$ 11,553,814 | \$ 11,266,830 | \$ 2,031,722 | \$ 24,852,366 |

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, 2013

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ (414,925) |
| 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 (\$2,207,426) exceeds capital outlay (\$812,200). | (1,395,226) |
| Proceeds from the disposal of fixed 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 assets 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 to others | (396,602) |
| Proceeds from the issuance of debt is revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets. | (9,160,000) |
| 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 assets. | |
| Bond principal paid (expenditure) | 996,300 |
| Payment to refunded bond escrow agent (other financing source) | 9,250,000 |
| 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. | (284,860) |
| 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 | 385,867 |
| The increase in the fair value of an interest rate swap accounted for as an investment derivative instrument in the statement of activities is not revenue in governmental funds, but is an investment gain on the statement of activities. | 5,980,094 |
| 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. | 18,097 |
| 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. | 830,089 |
| Change in net position of governmental activities | \$ 5,808,834 |

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 City not specifically levied or collected for other City funds, and for the expenditures related to the rendering of general services by the City. 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, 2013

(With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|---|----------------------------|-------------------------|----------------|----------------|
| Revenues: | | | | |
| Local taxes: | | | | |
| Property taxes (current) | \$ 2,265,211 | \$ 2,265,211 | \$ 2,265,451 | \$ 2,223,496 |
| Interest and penalties on property taxes | 20,000 | 20,000 | 37,598 | 39,054 |
| In lieu of tax - miscellaneous | 2,700 | 2,700 | 3,922 | 1,462 |
| In lieu of tax - Sevier County Utility District | 200,609 | 200,609 | 156,540 | 209,850 |
| Local sales tax | 14,734,121 | 14,734,121 | 14,074,244 | 14,008,724 |
| Wholesale beer tax | 1,231,574 | 1,231,574 | 1,286,449 | 1,221,871 |
| Business tax | 1,036,714 | 1,036,714 | 1,142,652 | 1,022,340 |
| Cable television franchise tax | 111,531 | 111,531 | 141,660 | 105,580 |
| Hotel/motel room tax | 1,981,865 | 1,981,865 | 1,853,546 | 1,233,248 |
| Liquor privilege tax | 24,000 | 24,000 | 21,150 | 22,785 |
| Beer privilege tax | 9,000 | 9,000 | 8,898 | 8,710 |
| Total local taxes | 21,617,325 | 21,617,325 | 20,992,110 | 20,097,120 |
| Licenses and permits: | | | | |
| Building and related permits | 100,500 | 100,500 | 73,198 | 111,626 |
| Other permits and fees | 30,600 | 30,600 | 25,058 | 31,384 |
| Total licenses and permits | 131,100 | 131,100 | 98,256 | 143,010 |
| Intergovernmental revenue: | | | | |
| Federal grants | 86,755 | 86,755 | 122,853 | 91,337 |
| In lieu of tax - Sevierville Housing Authority | 20,000 | 20,000 | 24,781 | 19,930 |
| In lieu of tax - Tennessee Valley Authority | 167,615 | 167,615 | 168,856 | 171,074 |
| State grants | 253,037 | 253,037 | 246,268 | 243,214 |
| State of Tennessee: | | | | |
| Law enforcement supplement | 54,600 | 54,600 | 49,200 | 51,600 |
| Sales tax | 947,352 | 947,352 | 1,023,489 | 1,004,435 |
| Income tax | 142,304 | 142,304 | 180,907 | 118,610 |
| Alcoholic beverage tax | 7,404 | 7,404 | 7,321 | 7,268 |
| Mixed drink tax | 126,391 | 126,391 | 145,053 | 128,862 |
| Gas inspection tax | 31,687 | 31,687 | 30,339 | 30,390 |
| Street maintenance - State highways | 160,823 | 160,823 | 138,479 | 119,705 |
| Telecommunications sales tax | 2,500 | 2,500 | 1,323 | 4,474 |
| Corporate excise tax | 45,000 | 45,000 | 37,154 | 25,964 |
| County contribution - Fire Department | 42,000 | 42,000 | 44,000 | 42,000 |
| County contribution - school resource officers | 75,000 | 75,000 | 75,000 | 75,000 |
| Total intergovernmental revenue | 2,162,468 | 2,162,468 | 2,295,023 | 2,133,863 |
| Charges for services: | | | | |
| Trolley fares | 35,000 | 35,000 | 40,260 | 38,083 |
| Building maintenance | 46,912 | 46,912 | 46,912 | 46,528 |
| Security/EMT services | 92,560 | 92,560 | 64,596 | 89,964 |
| Solid waste fees | 658,000 | 658,000 | 738,789 | 694,199 |
| Community Center fees and concessions | 327,500 | 327,500 | 315,603 | 313,633 |
| City park fees and concessions | 153,000 | 153,000 | 120,295 | 149,966 |
| Civic Center rent and fees | 49,250 | 49,250 | 45,975 | 50,402 |
| Public works services | - | - | 14,980 | - |
| Other charges for services | 51,900 | 51,900 | 31,713 | 47,120 |
| Total charges for services | 1,414,122 | 1,414,122 | 1,419,123 | 1,429,895 |

(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, 2013
 (With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|---|----------------------------|-------------------------|----------------|----------------|
| Revenues (continued): | | | | |
| Fines, forfeits and penalties: | | | | |
| Fines and costs | \$ 421,000 | \$ 421,000 | \$ 393,555 | \$ 318,742 |
| Total fines, forfeits and penalties | 421,000 | 421,000 | 393,555 | 318,742 |
| Other revenues: | | | | |
| Interest earnings | 70,000 | 70,000 | 11,152 | 28,849 |
| Rent and royalties | 76,326 | 76,326 | 76,066 | 81,058 |
| Insurance recoveries | 35,000 | 35,000 | 52,011 | 94,179 |
| Sales of materials and supplies | 52,750 | 52,750 | 96,135 | 81,918 |
| Contributions and donations | 5,000 | 5,000 | 6,386 | 5,555 |
| Other miscellaneous revenue | 1,350 | 1,350 | 14,247 | 5,750 |
| Total other revenues | 240,426 | 240,426 | 255,997 | 297,309 |
| Total revenues | 25,986,441 | 25,986,441 | 25,454,064 | 24,419,939 |
| Expenditures: | | | | |
| General government: | | | | |
| Legislative board: | | | | |
| Personal services | 131,347 | 131,347 | 128,360 | 133,579 |
| Contractual services | 28,100 | 28,100 | 22,814 | 17,987 |
| Supplies | 300 | 300 | 431 | 296 |
| Total legislative board | 159,747 | 159,747 | 151,605 | 151,862 |
| Legal services: | | | | |
| Contractual services | 214,900 | 214,900 | 150,258 | 191,699 |
| Total legal services | 214,900 | 214,900 | 150,258 | 191,699 |
| City administration: | | | | |
| Personal services | 504,424 | 504,424 | 509,544 | 480,636 |
| Contractual services | 22,818 | 22,818 | 18,495 | 22,047 |
| Supplies | 6,050 | 6,050 | 2,967 | 4,042 |
| Fixed charges | - | - | 91 | 153 |
| Capital outlay | - | - | 192 | 1,904 |
| Total city administration | 533,292 | 533,292 | 531,289 | 508,782 |
| City recorder/finance department: | | | | |
| Personal services | 1,077,913 | 1,077,913 | 1,072,534 | 1,069,148 |
| Contractual services | 173,030 | 173,030 | 157,835 | 154,224 |
| Supplies | 24,800 | 24,800 | 26,339 | 18,469 |
| Fixed charges | 250 | 250 | 167 | 50 |
| Capital outlay | - | - | 12,949 | 4,266 |
| Less expense reimbursements from proprietary fund | (834,857) | (834,857) | (834,857) | (834,907) |
| Total city recorder/finance department | 441,136 | 441,136 | 434,967 | 411,250 |

(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, 2013
 (With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|--|----------------------------|-------------------------|----------------|----------------|
| Expenditures (continued): | | | | |
| General government (continued): | | | | |
| Information services: | | | | |
| Personal services | \$ 249,707 | \$ 249,707 | \$ 252,837 | \$ 248,287 |
| Contractual services | 87,768 | 87,768 | 82,655 | 62,706 |
| Supplies | 950 | 950 | 865 | 753 |
| Fixed charges | - | - | 32 | 11 |
| Capital outlay | 32,000 | 32,000 | 30,125 | 27,831 |
| Total information services | 370,425 | 370,425 | 366,514 | 339,588 |
| Engineering: | | | | |
| Personal services | 438,191 | 438,191 | 442,115 | 436,530 |
| Contractual services | 19,875 | 19,875 | 15,564 | 17,275 |
| Supplies | 9,775 | 9,775 | 7,700 | 4,837 |
| Capital outlay | - | - | - | 1,919 |
| Total engineering | 467,841 | 467,841 | 465,379 | 460,561 |
| Planning and development: | | | | |
| Personal services | 236,601 | 236,601 | 181,386 | 181,884 |
| Contractual services | 14,551 | 14,551 | 12,739 | 13,500 |
| Supplies | 2,700 | 2,700 | 1,534 | 1,465 |
| Total planning and development | 253,852 | 253,852 | 195,659 | 196,849 |
| Facilities management: | | | | |
| Personal services | 542,369 | 542,369 | 521,784 | 523,507 |
| Contractual Services | 4,690 | 4,690 | 2,768 | 3,424 |
| Supplies | 35,000 | 35,000 | 31,210 | 35,811 |
| Capital outlay | 10,000 | 10,000 | 9,345 | - |
| Total facilities management | 592,059 | 592,059 | 565,107 | 562,742 |
| City Hall building: | | | | |
| Contractual services | 96,535 | 96,535 | 76,403 | 77,926 |
| Supplies | 4,300 | 4,300 | 4,177 | 4,047 |
| Capital outlay | 2,000 | 2,000 | - | - |
| Total City Hall building | 102,835 | 102,835 | 80,580 | 81,973 |
| Contracts, grants and other special funding: | | | | |
| Contractual services | 1,900,307 | 1,900,307 | 1,880,017 | 1,808,499 |
| Grants, contributions and other | 157,000 | 157,000 | 91,000 | 107,572 |
| Total contracts, grants and other special funding | 2,057,307 | 2,057,307 | 1,971,017 | 1,916,071 |
| Other general government: | | | | |
| Personal services | 4,000 | 4,000 | 18,190 | 3,070 |
| Contractual services | 240,070 | 240,070 | 226,219 | 255,584 |
| Supplies | 9,600 | 9,600 | 5,463 | 4,005 |
| Fixed charges | 659,931 | 659,931 | 556,488 | 574,530 |
| Grants, contributions and other | - | - | 237 | 1,437 |
| Total other general government | 913,601 | 913,601 | 806,597 | 838,626 |
| Total general government | 6,106,995 | 6,106,995 | 5,718,972 | 5,660,003 |

(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, 2013
 (With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|---------------------------------------|----------------------------|-------------------------|----------------|----------------|
| Expenditures (continued): | | | | |
| Public safety: | | | | |
| Police: | | | | |
| Personal services | \$ 4,894,438 | \$ 4,894,438 | \$ 4,890,726 | \$ 4,975,104 |
| Contractual services | 193,548 | 193,548 | 150,982 | 154,209 |
| Supplies | 209,773 | 209,773 | 201,039 | 206,419 |
| Fixed charges | 200 | 200 | 207 | - |
| Grants, contributions and other | 33,600 | 33,600 | 33,296 | 36,400 |
| Capital outlay | 134,210 | 134,210 | 55,129 | 160,448 |
| Total police | 5,465,769 | 5,465,769 | 5,331,379 | 5,532,580 |
| Traffic control and maintenance: | | | | |
| Contractual services | 77,600 | 77,600 | 69,312 | 62,149 |
| Supplies | 1,000 | 1,000 | 473 | - |
| Capital outlay | 22,500 | 22,500 | 20,701 | 10,809 |
| Total traffic control and maintenance | 101,100 | 101,100 | 90,486 | 72,958 |
| Reserve police: | | | | |
| Personal services | 22,607 | 22,607 | 18,360 | 10,861 |
| Supplies | 18,000 | 18,000 | 18,183 | 3,997 |
| Total reserve police | 40,607 | 40,607 | 36,543 | 14,858 |
| Fire: | | | | |
| Personal services | 2,390,993 | 2,390,993 | 2,372,071 | 2,348,874 |
| Contractual services | 115,104 | 115,104 | 117,707 | 96,506 |
| Supplies | 144,150 | 144,150 | 135,646 | 87,362 |
| Fixed charges | - | - | - | 5 |
| Capital outlay | 167,800 | 167,800 | 142,136 | 87,501 |
| Total fire | 2,818,047 | 2,818,047 | 2,767,560 | 2,620,248 |
| Codes enforcement: | | | | |
| Personal services | 474,882 | 474,882 | 476,037 | 473,845 |
| Contractual services | 11,967 | 11,967 | 7,198 | 7,117 |
| Supplies | 3,802 | 3,802 | 3,102 | 2,973 |
| Fixed charges | - | - | - | 10 |
| Capital outlay | - | - | - | 369 |
| Total codes enforcement | 490,651 | 490,651 | 486,337 | 484,314 |
| Total public safety | 8,916,174 | 8,916,174 | 8,712,305 | 8,724,958 |
| Public works: | | | | |
| Street: | | | | |
| Personal services | 1,057,957 | 1,057,957 | 1,032,339 | 1,067,051 |
| Contractual services | 316,096 | 316,096 | 315,219 | 309,271 |
| Supplies | 205,500 | 205,500 | 238,044 | 192,552 |
| Building materials | 343,500 | 343,500 | 287,407 | 348,475 |
| Fixed charges | - | - | 67 | - |
| Capital outlay | 210,000 | 210,000 | 174,485 | 65,640 |
| Total street | 2,133,053 | 2,133,053 | 2,047,561 | 1,982,989 |

(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, 2013
 (With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|-------------------------------------|----------------------------|-------------------------|------------------|------------------|
| Expenditures (continued): | | | | |
| Public works (continued): | | | | |
| Fleet maintenance: | | | | |
| Personal services | \$ 493,581 | \$ 493,581 | \$ 509,951 | \$ 505,554 |
| Contractual services | 76,712 | 76,712 | 70,697 | 64,375 |
| Supplies | 451,700 | 451,700 | 402,683 | 382,962 |
| Fixed charges | - | - | 106 | 325 |
| Total fleet maintenance | <u>1,021,993</u> | <u>1,021,993</u> | <u>983,437</u> | <u>953,216</u> |
| Solid waste: | | | | |
| Personal services | 669,904 | 669,904 | 662,989 | 683,044 |
| Contractual services | 591,740 | 591,740 | 616,200 | 550,275 |
| Supplies | 238,200 | 238,200 | 217,545 | 237,945 |
| Grants, contributions and other | - | - | 2,306 | 2,166 |
| Capital outlay | - | - | - | 227,394 |
| Total solid waste | <u>1,499,844</u> | <u>1,499,844</u> | <u>1,499,040</u> | <u>1,700,824</u> |
| Public transportation systems: | | | | |
| Personal services | 17,225 | 17,225 | - | 12,752 |
| Contractual services | 851,785 | 851,785 | 834,439 | 772,704 |
| Total public transportation systems | <u>869,010</u> | <u>869,010</u> | <u>834,439</u> | <u>785,456</u> |
| Total public works | <u>5,523,900</u> | <u>5,523,900</u> | <u>5,364,477</u> | <u>5,422,485</u> |
| Recreation: | | | | |
| Parks and recreation: | | | | |
| Personal services | 917,252 | 917,252 | 924,971 | 906,378 |
| Contractual services | 181,682 | 181,682 | 198,873 | 194,240 |
| Supplies | 146,400 | 146,400 | 133,940 | 156,083 |
| Materials | 8,200 | 8,200 | 3,552 | 3,027 |
| Fixed charges | - | - | 1 | - |
| Capital outlay | 12,500 | 12,500 | 989 | 28,003 |
| Total parks and recreation | <u>1,266,034</u> | <u>1,266,034</u> | <u>1,262,326</u> | <u>1,287,731</u> |
| Community Center | | | | |
| Personal services | 976,510 | 976,510 | 929,509 | 953,569 |
| Contractual services | 140,921 | 140,921 | 134,505 | 128,509 |
| Supplies | 91,000 | 91,000 | 75,451 | 84,838 |
| Fixed charges | 1,500 | 1,500 | 1,634 | 1,383 |
| Other | 13,100 | 13,100 | 9,871 | 10,991 |
| Capital outlay | 19,000 | 19,000 | 16,774 | 2,560 |
| Total community center | <u>1,242,031</u> | <u>1,242,031</u> | <u>1,167,744</u> | <u>1,181,850</u> |
| Civic center: | | | | |
| Personal services | 137,559 | 137,559 | 131,709 | 122,314 |
| Contractual services | 43,575 | 43,575 | 33,744 | 36,567 |
| Supplies | 12,250 | 12,250 | 11,115 | 3,569 |
| Capital outlay | - | - | 455 | 17,630 |
| Total civic center | <u>193,384</u> | <u>193,384</u> | <u>177,023</u> | <u>180,080</u> |
| Total recreation | <u>2,701,449</u> | <u>2,701,449</u> | <u>2,607,093</u> | <u>2,649,661</u> |

(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, 2013
 (With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|---|----------------------------|-------------------------|----------------------|----------------------|
| Expenditures (continued): | | | | |
| Debt administration: | | | | |
| Principal | \$ 990,000 | \$ 990,000 | \$ 996,300 | \$ 1,532,590 |
| Interest | 1,701,100 | 1,701,100 | 1,675,766 | 1,982,785 |
| Debt service charges | 90,000 | 90,000 | 82,586 | 77,353 |
| Bond issuance costs | - | 195,000 | 194,860 | 155,293 |
| Total debt administration | <u>2,781,100</u> | <u>2,976,100</u> | <u>2,949,512</u> | <u>3,748,021</u> |
| Contingency reserve fund: | | | | |
| Reserve for contingencies | 275,000 | 275,000 | 166,457 | 55,199 |
| Total contingency reserve fund | <u>275,000</u> | <u>275,000</u> | <u>166,457</u> | <u>55,199</u> |
| Total expenditures | <u>26,304,618</u> | <u>26,499,618</u> | <u>25,518,816</u> | <u>26,260,327</u> |
| Revenues over (under) expenditures | <u>(318,177)</u> | <u>(513,177)</u> | <u>(64,752)</u> | <u>(1,840,388)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers | (200,000) | (200,000) | (200,000) | (450,000) |
| Operating contribution to component unit | (881,974) | (881,974) | (892,300) | (881,974) |
| In lieu of tax - Water and Sewer Department | 20,000 | 20,000 | 20,000 | 20,000 |
| In lieu of tax - Electric Department | 1,380,151 | 1,380,151 | 1,307,296 | 1,284,638 |
| Issuance of refunding bonds | - | 9,160,000 | 9,160,000 | 17,275,000 |
| Premium on refunding bonds issued | - | 284,000 | 284,860 | 58,039 |
| Payment to refunded bond escrow agent | - | (9,249,000) | (9,250,000) | (17,177,746) |
| Total other financing sources (uses) | <u>318,177</u> | <u>513,177</u> | <u>429,856</u> | <u>127,957</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>-</u> | <u>-</u> | <u>365,104</u> | <u>(1,712,431)</u> |
| Fund balance, beginning | <u>11,188,710</u> | <u>11,188,710</u> | <u>11,188,710</u> | <u>12,901,141</u> |
| Fund balance, ending | <u>\$ 11,188,710</u> | <u>\$ 11,188,710</u> | <u>\$ 11,553,814</u> | <u>\$ 11,188,710</u> |

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, 2013
 (With Comparative Totals for the Fiscal Year Ended June 30, 2012)

| | 2013 Original Budget | 2013 Final Budget | 2013 Actual | 2012 Actual |
|---|----------------------------|-------------------------|----------------------|----------------------|
| Revenues: | | | | |
| Local taxes: | | | | |
| Local sales taxes | \$ 1,606,949 | \$ 1,606,949 | \$ 2,202,012 | \$ 1,606,949 |
| Total local sales taxes | <u>1,606,949</u> | <u>1,606,949</u> | <u>2,202,012</u> | <u>1,606,949</u> |
| Intergovernmental revenue: | | | | |
| State of Tennessee: | | | | |
| Sales tax | 3,892,051 | 3,892,051 | 5,096,561 | 3,892,050 |
| Total intergovernmental revenue | <u>3,892,051</u> | <u>3,892,051</u> | <u>5,096,561</u> | <u>3,892,050</u> |
| Other revenues: | | | | |
| Interest earnings | 15,000 | 15,000 | 9,754 | 17,160 |
| Total other revenues | <u>15,000</u> | <u>15,000</u> | <u>9,754</u> | <u>17,160</u> |
| Total revenues | <u>5,514,000</u> | <u>5,514,000</u> | <u>7,308,327</u> | <u>5,516,159</u> |
| Expenditures: | | | | |
| Debt administration: | | | | |
| Interest | 6,875,000 | 6,875,000 | 6,658,239 | 6,536,451 |
| Debt service charges | 625,000 | 625,000 | 454,851 | 540,325 |
| Total debt administration | <u>7,500,000</u> | <u>7,500,000</u> | <u>7,113,090</u> | <u>7,076,776</u> |
| Total expenditures | <u>7,500,000</u> | <u>7,500,000</u> | <u>7,113,090</u> | <u>7,076,776</u> |
| Revenues over (under) expenditures | <u>(1,986,000)</u> | <u>(1,986,000)</u> | <u>195,237</u> | <u>(1,560,617)</u> |
| Other financing sources (uses): | | | | |
| Special item - contribution to component unit | - | (650,000) | (650,000) | (2,310,964) |
| Total other financing sources (uses) | <u>-</u> | <u>(650,000)</u> | <u>(650,000)</u> | <u>(2,310,964)</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>(1,986,000)</u> | <u>(2,636,000)</u> | <u>(454,763)</u> | <u>(3,871,581)</u> |
| Fund balance, beginning | <u>11,721,593</u> | <u>11,721,593</u> | <u>11,721,593</u> | <u>15,593,174</u> |
| Fund balance, ending | <u>\$ 9,735,593</u> | <u>\$ 9,085,593</u> | <u>\$ 11,266,830</u> | <u>\$ 11,721,593</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 City 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 City 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 City 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 City 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, 2013

| | 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 | \$ 5,161,811 | \$ 18,955,731 | \$ 24,117,542 | \$ 2,307,735 |
| Investments | - | 11,141,846 | 11,141,846 | - |
| Receivables: | | | | |
| Customers (net of allowance for doubtful accounts of \$39,759 and \$1,333,990, respectively) | 867,436 | 6,385,790 | 7,253,226 | - |
| Rent | - | 582,720 | 582,720 | - |
| Other | - | 140,214 | 140,214 | 11,712 |
| Unbilled revenue | 478,259 | 8,110,785 | 8,589,044 | - |
| Due from component unit | 296,693 | - | 296,693 | - |
| Due from other funds | 929,861 | - | 929,861 | - |
| Materials and supplies inventories | 560,736 | 1,439,381 | 2,000,117 | - |
| Restricted assets: | | | | |
| Cash and cash equivalents | - | 68,157 | 68,157 | 8,392 |
| Investments | - | 2,160,000 | 2,160,000 | - |
| Total current assets | 8,294,796 | 48,984,624 | 57,279,420 | 2,327,839 |
| Capital assets, not being depreciated: | | | | |
| Land and land rights | 427,269 | 6,953,879 | 7,381,148 | - |
| Construction work in progress | 4,871,831 | 1,653,831 | 6,525,662 | - |
| Retirement work in progress | - | 72,274 | 72,274 | - |
| Capital assets, being depreciated: | | | | |
| Utility plant | 105,930,176 | 193,813,825 | 299,744,001 | - |
| Less accumulated depreciation | (31,711,056) | (74,493,025) | (106,204,081) | - |
| Plant acquisition adjustments, at amortized costs | - | 77,327 | 77,327 | - |
| Total capital assets | 79,518,220 | 128,078,111 | 207,596,331 | - |
| Non-current assets: | | | | |
| Tennessee Valley Authority Residential Energy Services Program receivable | - | 2,740,586 | 2,740,586 | - |
| Other investments | - | 306,626 | 306,626 | - |
| Regulatory assets, unamortized | - | 447,757 | 447,757 | - |
| Other | - | 195,417 | 195,417 | - |
| Total non-current assets | - | 3,690,386 | 3,690,386 | - |
| Total assets | 87,813,016 | 180,753,121 | 268,566,137 | 2,327,839 |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u> | | | | |
| Accumulated decreases in fair value of hedging derivatives | 2,267,301 | 2,041,655 | 4,308,956 | - |
| Total deferred outflows of resources | 2,267,301 | 2,041,655 | 4,308,956 | - |

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position
Proprietary Funds (Continued)
June 30, 2013

| | 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 | \$ 10,220,000 | \$ 1,070,000 | \$ 11,290,000 | \$ - |
| Accounts payable | 143,161 | 11,067,990 | 11,211,151 | - |
| Accrued expenses | 332,008 | 5,073,412 | 5,405,420 | - |
| Accrued interest | 138,040 | 54,000 | 192,040 | - |
| Due to other funds | - | - | - | 57,345 |
| Reserve for health insurance claims | - | 1,992,172 | 1,992,172 | 185,979 |
| Revenues received in advance | 454,250 | - | 454,250 | 869 |
| Customer deposits, including interest of \$327,584 | 670,675 | 10,238,056 | 10,908,731 | - |
| Total current liabilities | 11,958,134 | 29,495,630 | 41,453,764 | 244,193 |
| Non-current liabilities: | | | | |
| Long-term debt, less current maturities | 30,601,045 | 14,030,000 | 44,631,045 | - |
| Derivative instrument - interest rate swap | 2,267,301 | 2,041,655 | 4,308,956 | - |
| Advances from Tennessee Valley Authority Residential Energy Services Program | - | 2,762,487 | 2,762,487 | - |
| Total non-current liabilities | 32,868,346 | 18,834,142 | 51,702,488 | - |
| Total liabilities | 44,826,480 | 48,329,772 | 93,156,252 | 244,193 |
| <u>NET POSITION</u> | | | | |
| Net position: | | | | |
| Net investment in capital assets | 38,697,175 | 112,978,111 | 151,675,286 | - |
| Restricted | - | 2,228,157 | 2,228,157 | 8,392 |
| Unrestricted | 6,556,662 | 19,258,736 | 25,815,398 | 2,075,254 |
| Total net position | \$ 45,253,837 | \$ 134,465,004 | \$ 179,718,841 | \$ 2,083,646 |

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, 2013

| | Business-Type Activities | | | Governmental |
|---|--|--------------------------------|---------------|------------------------------|
| | Enterprise Funds | | | Activities |
| | Water and Sewer Department Fund | Electric Department Fund | Total | Internal Service Funds |
| Operating revenues: | | | | |
| Utility sales | \$10,626,054 | \$144,871,958 | \$155,498,012 | \$ - |
| Other operating revenue | 883,665 | 2,636,988 | 3,520,653 | 94,575 |
| Medical, dental and childcare revenue | - | - | - | 5,622,023 |
| Total operating revenues | 11,509,719 | 147,508,946 | 159,018,665 | 5,716,598 |
| Operating expenses: | | | | |
| Operations | 6,037,664 | 4,426,347 | 10,464,011 | 4,740,422 |
| Maintenance | 26,070 | 11,051,309 | 11,077,379 | - |
| Depreciation and amortization | 3,061,043 | 6,408,099 | 9,469,142 | - |
| Administrative and general | 1,047,928 | 4,451,868 | 5,499,796 | 147,456 |
| Purchased power | - | 113,823,093 | 113,823,093 | - |
| Payroll taxes | - | 413,487 | 413,487 | - |
| Total operating expenses | 10,172,705 | 140,574,203 | 150,746,908 | 4,887,878 |
| Operating income | 1,337,014 | 6,934,743 | 8,271,757 | 828,720 |
| Non-operating revenues (expenses): | | | | |
| Interest income | 11,183 | 144,042 | 155,225 | 1,369 |
| Miscellaneous income | 38,697 | - | 38,697 | - |
| Interest expense | (1,383,304) | (684,549) | (2,067,853) | - |
| Loss on disposal of assets | (8,613) | - | (8,613) | - |
| Intergovernmental - in lieu of tax | - | (1,297,659) | (1,297,659) | - |
| | (1,342,037) | (1,838,166) | (3,180,203) | 1,369 |
| Income (loss) before transfers | (5,023) | 5,096,577 | 5,091,554 | 830,089 |
| Transfers to general fund - in lieu of tax | (20,000) | (1,307,296) | (1,327,296) | - |
| Change in net position | (25,023) | 3,789,281 | 3,764,258 | 830,089 |
| Net position, beginning, as previously stated | 45,895,715 | 130,675,723 | 176,571,438 | 1,253,557 |
| Prior period adjustment (see note 17) | (616,855) | - | (616,855) | - |
| Net position, beginning, as restated | 45,278,860 | 130,675,723 | 175,954,583 | 1,253,557 |
| Net position, ending | \$45,253,837 | \$134,465,004 | \$179,718,841 | \$2,083,646 |

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, 2013

| | Enterprise Funds | | | Internal Service Funds |
|--|--|--------------------------------|----------------------|------------------------------|
| | Water and Sewer Department Fund | Electric Department Fund | Total | |
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 11,475,639 | \$147,638,822 | \$159,114,461 | \$ - |
| Cash received from employees, other participants and other funds | - | - | - | 5,714,128 |
| Cash payments to suppliers for goods and services | (4,932,794) | (127,278,920) | (132,211,714) | (488,217) |
| Cash payments to employees for services | (1,995,712) | (7,308,403) | (9,304,115) | - |
| Cash payments for claims | - | - | - | (4,464,727) |
| Net cash provided by operating activities | <u>4,547,133</u> | <u>13,051,499</u> | <u>17,598,632</u> | <u>761,184</u> |
| Cash flows from noncapital financing activities: | | | | |
| Cash payment for in-lieu of taxes | (20,000) | (2,604,955) | (2,624,955) | - |
| Cash received from Tennessee Valley Authority Residential Energy Services Program, net | - | 2,337 | 2,337 | - |
| Decrease in due to other funds | - | - | - | (122,500) |
| Net cash used by noncapital financing activities | <u>(20,000)</u> | <u>(2,602,618)</u> | <u>(2,622,618)</u> | <u>(122,500)</u> |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition and construction of capital assets | (719,671) | (6,107,979) | (6,827,650) | - |
| Principal paid on long-term debt | (1,903,700) | (1,020,000) | (2,923,700) | - |
| Premium on bonds sold | (289,794) | - | (289,794) | - |
| Interest paid | (1,406,330) | (651,106) | (2,057,436) | - |
| Net cash used by capital and related financing activities | <u>(4,319,495)</u> | <u>(7,779,085)</u> | <u>(12,098,580)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | |
| Purchase of investments | - | (18,343,692) | (18,343,692) | - |
| Sale of investments | - | 13,301,846 | 13,301,846 | - |
| Increase in other assets | - | (33,276) | (33,276) | - |
| Interest received on investments | 11,183 | 144,042 | 155,225 | 1,369 |
| Increase in due from component unit | (296,536) | - | (296,536) | - |
| (Increase) decrease in due from other funds | (547,615) | - | (547,615) | 252,442 |
| Net cash provided (used) by investing activities | <u>(832,968)</u> | <u>(4,931,080)</u> | <u>(5,764,048)</u> | <u>253,811</u> |
| Net increase (decrease) in cash and cash equivalents | (625,330) | (2,261,284) | (2,886,614) | 892,495 |
| Cash and cash equivalents, beginning | 5,787,141 | 21,285,172 | 27,072,313 | 1,423,632 |
| Cash and cash equivalents, ending | <u>\$ 5,161,811</u> | <u>\$ 19,023,888</u> | <u>\$ 24,185,699</u> | <u>\$ 2,316,127</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating income | \$ 1,337,014 | \$ 6,934,743 | \$ 8,271,757 | \$ 828,720 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 3,061,043 | 6,634,097 | 9,695,140 | - |
| Miscellaneous income | 38,697 | - | 38,697 | - |
| (Increase) decrease in receivables | (162,168) | (375,621) | (537,789) | 1,003 |
| Decrease in unbilled revenues | 64,667 | - | 64,667 | - |
| Decrease in materials and supplies inventory | 153,453 | 66,873 | 220,326 | - |
| Decrease in other assets | - | 183,840 | 183,840 | - |
| Increase (decrease) in accounts payable | 12,227 | (1,103,122) | (1,090,895) | - |
| Decrease in insurance claims reserve | - | - | - | (65,065) |
| Increase in accrued expenses | 17,476 | 205,192 | 222,668 | - |
| Decrease in other liabilities | - | - | - | (3,474) |
| Increase in customer deposits | 24,724 | 505,497 | 530,221 | - |
| Net cash provided by operating activities | <u>\$ 4,547,133</u> | <u>\$ 13,051,499</u> | <u>\$ 17,598,632</u> | <u>\$ 761,184</u> |

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 City established Tourism Development Zone/Central Business District approved by the State of Tennessee.

CITY OF SEVIERVILLE, TENNESSEE

Statement of Net Position
Public Building Authority of the City of Sevierville
June 30, 2013

ASSETS

| | | |
|--|--|--------------------|
| Current assets: | | |
| Cash and cash equivalents | | \$ 691,952 |
| Receivables: | | |
| Golf package providers | | 18,914 |
| Events Center operations | | 114,386 |
| Inventory | | 99,023 |
| Prepaid expenses | | 45,529 |
| Restricted assets: | | |
| Cash and cash equivalents | | 291,759 |
| Total current assets | | <u>1,261,563</u> |
| Capital assets, not being depreciated: | | |
| Land and improvements held for development | | 47,115,024 |
| Construction work in process | | 3,839,048 |
| Capital assets, being depreciated: | | |
| Buildings and improvements | | 61,939,743 |
| Machinery and equipment | | 2,481,158 |
| Less accumulated depreciation | | <u>(9,564,860)</u> |
| Total capital assets | | <u>105,810,113</u> |
| Non-current assets: | | |
| Unamortized organizational costs | | <u>3,962</u> |
| Total non-current assets | | <u>3,962</u> |
| Total assets | | <u>107,075,638</u> |

LIABILITIES

| | | |
|-------------------------------|--|------------------|
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | | 126,637 |
| Accrued expenses | | 55,112 |
| Due to primary government | | 903,231 |
| Compensated absences payable | | 38,639 |
| Revenues collected in advance | | 39,690 |
| Customer deposits | | <u>246,158</u> |
| Total current liabilities | | <u>1,409,467</u> |

NET POSITION

| | | |
|----------------------------------|--|-----------------------|
| Net position: | | |
| Net investment in capital assets | | 105,810,113 |
| Restricted | | 291,759 |
| Unrestricted | | <u>(435,701)</u> |
| Total net position | | <u>\$ 105,666,171</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
Public Building Authority of the City of Sevierville
For the Fiscal Year Ended June 30, 2013

| | |
|--|-----------------------|
| Operating revenue: | |
| Golf course revenue | \$ 1,916,307 |
| Convention center revenue | <u>1,259,083</u> |
| Total operating revenue | <u>3,175,390</u> |
| Operating expenses: | |
| Administration | 199,786 |
| Administration and operations - golf course | 2,312,110 |
| Administration and operations - convention center | <u>1,444,234</u> |
| Total operating expenses | <u>3,956,130</u> |
| Operating margin (loss), before depreciation expense | <u>(780,740)</u> |
| Depreciation expense: | |
| Depreciation expense - golf course | 602,736 |
| Depreciation expense - convention center | <u>1,309,259</u> |
| Total depreciation expense | <u>1,911,995</u> |
| Operating margin (loss) | <u>(2,692,735)</u> |
| Non-operating revenue (expense): | |
| Amortization expense | (1,981) |
| Interest income | <u>614</u> |
| Total non-operating revenue (expense) | <u>(1,367)</u> |
| Income (loss) before contributions | <u>(2,694,102)</u> |
| Capital and operating contributions: | |
| Contributions from primary government - CBID Fund | 650,000 |
| Contributions from primary government - General Fund | <u>892,300</u> |
| Total capital and operating contributions | <u>1,542,300</u> |
| Change in net position | (1,151,802) |
| Net position, beginning | <u>106,817,973</u> |
| Net position, ending | <u>\$ 105,666,171</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, 2013

| | |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from golf course and convention center operations | \$ 3,124,046 |
| Cash paid to suppliers for goods and services | (2,430,725) |
| Cash paid to employees for services | <u>(1,566,739)</u> |
| Net cash used by operating activities | <u>(873,418)</u> |
| Cash flows from noncapital financing activities: | |
| Increase in amounts due to primary government, net | 582,675 |
| Operating contributions from primary government | <u>892,300</u> |
| Net cash provided by noncapital financing activities | <u>1,474,975</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition and construction of capital assets | (541,916) |
| Capital contributions from primary government | <u>650,000</u> |
| Net cash provided by capital and related financing activities | <u>108,084</u> |
| Cash flows from investing activities: | |
| Interest income | <u>614</u> |
| Net cash provided by investing activities | <u>614</u> |
| Net increase in cash and cash equivalents | 710,255 |
| Cash and cash equivalents, beginning | <u>273,456</u> |
| Cash and cash equivalents, ending | <u>\$ 983,711</u> |
| Cash and cash equivalents: | |
| Unrestricted | \$ 691,952 |
| Restricted | <u>291,759</u> |
| | <u>\$ 983,711</u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (2,692,735) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation | 1,911,995 |
| Increase in receivables | (35,167) |
| Increase in inventory | (18,592) |
| Increase in prepaid expenses | (22,633) |
| Decrease in accounts payable | (7,754) |
| Increase in accrued expenses | 7,645 |
| Decrease in revenues collected in advance | (35,579) |
| Increase in customer deposits | <u>19,402</u> |
| Net cash used by operating activities | <u>\$ (873,418)</u> |

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

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

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 (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. The government has no blended component units and only one discretely presented component unit. The Public Building Authority of the City of Sevierville, Tennessee (PBA) is considered to be a discretely presented component unit. The PBA has the same year end as the primary government. 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.

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, 2013

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, TENNESSEENotes to the Financial Statements
June 30, 20131. 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, 2013

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, 2013 the government had no encumbrances. Also, for the year ended June 30, 2013, 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 component units of the government are invested in pooled accounts. Funds or component units

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

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, 2013 is \$185,676.

At June 30, 2013, the government's 2013 property taxes were not scheduled to be billed until October 2013. Consequently, unbilled property taxes and deferred inflows of resources \$2,239,874 are recorded.

Inventories and Prepaid Items

Inventories are valued at the lower of average cost or market and consist of construction materials, supplies and repair parts in the enterprise funds and items available for resale in the component unit.

Certain payments to vendors in the component unit 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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20131. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)**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 (for governmental funds and the PBA) and \$1,000 (for enterprise funds) 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, 2013, 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 and the component unit are depreciated using the straight line method over the following estimated useful lives:

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

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets (Continued)

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 | 3 - 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 City 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.

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

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Position Flow Assumption (Continued)

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).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Mayor and Aldermen is the highest level of decision-making authority for the government that can, by passage of a resolution, ordinance, or contract by a simple majority vote prior to the end of the fiscal year, commit fund balance. Once committed, the limitation imposed remains in place until a similar action is taken to remove or revise the limitation.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Balance Policies (Continued)

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.

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. 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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenditures/Expenses (Continued)

Compensated Absences (Continued)

Government, Water and Sewer Department and PBA 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, 2013. However, the cost of accrued sick leave is recognized when earned for the water and sewer department 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 Department's policy is to accrue this amount in full, which totaled \$3,216,701 at June 30, 2013. 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.

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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial StatementsJune 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Other Accounting Policies (Continued)****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 City'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 Sevier County Electric System 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 System also has a power contract with TVA whereby the System purchases all of its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract.

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

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Recently Issued and Adopted Accounting Pronouncements**

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*; Statement No. 61, *The Financial Reporting Entity: Omnibus (an amendment of GASB Statements No. 14 and No. 34)*; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; Statement No. 63, *Reporting Deferred Outflows, Deferred Inflows and Net Position*; and Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)* became effective for the year ended June 30, 2013. The City early implemented Statement No. 65, *Items Previously Reported as Assets and Liabilities* and Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, which have an effective date of June 30, 2014.

GASB Statement No. 60 provides accounting and financial reporting guidance related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The standard establishes criteria for determining whether a SCA exists, how to account for SCAs, and requires certain disclosures associated with a SCA.

GASB Statement No. 61 amends Statements No. 14 and No. 34 and modifies certain requirements for inclusion of component units in the financial reporting entity to ensure that the reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. Statement No. 61 also clarifies the criteria for blending component units and presenting business-type component units.

GASB Statement No. 62 incorporates into GASB's literature the provisions in Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements. The option to use subsequent FASB guidance has been removed.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources that were introduced and defined by Concepts Statement No. 4, *Elements of Financial Statements*. Previous financial reporting standards did not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. In addition, the previous Statement of Net Assets was renamed to a Statement of Financial Position.

GASB Statement No. 64 clarifies the circumstances in which hedge accounting continues to be applied when a swap counterparty or a swap counterparty's credit support provider is replaced. The Statement allows that when certain conditions exist, the hedging relationship and accounting continues to be applied.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued and Adopted Accounting Pronouncements (Continued)

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66 resolves conflicting guidance by removing the provision that limited fund based reporting of an entity's risk financing activities to the General Fund and the internal service fund type. Under Statement No. 66, decisions about fund type classifications are based on the nature of the activity to be reported as required by Statements No. 54 and No. 34. This statement also modified guidance on operating lease payments, purchased loans, and servicing fees related to mortgage loans.

2. DEPOSITS AND INVESTMENTS

At June 30, 2013, deposits and investments consisted of the following:

| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
|--|----------------------|---------------------|----------------------|
| Primary Government: | | | |
| Checking and savings accounts | \$ 35,412,512 | \$ 1,335,748 | \$ 36,748,260 |
| Cash and cash equivalents | <u>\$ 35,412,512</u> | <u>\$ 1,335,748</u> | <u>\$ 36,748,260</u> |
| Tennessee Local Government Investment Pool | \$ 7,555,766 | \$ 810,829 | \$ 8,366,595 |
| Certificates of Deposit | <u>12,083,846</u> | <u>4,770,000</u> | <u>16,853,846</u> |
| Investments | <u>\$ 19,639,612</u> | <u>\$ 5,580,829</u> | <u>\$ 25,220,441</u> |
| Component Unit: | | | |
| Checking and savings accounts | <u>\$ 691,952</u> | <u>\$ 291,759</u> | <u>\$ 983,711</u> |

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

2. DEPOSITS AND INVESTMENTS (Continued)

Government (excluding Electric Department and component unit) - At June 30, 2013 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 - Cash on deposit with financial institutions at June 30, 2013 was entirely secured by federal depository insurance, collateral held by the Department's agent in the name of Sevier County Electric System, or insured through the State of Tennessee Bank Collateral Pool.

Component Unit - Cash on deposit with financial institutions at June 30, 2013 was entirely secured by federal depository insurance or insured through the State of Tennessee Bank Collateral Pool.

Investment policies of the City 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, 2013

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

| | Balance July 1, 2012 | Additions | Deductions | Balance June 30, 2013 |
|---|-------------------------|-----------------------|---------------------|--------------------------|
| <u>Governmental Activities</u> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 8,217,594 | \$ - | \$ - | \$ 8,217,594 |
| Construction work in progress | 8,280 | 16,412 | - | 24,692 |
| Total capital assets, not being depreciated | 8,225,874 | 16,412 | - | 8,242,286 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 33,291,081 | - | - | 33,291,081 |
| Bridges | 2,999,476 | - | - | 2,999,476 |
| Street network | 44,786,559 | - | - | 44,786,559 |
| Traffic signals | 1,559,385 | - | - | 1,559,385 |
| Computers | 426,381 | 44,501 | (78,201) | 392,681 |
| Equipment | 5,397,863 | 206,963 | (1,104,099) | 4,500,727 |
| Furniture | 128,356 | 2,500 | (49,889) | 80,967 |
| Radios | 850,466 | - | (323,997) | 526,469 |
| Vehicles | 10,489,037 | 541,824 | (1,126,706) | 9,904,155 |
| Total capital assets, being depreciated | 99,928,604 | 795,788 | (2,682,892) | 98,041,500 |
| Less accumulated depreciation: | | | | |
| Buildings and improvements | 11,354,482 | 873,728 | - | 12,228,210 |
| Bridges | 641,536 | 37,494 | - | 679,030 |
| Street network | 6,014,545 | 278,947 | - | 6,293,492 |
| Traffic signals | 774,757 | 38,548 | - | 813,305 |
| Computers | 326,242 | 26,825 | (70,788) | 282,279 |
| Equipment | 3,764,402 | 313,939 | (839,458) | 3,238,883 |
| Furniture | 126,489 | 252 | (46,894) | 79,847 |
| Radios | 605,214 | 31,055 | (234,208) | 402,061 |
| Vehicles | 6,692,701 | 606,638 | (1,094,942) | 6,204,397 |
| Total accumulated depreciation | 30,300,368 | 2,207,426 | (2,286,290) | 30,221,504 |
| Capital assets, being depreciated, net | 69,628,236 | (1,411,638) | (396,602) | 67,819,996 |
| Governmental activities capital assets, net | <u>\$ 77,854,110</u> | <u>\$ (1,395,226)</u> | <u>\$ (396,602)</u> | <u>\$ 76,062,282</u> |

Depreciation expense was charged to the programs/functions of the governmental activities of the primary government as follows:

| | |
|--|---------------------|
| General Government | \$ 238,504 |
| Public Safety | 492,594 |
| Public Works | 890,767 |
| Culture and Recreation | 369,441 |
| Community Development | 216,120 |
| Total depreciation expense - governmental activities | <u>\$ 2,207,426</u> |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2012

3. CAPITAL ASSETS (Continued)

| | Balance July 1, 2012 | Additions | Deductions | Other | Balance June 30, 2013 |
|--|-------------------------|-----------------------|-----------------|-------------------|--------------------------|
| <u>Business-Type Activities</u> | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land and land rights | \$ 7,305,956 | \$ 75,192 | \$ - | \$ - | \$ 7,381,148 |
| Construction work in progress | 7,039,906 | (514,244) | - | - | 6,525,662 |
| Retirement work in progress | 72,274 | - | - | - | 72,274 |
| Total capital assets, not being depreciated | <u>14,418,136</u> | <u>(439,052)</u> | <u>-</u> | <u>-</u> | <u>13,979,084</u> |
| Capital assets, being depreciated: | | | | | |
| Electric distribution system | 180,973,814 | 5,902,759 | 872,100 | - | 186,004,473 |
| Water and sewer plant | 94,758,132 | 6,316 | 2,261 | - | 94,762,187 |
| Machinery and equipment | 8,315,440 | 532,628 | 101,814 | - | 8,746,254 |
| Transportation equipment | 6,073,419 | 275,658 | - | 15,069 | 6,364,146 |
| Office furniture and fixtures | 1,715,455 | 15,090 | - | - | 1,730,545 |
| Other capital assets | 1,770,657 | 365,739 | - | - | 2,136,396 |
| Total capital assets, being depreciated | <u>293,606,917</u> | <u>7,098,190</u> | <u>976,175</u> | <u>15,069</u> | <u>299,744,001</u> |
| Less accumulated depreciation: | | | | | |
| Electric distribution system | 63,735,012 | 6,294,232 | 872,100 | (168,512) | 68,988,632 |
| Water and sewer plant | 23,980,141 | 2,410,755 | 2,261 | - | 26,388,635 |
| Machinery and equipment | 4,513,459 | 427,970 | 93,201 | - | 4,848,228 |
| Transportation equipment | 3,810,717 | 337,457 | - | 15,069 | 4,163,243 |
| Office furniture and fixtures | 1,490,117 | 43,708 | - | - | 1,533,825 |
| Other capital assets | 113,948 | 167,570 | - | - | 281,518 |
| Total accumulated depreciation | <u>97,643,394</u> | <u>9,681,692</u> | <u>967,562</u> | <u>(153,443)</u> | <u>106,204,081</u> |
| Capital assets, being depreciated, net | <u>195,963,523</u> | <u>(2,583,502)</u> | <u>8,613</u> | <u>168,512</u> | <u>193,539,920</u> |
| Business-type activities capital assets, net | <u>\$ 210,381,659</u> | <u>\$ (3,022,554)</u> | <u>\$ 8,613</u> | <u>\$ 168,512</u> | <u>\$ 207,519,004</u> |

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

| | |
|----------------------------|---------------------|
| Electric | \$ 6,620,649 |
| Water and sewer | <u>3,061,043</u> |
| Total depreciation expense | <u>\$ 9,681,692</u> |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

3. CAPITAL ASSETS (Continued)

Component unit capital asset activity for the fiscal year ended June 30, 2013 was as follows:

| | Balance June 30, 2012 | Additions | Transfers and Deductions | Balance June 30, 2013 |
|---|--------------------------|-----------------------|-----------------------------|--------------------------|
| <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 | 3,365,132 | 473,916 | - | 3,839,048 |
| | <u>50,480,156</u> | <u>473,916</u> | <u>-</u> | <u>50,954,072</u> |
| Total capital assets, not being depreciated | | | | |
| Capital assets, being depreciated: | | | | |
| Convention center buildings and improvement | 53,966,540 | - | - | 53,966,540 |
| Convention center machinery and equipment | 815,426 | 68,000 | - | 883,426 |
| Golf course buildings and improvements | 7,973,203 | - | - | 7,973,203 |
| Golf course machinery and equipment | 1,597,732 | - | - | 1,597,732 |
| | <u>64,352,901</u> | <u>68,000</u> | <u>-</u> | <u>64,420,901</u> |
| Total capital assets, being depreciated | | | | |
| Less accumulated depreciation: | | | | |
| Convention center buildings and improvement | 5,923,101 | 1,205,295 | - | 7,128,396 |
| Convention center machinery and equipment | 600,866 | 103,964 | - | 704,830 |
| Golf course buildings and improvements | 685,230 | 344,443 | - | 1,029,673 |
| Golf course machinery and equipment | 443,668 | 258,293 | - | 701,961 |
| | <u>7,652,865</u> | <u>1,911,995</u> | <u>-</u> | <u>9,564,860</u> |
| Total accumulated depreciation | | | | |
| Capital assets, being depreciated, net | <u>56,700,036</u> | <u>(1,843,995)</u> | <u>-</u> | <u>54,856,041</u> |
| Component unit activities capital assets, net | <u>\$107,180,192</u> | <u>\$ (1,370,079)</u> | <u>\$ -</u> | <u>\$ 105,810,113</u> |

Depreciation expense for the fiscal year ended June 30, 2013 was \$1,911,995. There were no amounts reported above as transfers and deductions from construction work in progress in the current year.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

4. LONG-TERM LIABILITIES

Governmental Activities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2013:

| Governmental Activities | July 1, 2012 | Additions | Retirements/ Refunded | June 30, 2013 | Amounts Due Within One Year |
|---|----------------|--------------|--------------------------|----------------|--------------------------------|
| Local Government Public Improvement Bonds, Series VII-D-1 | \$ 17,779,173 | \$ - | \$ 9,461,300 | \$ 8,317,873 | \$ 2,500,000 |
| Local Government Public Improvement Bonds, Series VII-A-2 | 1,090,000 | - | 345,000 | 745,000 | 365,000 |
| General Obligation Bonds, Series 2009 | 540,000 | - | 175,000 | 365,000 | 180,000 |
| Local Government Public Improvement Bonds, Series VII-L-1 | 16,215,000 | - | 5,000 | 16,210,000 | 455,000 |
| General Obligation and Refunding Bonds, Series 2012 | 1,060,000 | - | 260,000 | 800,000 | 260,000 |
| General Obligation and Refunding Bonds, Series 2013 | - | 9,160,000 | - | 9,160,000 | - |
| Local Government Public Improvement Bonds, Series 2009A | 75,000,000 | - | - | 75,000,000 | 75,000,000 |
| Local Government Public Improvement Bonds, Series 2009B | 24,500,000 | - | - | 24,500,000 | - |
| Local Government Public Improvement Bonds, Series 2010A | 25,000,000 | - | - | 25,000,000 | - |
| Local Government Public Improvement Bonds, Series 2010B | 26,100,000 | - | - | 26,100,000 | - |
| | 187,284,173 | 9,160,000 | 10,246,300 | 186,197,873 | 78,760,000 |
| Add: unamortized premium | 1,154,441 | 284,860 | 385,867 | 1,053,434 | - |
| | 188,438,614 | 9,444,860 | 10,632,167 | 187,251,307 | 78,760,000 |
| Accrued compensated absences | 539,818 | 544,242 | 562,339 | 521,721 | 116,101 |
| Total governmental activities | \$ 188,978,432 | \$ 9,989,102 | \$ 11,194,506 | \$ 187,773,028 | \$ 78,876,101 |

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

4. LONG-TERM LIABILITIES (Continued)

Governmental Activities (Continued)

Bonds payable at June 30, 2013 consisted of individual issues as follows:

| | |
|---|--------------|
| \$35,886,720 Local Government Public Improvement Bonds, Series VII-D-1, due in annual principal installments through 2015. The City anticipates refinancing these maturities back to their original amortization schedules, pending market conditions. The interest rates at June 30, 2013 range from 3.25% - 5.00%. | \$ 8,317,873 |
| \$2,295,000 variable rate Local Government Public Improvement Bonds, Series VII-A-2, due in annual principal installments ranging from \$365,000 to \$380,000 through 2015. Interest is due semi-annually and the rate at June 30, 2013 is 1.43115%. | 745,000 |
| \$1,030,000 General Obligation Bonds, Series 2009, due in annual installments of \$180,000 to \$185,000 through 2015. Interest at 3.00% to 3.50%. | 365,000 |
| \$16,215,000 variable rate Local Government Public Improvement Bonds, Series VII-L-1, due in annual principal installments ranging from \$455,000 to \$2,040,000 through 2025. Interest is due semi-annually and the rate at June 30, 2013 is 1.093% for the entire outstanding amount plus, for \$16,630,000, a swap rate paid of 4.395% less a swap rate received of 0.757831%. | 16,210,000 |
| \$1,060,000 General Obligation Bonds, Series 2012, due in annual installments of \$260,000 to \$275,000 through 2016. Interest at 2.00% to 3.00%. | 800,000 |
| \$9,160,000 General Obligation Bonds, Series 2013, due in annual installments of \$100,000 to \$1,000,000 through 2035. Interest at 2.00% to 3.00%. | 9,160,000 |
| \$75,000,000 Local Government Public Improvement Bonds, Series 2009A, due in one annual principal installment of \$75,000,000 in 2014. The City anticipates refinancing these maturities back to their original amortization schedules pending market conditions. The interest rates at June 30, 2013 range from 3.25% - 5.00%. | 75,000,000 |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements

June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Governmental Activities (Continued)

Bonds payable (continued):

| | |
|---|-----------------------|
| <p>\$24,500,000 variable rate Local Government Public Improvement Bonds, Series 2009B, due in two annual principal installments of \$11,075,000 in 2033 and \$13,425,000 in 2034. The City anticipates refinancing these maturities back to their original amortization schedules, pending market conditions. Interest rates at June 30, 2013 are as follows: Interest of 1.17297% for the entire outstanding balance plus, for \$10,000,000, a swap rate paid of 3.49% less a swap rate received of 0.70859% plus for \$14,350,000, a swap rate paid of 3.49% less a swap rate received of 0.70859%.</p> | \$ 24,500,000 |
| <p>\$25,000,000 variable rate Local Government Public Improvement Bonds, Series 2010A, due in annual principal installments of \$11,125,000 in 2031, \$12,175,000 in 2032 and \$1,700,000 in 2033. The City anticipates refinancing these maturities back to their original amortization schedules, pending market conditions. Interest rates at June 30, 2013 are as follows: Interest of 1.7297% for the entire outstanding balance plus, for \$11,050,000, a swap rate paid of 3.968% less a swap rate received of 0.75663% plus, for \$13,800,000, a swap rate paid of 3.49% less a swap rate received of 0.70859%.</p> | 25,000,000 |
| <p>\$26,100,000 variable rate Local Government Public Improvement Bonds, Series 2010B, due in annual principal installments ranging from \$500,000 to \$11,000,000 through 2031. The City anticipates refinancing these maturities back to their original amortization schedules, pending market conditions. Interest rates at June 30, 2013 are as follows: Interest of 1.43115% for the entire outstanding balance plus, for \$25,800,000, a swap rate paid of 3.968% less a swap rate received of 0.75663%.</p> | 26,100,000 |
| <p>Total bonds payable</p> | <u>\$ 186,197,873</u> |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Business-Type Activities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2013:

| Business-Type Activities | July 1, 2012 | Additions | Retirements/ Refunded | June 30, 2013 | Amounts Due Within One Year |
|---|---------------|------------|--------------------------|---------------|--------------------------------|
| Local Government Public Improvement Revenue Bonds, Series VII-D-1 | \$ 21,670,827 | \$ - | \$ 533,700 | \$ 21,137,127 | \$ 9,125,000 |
| Local Government Public Improvement Revenue Bonds, Series VII-A-2 | 8,000,000 | - | - | 8,000,000 | - |
| General Obligation Bonds, Series 2009 | 1,795,000 | - | 680,000 | 1,115,000 | 400,000 |
| General Obligation Bonds, Series 2011 | 5,000,000 | - | - | 5,000,000 | - |
| General Obligation Bonds, Series 2012 | 4,745,000 | - | 690,000 | 4,055,000 | 695,000 |
| Local Government Public Improvement Revenue Bonds, Series VII-L-1 | 800,000 | - | - | 800,000 | - |
| Local Government Public Improvement Revenue Bonds, Series V-D-1 | 16,120,000 | - | 1,020,000 | 15,100,000 | 1,070,000 |
| | 58,130,827 | - | 2,923,700 | 55,207,127 | 11,290,000 |
| Add: unamortized premium | 1,003,712 | - | 289,794 | 713,918 | - |
| | 59,134,539 | - | 3,213,494 | 55,921,045 | 11,290,000 |
| Accrued compensated absences* | 165,504 | 157,112 | 129,005 | 193,611 | 193,611 |
| Total business-type activities | \$ 59,300,043 | \$ 157,112 | \$ 3,342,499 | \$ 56,114,656 | \$ 11,483,611 |

*Accrued compensated absences is for Sevierville Water Systems only. The Sevier County Electric System has recorded their entire compensated absences as a current liability in accrued expenses. Both departments' liabilities are included in accrued expenses on the statement of net position.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements

June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Business-Type Activities (Continued)

Bonds payable at June 30, 2013 consisted of individual issues as follows:

Bonds Payable

| | |
|---|-----------------------------|
| \$23,653,280 Local Government Public Improvement Bonds, Series VII-D-1, due in annual principal installments through 2015. The City anticipates refinancing these maturities back to their original amortization schedules, pending market conditions. The interest rates at June 30, 2013 range from 3.25% - 5.00%. | \$ 21,137,127 |
| \$8,000,000 variable rate Local Government Public Improvement Bonds, Series VII-A-2, due in annual principal installments ranging from \$500,000 to \$1,450,000 through 2035. Interest rate at June 30, 2013 was 5.08332% consisting of actual interest of 1.43115% plus a swap rate paid of 4.41% less a swap rate received of 0.75783%. | 8,000,000 |
| \$3,720,000 General Obligation Bonds, Series 2009, due in annual installments of \$300,000 to \$415,000 through 2016. Interest 3.00% to 3.50%. | 1,115,000 |
| \$5,000,000 General Obligation Bonds, Series 2011, due in annual installments of \$200,000 to \$1,100,000 through 2032. Interest 2.625% to 3.125%. | 5,000,000 |
| \$4,745,000 General Obligation Bonds, Series 2012, due in annual installments of \$370,000 to \$775,000 through 2019. Interest 2.00% to 3.00%. | 4,055,000 |
| \$800,000 variable rate Local Government Public Improvement Bonds, Series VII-L-1, due in annual principal installments ranging from \$75,000 to \$725,000 through 2017. Interest is due semi-annually and the rate at June 30, 2013 is 1.093%. | 800,000 |
| \$21,000,000 variable rate Local Government Public Improvement Bonds, Series V-D-1, due in annual principal installments ranging from \$1,070,000 to \$1,685,000 through 2024. Interest is due monthly and the rate at June 30, 2013 is 0.12% plus, for \$17,000,000, a swap rate paid of 4.34% less a swap rate received of 0.76264%. | <u>15,100,000</u> |
| Total bonds payable | <u><u>\$ 55,207,127</u></u> |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Maturities of long-term debt are as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------|-------------------------|----------------------|--------------------------|---------------------|-----------------------|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 78,760,000 | \$ 7,365,585 | \$ 11,290,000 | \$ 2,148,522 | \$ 90,050,000 | \$ 9,514,107 |
| 2015 | 7,132,873 | 4,206,182 | 14,267,127 | 1,650,338 | 21,400,000 | 5,856,520 |
| 2016 | 900,000 | 3,921,791 | 2,945,000 | 1,082,769 | 3,845,000 | 5,004,560 |
| 2017 | 1,355,000 | 3,882,372 | 2,075,000 | 1,002,376 | 3,430,000 | 4,884,748 |
| 2018 | 1,440,000 | 3,842,713 | 2,080,000 | 944,012 | 3,520,000 | 4,786,725 |
| 2019-2023 | 8,675,000 | 18,541,128 | 7,990,000 | 3,895,374 | 16,665,000 | 22,436,502 |
| 2024-2028 | 10,710,000 | 17,309,137 | 5,260,000 | 2,701,573 | 15,970,000 | 20,010,710 |
| 2029-2033 | 62,625,000 | 10,461,075 | 6,500,000 | 1,642,342 | 69,125,000 | 12,103,417 |
| 2034-2036 | 14,600,000 | 537,974 | 2,800,000 | 204,180 | 17,400,000 | 742,154 |
| | <u>\$186,197,873</u> | <u>\$ 70,067,957</u> | <u>\$ 55,207,127</u> | <u>\$15,271,486</u> | <u>\$ 241,405,000</u> | <u>\$ 85,339,443</u> |

Interest Rate Swaps

At June 30, 2013, the City of Sevierville 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 | 05/31/12 | 06/01/25 | 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 | 06/01/06 | 06/01/34 | 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 | 06/01/06 | 06/01/22 | 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 | 06/01/07 | 06/01/24 | 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 | 06/01/06 | 06/01/35 | Pay 4.41% Receive 63.1% of LIBOR |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

The fair value balance and notional amount of the derivative instrument outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instrument from the year then ended as reported in the 2013 financial statements are as follows:

| Type | Changes in Fair Value | | Fair Value at | | 6-30-13 Notional Amount |
|------------------------------------|----------------------------------|--------------|----------------|----------------|-------------------------------|
| | Classification | Amount | Classification | Amount | |
| Governmental activities | | | | | |
| Investment derivative - | | | | | |
| Pay fixed interest rate swaps: | | | | | |
| \$19.27 M Swap | Investment gain | \$ 1,310,366 | Debt | \$ (2,587,330) | \$ 19,270,000 |
| Hedging derivative (ineffective) - | | | | | |
| Pay fixed interest rate swaps: | | | | | |
| \$38.15 M Swap | Investment gain | \$ 4,669,728 | Debt | \$ (6,638,934) | \$ 38,150,000 |
| Hedging derivative (effective) - | | | | | |
| Pay fixed interest rate swaps: | | | | | |
| \$36.85 M Swap | Deferred Outflow of Resources | \$ 3,014,104 | Debt | \$ (5,221,838) | \$ 36,850,000 |
| Business-type activities | | | | | |
| Hedging derivatives - | | | | | |
| Pay fixed interest rate swaps: | | | | | |
| \$17 M Swap | Deferred Outflow of Resources | \$ 1,107,076 | Debt | \$ (2,041,655) | \$ 17,000,000 |
| Hedging derivatives - | | | | | |
| Pay fixed interest rate swaps: | | | | | |
| \$8 M Swap | Deferred Outflow of Resources | \$ 1,129,072 | Debt | \$ (2,267,301) | \$ 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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements

June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail

Governmental Activities

During May 1999, the City 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 of Sevier County.

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the City, 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 City requested the Authority, 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 City'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.

Terms. Under the swap, the Authority 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, 2013, 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 | -1.003% |
| Net interest rate swap payments | | 3.392% |
| True interest costs | | 1.091% |
| Synthetic interest rate on bonds | | <u>4.483%</u> |

Fair value. As of June 30, 2013, the swap had a negative fair value of \$(2,587,330). 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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Governmental Activities (Continued)

Credit risk. As of June 30, 2013, the City 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 City 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, 2013, 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 City 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 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 Authority 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 Authority 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 Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2013, 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 | | |
| 2014 | \$ 460,000 | \$ 181,361 | \$ 564,041 | \$ 1,205,402 |
| 2015 | 485,000 | 176,345 | 548,440 | 1,209,785 |
| 2016 | 920,000 | 171,055 | 531,990 | 1,623,045 |
| 2017 | 1,275,000 | 161,022 | 500,786 | 1,936,808 |
| 2018 | 1,340,000 | 147,117 | 457,542 | 1,944,659 |
| 2019-2023 | 8,165,000 | 497,244 | 1,546,450 | 10,208,694 |
| 2024-2025 | 3,985,000 | 65,707 | 204,351 | 4,255,058 |
| | <u>\$ 16,630,000</u> | <u>\$ 1,399,851</u> | <u>\$ 4,353,600</u> | <u>\$ 22,383,451</u> |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Governmental Activities (Continued)

During June 2004, the City issued \$75,000,000 in Local Government Public Improvement Revenue Bonds, Adjustable Rate Series 2004 through the TN-LOANS program sponsored by the PBA of the City of Sevierville.

Under its loan agreement, the Public Building Authority of the City of Sevierville, TN (the "Authority"), at the request of the City, 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 City requested the Authority, 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 City'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 Authority 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 Series 2004 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, 2013, rates were as follows:

| | <u>Terms</u> | <u>Rates</u> |
|------------------------------------|--------------|----------------|
| Interest rate swap: | | |
| Fixed payment to counterparty | Fixed | 3.490% |
| Variable payment from counterparty | % of LIBOR | <u>-0.938%</u> |
| Net interest rate swap payments | | 2.552% |
| Variable-rate bond coupon payments | | <u>1.171%</u> |
| Synthetic interest rate on bonds | | <u>3.722%</u> |

Fair value. As of June 30, 2013, the swap had a negative fair value of (\$6,638,934). 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.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Governmental Activities (Continued)

Credit risk. As of June 30, 2013, the City 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 City 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 & Poor's as of June 30, 2013, 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 City to basis risk should the rate on the bonds increase to above 5% 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 5% 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 Authority 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 Authority 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 Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2013, 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 | |
|-------------------------------|----------------------|---------------------|----------------------|----------------------|
| | Principal | Interest | Swap Payment | Total |
| 2014 | \$ - | \$ 446,571 | \$ 973,550 | \$ 1,420,121 |
| 2015 | - | 446,571 | 973,550 | 1,420,121 |
| 2016 | - | 446,571 | 973,550 | 1,420,121 |
| 2017 | - | 446,571 | 973,550 | 1,420,121 |
| 2018 | - | 446,571 | 973,550 | 1,420,121 |
| 2019-2023 | - | 2,232,855 | 4,867,749 | 7,100,604 |
| 2024-2028 | - | 2,232,855 | 4,867,749 | 7,100,604 |
| 2029-2033 | 24,800,000 | 2,091,217 | 4,558,969 | 31,450,186 |
| 2034 | 13,350,000 | 156,271 | 340,679 | 13,846,950 |
| | <u>\$ 38,150,000</u> | <u>\$ 8,946,053</u> | <u>\$ 19,502,896</u> | <u>\$ 66,598,949</u> |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Governmental Activities (Continued)

During June 2004, the City issued \$75,000,000 in Local Government Public Improvement Revenue Bonds, Adjustable Rate Series 2004 through the TN-LOANS program sponsored by the PBA of the City of Sevierville.

Under its loan agreement, the Public Building Authority of the City of Sevierville, TN (the "Authority"), at the request of the City, 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 City requested the Authority, on its behalf, to enter into an interest rate swap in connection with \$36.850 million of its Series 2004 variable-rate bonds. The intention of the swap was to effectively change the City'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 Authority 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, 2013, rates were as follows:

| | <u>Terms</u> | <u>Rates</u> |
|------------------------------------|--------------|---------------|
| Interest rate swap: | | |
| Fixed payment to counterparty | Fixed | 3.968% |
| Variable payment from counterparty | % of LIBOR | -1.002% |
| Net interest rate swap payments | | <u>2.966%</u> |
| Variable-rate bond coupon payments | | <u>1.351%</u> |
| Synthetic interest rate on bonds | | <u>4.317%</u> |

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Governmental Activities (Continued)

Fair value. As of June 30, 2013, the swap had a negative fair value of \$(5,221,838). 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, 2013, the City 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 City 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 & Poor's as of June 30, 2013, 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 City 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 Authority 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 Authority 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 Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2013, 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, 20134. LONG-TERM LIABILITIES (Continued)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 | | |
| 2014 | \$ - | \$ 497,823 | \$ 1,093,082 | \$ 1,590,905 |
| 2015 | - | 497,823 | 1,093,082 | 1,590,905 |
| 2016 | - | 497,823 | 1,093,082 | 1,590,905 |
| 2017 | - | 497,823 | 1,093,082 | 1,590,905 |
| 2018 | - | 497,823 | 1,093,082 | 1,590,905 |
| 2019-2023 | - | 2,489,116 | 5,465,408 | 7,954,524 |
| 2024-2028 | 3,900,000 | 2,489,116 | 5,465,408 | 11,854,524 |
| 2029-2031 | 32,950,000 | 904,795 | 1,986,679 | 35,841,474 |
| | <u>\$ 36,850,000</u> | <u>\$ 8,372,142</u> | <u>\$ 18,382,905</u> | <u>\$ 63,605,047</u> |

Business-Type ActivitiesElectric Department

The Series V-D-1 Bonds refunded two outstanding bond issues, Series II-A-1 Bonds and Series IV-D-1 Bonds. The System requested the Public Building Authority of Sevier County, TN (the "Authority"), on the System's behalf, to enter into an interest rate swap in connection with its \$17 million Series II-A-1 variable-rate bonds. The interest rate swap agreement that was associated with the Series II-A-1 Bonds is now associated with the Series V-D-1 Bonds. The System is required to fund a debt reserve fund in the amount of \$90,416 per quarter but currently has \$2,228,157 in the reserve which is in excess of the required amount.

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 of Sevier County. Maturities of this debt commences June 1, 2012 through June 1, 2024 with principal maturities ranging from \$1,070,000 to \$1,685,000 annually.

Under its loan agreement, the Public Building Authority of Sevier County, TN (the "Authority"), at the request of the Electric System, 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 and to balance its mixture of variable and fixed rate debt, the System requested the Authority, 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 System's variable interest rate on the bonds to a synthetic fixed rate.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Business-Type Activities (Continued)

Electric Department (Continued)

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 Authority 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 swap had a notional amount of \$17 million and the associated variable-rate bond has a \$17 million principal amount. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series V-D-1 bonds. The variable rates on the bonds have historically approximated the Securities Industry and Financial Markets Association Index (the "SIFMA"), but due to the disruption in the credit markets were trading at a premium to SIFMA as of the date of this report. The bonds and the related swap agreements mature on June 1, 2024. As of June 30, 2013, rates were as follows:

| | <u>Terms</u> | <u>Rates</u> |
|------------------------------------|--------------|---------------|
| Interest rate swap: | | |
| Fixed payment to counterparty | Fixed | 4.340% |
| Variable payment from counterparty | % of LIBOR | -1.010% |
| Net interest rate swap payments | | <u>3.330%</u> |
| Variable-rate bond coupon payments | | <u>0.090%</u> |
| Synthetic interest rate on bonds | | <u>3.420%</u> |

Fair value. As of June 30, 2013, the swap had a negative fair value of \$(2,041,655). 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, 2013, the Electric System 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 System 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, 2013, 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 System 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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Business-Type Activities (Continued)

Electric Department (Continued)

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 Authority 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 Authority 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 Authority for a payment equal to the swap's fair value.

Swap payments and associated debt. As of June 30, 2013, 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.

| Fiscal Year Ending June 30 | Variable Rate Bonds | | Net Interest Rate | |
|-------------------------------|----------------------|------------------|---------------------|----------------------|
| | Principal | Interest | Swap Payment | Total |
| 2014 | \$ 1,070,000 | \$ 13,784 | \$ 510,043 | \$ 1,593,827 |
| 2015 | 1,125,000 | 12,821 | 474,408 | 1,612,229 |
| 2016 | 1,180,000 | 11,808 | 436,942 | 1,628,750 |
| 2017 | 1,240,000 | 10,746 | 397,644 | 1,648,390 |
| 2018 | 1,305,000 | 9,630 | 356,347 | 1,670,977 |
| 2019-2023 | 7,620,000 | 29,268 | 1,083,030 | 8,732,298 |
| 2024 | 1,560,000 | 1,598 | 59,114 | 1,620,712 |
| | <u>\$ 15,100,000</u> | <u>\$ 89,655</u> | <u>\$ 3,317,528</u> | <u>\$ 18,507,183</u> |

The Electric System, through the Bond Trustee, continues to pay interest to the bondholders at the adjustable rate provided by the bonds. However, during the term of the swap agreement, the Electric System effectively pays a fixed rate on the debt plus or minus the difference between the variable interest due the bondholders and the variable rate received from the counterparty. The debt service requirements to maturity for these bonds (presented in the supplementary information) are based solely on the fixed rate. The Electric System would be exposed to variable rates if the counterparty to the swap defaults, if the variable rate received from the counterparty is less than that due to bondholders or if the swap is terminated.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Business-Type Activities (Continued)

Electric Department (Continued)

The original Series II-A-1 bonds are prepayable at any time with 30 days advance notice. If the bonds are prepaid prior to maturity and the Electric System decides to terminate the swap, a termination fee may be owed either to the counterparty by the Electric System, or to the Electric System by the counterparty, depending upon current market conditions. Other than the net interest expenditures resulting from this agreement, no other amounts are recorded in the financial statements. All bond issues are collateralized as to payment of principal and interest by pledge of sufficient revenues, after deduction of all current operating expenses (exclusive of tax equivalents), to meet principal and interest payments when due.

Water Department Fund

Under its loan agreement, the Public Building Authority of Blount County, TN (the "Authority"), at the request of the Water System, 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 System requested the Authority, 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 System'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 Authority 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, 2013, rates were as follows:

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Business-Type Activities (Continued)

Water Department Fund (Continued)

| | <u>Terms</u> | <u>Rates</u> |
|------------------------------------|--------------|---------------|
| Interest rate swap: | | |
| Fixed payment to counterparty | Fixed | 4.410% |
| Variable payment from counterparty | % of LIBOR | -1.003% |
| Net interest rate swap payments | | <u>3.407%</u> |
| Variable-rate bond coupon payments | | <u>1.428%</u> |
| Synthetic interest rate on bonds | | <u>4.835%</u> |

Fair value. As of June 30, 2013, the swap had a negative fair value of \$(2,267,301). 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, 2013, the City 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 City 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 & Poor's as of June 30, 2013, 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 City 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 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 Authority 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 Authority 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 Authority for a payment equal to the swap's fair value.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

4. LONG-TERM LIABILITIES (Continued)

Interest Rate Swaps (Continued)

Derivative Swap Agreement Detail (Continued)

Business-Type Activities (Continued)

Water Department Fund (Continued)

Swap payments and associated debt. As of June 30, 2013, 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 | Total |
|-------------------------------|---------------------|---------------------|---------------------|----------------------|
| | Principal | Interest | Swap Payment | |
| 2014 | \$ - | \$ 114,256 | \$ 272,537 | \$ 386,793 |
| 2015 | - | 114,256 | 272,537 | 386,793 |
| 2016 | - | 114,256 | 272,537 | 386,793 |
| 2017 | - | 114,256 | 272,537 | 386,793 |
| 2018 | - | 114,256 | 272,537 | 386,793 |
| 2019-2023 | - | 571,280 | 1,362,684 | 1,933,964 |
| 2024-2028 | - | 571,280 | 1,362,684 | 1,933,964 |
| 2029-2033 | 5,200,000 | 445,598 | 1,062,894 | 6,708,492 |
| 2034-2035 | 2,800,000 | 60,699 | 144,785 | 3,005,484 |
| | <u>\$ 8,000,000</u> | <u>\$ 2,220,137</u> | <u>\$ 5,295,732</u> | <u>\$ 15,515,869</u> |

5. OPERATING LEASES

Electric Department 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 from these arrangements was \$1,493,753 in 2013. Rental expense applicable to such agreements was \$132,854 in 2013.

6. SELF-INSURANCE

The City self-insures the first \$110,000 of annual medical claims for each regular full-time employee. According to the reinsurance contract, the City's maximum aggregate annual liability for the period March 1, 2013 through February 28, 2014 will not exceed \$5,428,632. This plan also covers eligible employees of Sevierville Housing Authority and Sevier Solid Waste Authority. This plan does not include employees of the City'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, 2013, contributions totaling \$1,440,000 were made to a reserve fund. Claims, fees and insurance premiums totaling \$1,144,181 were paid from the reserve fund leaving an ending balance of \$1,992,172. Processed unpaid claims at June 30, 2013 totaled approximately \$66,000.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

7. RETIREMENT PLANS

Political Subdivision Pension Plan

Plan Description

Employees of City of Sevierville (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 City of Sevierville 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

Funding Policy

City of Sevierville requires employees to contribute 5.0 percent of earnable compensation. City of Sevierville is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2013 was 8.85% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for City of Sevierville is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2013, City of Sevierville's annual pension cost of \$830,303 to TCRS was equal to City of Sevierville'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 assumptions 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

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

7. RETIREMENT PLANS (Continued)

Political Subdivision Pension Plan (Continued)

Annual Pension Cost (Continued)

smooth the effect of short-term volatility in the market value of total investments over a ten-year period. City of Sevierville'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

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|--------------------------|---------------------------------|-------------------------------------|------------------------------|
| 6/30/13 | \$ 830,303 | 100.00% | \$0.00 |
| 6/30/12 | \$ 804,664 | 100.00% | \$0.00 |
| 6/30/11 | \$ 839,689 | 100.00% | \$0.00 |

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 96.24% funded. The actuarial accrued liability for benefits was \$16.63 million, and the actuarial value of assets was \$16 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.63 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.71 million, and the ratio of the UAAL to the covered payroll was 6.45%.

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 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) |
|--------------------------------|--|--|--|--------------------------|---------------------------|--|
| 7/1/11 | \$ 16,002 | \$ 16,628 | \$ 626 | 96.24% | \$ 9,707 | 6.45% |
| 7/1/09 | \$ 11,328 | \$ 12,148 | \$ 820 | 93.25% | \$ 8,316 | 9.85% |
| 7/1/07 | \$ 9,170 | \$ 10,156 | \$ 986 | 90.29% | \$ 7,158 | 13.77% |

Sevier County Electric System Employees' Pension Plan

Plan Description

The System 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 System and certain employees of the Water Department of the City of Sevierville, Tennessee.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

7. RETIREMENT PLANS (Continued)

Sevier County Electric System Employees' Pension Plan (Continued)

Plan Description (Continued)

The System's board of directors establishes and amends all plan provisions. A copy of the June 30, 2012 financial statement and required supplementary information prepared by the actuary is available to the public upon request at the System's office.

Funding Policy

The contribution requirements of plan members and the government are established and may be amended by the System'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 System is required to contribute at an actuarially determined rate. For the year ended June 30, 2013, the System's contribution rate is 23.66 percent of annual covered payroll.

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

The System's APC and NPA for the Plan for the year ended June 30, 2012 (latest information available) are as follows:

| | |
|--------------------------------------|--------------------|
| Annual required contribution (ARC) | \$1,788,926 |
| Interest on NPA | (97,035) |
| Adjustment to the ARC | <u>126,911</u> |
| Annual pension costs (APC) | 1,818,802 |
| Contributions made | <u>2,675,696</u> |
| Increase in net pension asset | 856,894 |
| Net pension asset, beginning of year | <u>1,293,794</u> |
| Net pension asset, end of year | <u>\$2,150,688</u> |

The System'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 |
|-------------------------------|------------------------------|----------------------------------|----------------------|
| 2012 | \$1,818,802 | 147.11% | \$2,150,688 |
| 2011 | 1,889,299 | 96.07% | 1,293,794 |
| 2010 | 1,230,101 | 107.97% | 1,368,048 |

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:

| | |
|---|---------------------|
| Actuarially accrued liability (AAL) | \$27,798,160 |
| Actuarial value of plan assets | <u>15,818,238</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$11,979,922</u> |

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

7. RETIREMENT PLANS (Continued)

Sevier County Electric System Employees' Pension Plan (Continued)

Funded Status and Funding Progress (Continued)

| | |
|--|--------------|
| Funded ratio (actuarial value of plan assets/AAL) | 56.9% |
| Covered payroll (annual payroll of active employees covered by the plan) | \$ 7,240,406 |
| UAAL as a percentage of covered payroll | 165.5% |

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.

Actuarial Methods and Assumptions

The ARC for the plan was determined as part of the July 1, 2012 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% |

Other Benefit Plans

The Sevier County Electric System's employees have self-directed 401(k) deferred salary retirement plan. The System 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 System matches the first three percent of the employee's contributions. The System's contributions to the 401(k) plan totaled \$172,556 in 2013.

City of Sevierville Money Purchase Pension Plan

Certain employees of the City 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 13 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 employer is required to contribute 8.85% of covered payroll, and employees are not required to contribute. Effective July 1, 2005, the employer contribution rate is the same for this plan as the City's required annual employer contribution rate for employees covered under the TCRS. Employees' interests fully vest after seven years of participation.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

7. RETIREMENT PLANS (Continued)

City of Sevierville Money Purchase Pension Plan (Continued)

Total contributions to the plan for the year ended June 30, 2013 was approximately \$65,774. Total covered payroll amounted to \$672,919 for the year ended June 30, 2013. Total plan assets at June 30, 2013 were \$1,275,018 (including \$38,262 receivable from the City).

8. OTHER POSTEMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 on July 1, 2008, the City recognizes the cost of postemployment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in attaining potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years which commenced with the June 30, 2009 liability.

The City offers benefits under two separate arrangements within the City and Sevier County Electric System. The following is a summary of each of these plans.

Plan Description

The Sevier County Electric System Retiree Medical, Dental and Life Insurance Plan (the Plan) is a single-employer defined benefit healthcare plan administered by Sevier County Electric System. The Plan provides medical, dental and life insurance benefits to eligible retirees and their spouses. The System'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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sevier County Electric System (Continued):

Brief description of the Retiree Medical, Dental and Life Insurance Plan (continued):

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.

Spouse Coverage

Yes

Surviving Spouse Coverage

Up to six months following the death of an employee.

Disability Coverage

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 System 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 System's employees may become eligible for these benefits if they reach normal retirement age while working for the System.

The contribution requirements of the System are established and may be amended by the System's Board. Plan members are currently not required to contribute. The System pays all plan benefits currently and, in addition, is funding a trust to provide future benefit payments. As of June 30, 2013, the System has funded the trust with \$500,000. The System intends to make future contributions to the trust to offset the difference between current benefit payments and annual OPEB cost.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 20138. OTHER POSTEMPLOYMENT BENEFITS (Continued)Sevier County Electric System (Continued):**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:

| | Sevier County Electric System |
|--|-------------------------------------|
| 1. Annual Required Contribution (ARC) | \$ 402,431 |
| 2. Interest on Net OPEB Obligation | 55,843 |
| 3. Adjustment to ARC | (50,558) |
| | <hr/> |
| 4. Annual OPEB Cost | 407,716 |
| 5. Contribution Made | 383,842 |
| | <hr/> |
| 6. Increase in Net OPEB Obligation | 23,874 |
| 7. Net OPEB Obligation - beginning of Year | 744,573 |
| | <hr/> |
| 8. Net OPEB Obligation - end of Year | \$ 768,447 |
| | <hr/> <hr/> |

Sevier County Electric System'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>Fiscal Year Ending</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-----------------------------------|---------------------------------|---|------------------------------------|
| 6/30/2011 | \$ 397,421 | 31.4% | \$ 797,170 |
| 6/30/2012 | \$ 340,367 | 115.4% | \$ 744,573 |
| 6/30/2013 | \$ 407,716 | 94.1% | \$ 768,447 |

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 (UAA) (b-a)</u> | <u>Funded Ratio (a/b)</u> | <u>Covered Payroll (c)</u> | <u>UAA 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 |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

Sevier County Electric System (Continued):

Funded Status and Funding Progress (Continued)

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.

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 |
| Remaining Amortization Period | 25.35 Years |
| Annual Payroll Increase | 2.50% |

City of Sevierville Water and Sewer Department:

Postemployment health care, dental and prescription coverage benefits are available to certain employees of the City's Water and Sewer Department. Only employees of the department who qualified for full early retirement under the Sevier County Electric System Employees Pension Plan are eligible to receive post-retirement healthcare coverage.

The following is a brief description of the Retiree Medical, Dental and Prescription Plan:

| | |
|---------------------|--|
| <u>Eligibility</u> | Age 52 with 84 points. Points being age plus years of service. |
| <u>Cost Sharing</u> | The City pays 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. |

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

8. OTHER POSTEMPLOYMENT BENEFITS (Continued)

City of Sevierville Water and Sewer Department (Continued):

Brief description of the Retiree Medical, Dental and Prescription Plan (continued):

| | |
|----------------------------------|---|
| <u>Spouse Coverage</u> | Yes |
| <u>Surviving Spouse Coverage</u> | Coverage ceases upon the earlier of the spouses Medicare eligibility, or 5 years after the Employee attains Medicare Eligibility (age 65). |
| <u>Disability</u> | Coverage does not extend to disability before eligibility for full early retirement, and workers' compensation insurance covers disability in the line of duty. |

GASB 45 Disclosure Requirements - Estimated

A. Annual OPEB Cost and Net OPEB Obligation

| | Water and Sewer Department Fund |
|--|---------------------------------------|
| 1. Annual Required Contribution (ARC) | \$ 86,000 |
| 2. Interest on Net OPEB Obligation | 3,000 |
| 3. Adjustment to ARC | (3,000) |
| 4. Annual OPEB Cost (Expense) | 86,000 |
| 5. Contribution Made (assumed end of year) | 71,000 |
| 6. Increase in Net OPEB Obligation | 15,000 |
| 7. Net OPEB Obligation - Beginning of Year | 74,000 |
| 8. Net OPEB Obligation - End of Year | <u>\$ 89,000</u> |

The City of Sevierville's Water and Sewer Department 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:

| Water and Sewer Department Fund | | | |
|---------------------------------|------------------------|--|---------------------------|
| Fiscal Year Ending | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 6/30/2013 | \$ 86,000 | 83.00% | \$ 89,000 |
| 6/30/2012 | \$ 96,000 | 61.00% | \$ 74,000 |
| 6/30/2011 | \$ 94,000 | 61.00% | \$ 37,000 |

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

9. LITIGATION

At June 30, 2013, several lawsuits are pending in which the City of Sevierville is involved. City management and the City's legal counsel believe these suits will not result in any material unfavorable outcome to the City.

10. INTERFUND RECEIVABLES/PAYABLES

Interfund receivable/payable balances at June 30, 2013 are as follows:

| <u>Due From:</u> | <u>Due To:</u> | |
|------------------------|-------------------------|--|
| | <u>General Fund</u> | <u>Water and Sewer Department Fund</u> |
| Flexible Spending Fund | \$ 57,345 | \$ - |
| General Fund | \$ - | \$ 929,861 |
| PBA of Sevierville | \$ 606,538 | \$ 296,693 |

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

11. SEVIERVILLE/SEVIER COUNTY JOINT VENTURE

The City has entered into a joint venture with Sevier County for the leasing, operation and management of a multi-use stadium facility and tourism welcome center located in Sevierville. 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 City has a 70% undivided interest in this joint venture.

For the year ended June 30, 2012, the Joint Venture's financial statements reflected net position totaling \$2,391,931 and a change in net position of \$146,567. Complete audited financial statements of Sevierville/Sevier County Joint Venture for the year ended June 30, 2012 (latest available) can be obtained from:

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

12. RISK MANAGEMENT

The City 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 City 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.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

13. 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.

14. OPERATING TRANSFERS AND CONTRIBUTIONS

Operating transfers for the year ended June 30, 2013 are as follows:

Governmental Activities

| | <u>Transfers To:</u> | |
|------------------------|---------------------------|------------|
| | Capital Budget Fund | Total |
| <u>Transfers From:</u> | | |
| General Fund | \$ 200,000 | \$ 200,000 |

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

Component Unit Activities

| | <u>Contributions To:</u> |
|--|--------------------------------------|
| | PBA of the City of Sevierville |
| <u>Contributions From:</u> | |
| Primary government - General Fund | \$ 892,300 |
| Primary government - Central Business Improvement District Fund | 650,000 |
| | <u>\$ 1,542,300</u> |

The purpose of the contributions from the City's General Fund and Central Business Improvement District Fund to the PBA of the City of Sevierville is to provide funding for operational revenue shortfalls and for capital outlay and infrastructure construction.

CITY OF SEVIERVILLE, TENNESSEE

Notes to the Financial Statements
June 30, 2013

15. OTHER RELATED ENTITIES

The City 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 City has minority board representation on the entity's Board of Directors, but has no financial obligation other than its budgeted annual contribution.

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

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

16. ADDITIONAL COMPONENT UNIT DISCLOSURES

LITIGATION

At June 30, 2013, the Authority and the City of Sevierville are involved in one claim which has resulted in litigation against the PBA and the City. The outcome of this case cannot be determined currently, but the PBA and the City intend to vigorously defend themselves during potential mediation and court proceedings. The City and PBA do have insurance coverage in place to assist them financially with any potential monetary loss realized.

COMMITMENTS AND CONTINGENCIES

In addition, the Authority has completed the design, a mass grading project and construction of a convention center, parking garages and related highways and street construction supporting these facilities and development within the tourism development zone. The convention center was completed and placed in service in October of 2007 along with various road and other infrastructure improvements the Authority subsequently transferred to the City. The currently completed road and water and sewer projects along with related land and right-of-ways were transferred to the City during the fiscal year ending June 30, 2012. The Authority is continuing to incur costs for a major road construction project, parking facility project, and signage for the golf course and convention center.

The total budget approved for the projects totals \$182,150,000, net of total expected developer contributions. As of June 30, 2013, the Authority has entered into contracts with vendors and others for land acquisitions, land easements, project services and construction totaling \$145,262,368, of which \$144,537,643 had been expended. Funding sources for these projects has come from transfers of bond proceeds from issued bonds by the City of Sevierville, developer contributions and expected additional future bond issuance proceeds.

CITY OF SEVIERVILLE, TENNESSEE

**Notes to the Financial Statements
June 30, 2013**

17. PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2013, the City of Sevierville early implemented GASB Statement No. 65, which required restatement of the bond issue costs. Under this statement, all future bond issue costs other than the cost of insurance will be expensed in the year the cost is incurred. Under prior statements, the bond issue costs had been amortized, therefore the remaining bond issue costs were written off to the unrestricted net position.

18. SUBSEQUENT EVENTS

As of July 1, 2013, all assets and obligations of the Public Building Authority of the City of Sevierville will be transferred back to the City.

Also, on June 3, 2013, the Board of Mayor and Aldermen passed Ordinance 02013-11 and Ordinance 02013-12 to amend Title 5 of the Sevierville Municipal Code to add new chapters providing for a two percent restaurant privilege tax and a two percent amusement tax, respectively. Seventy-five percent of the proceeds generated from these taxes are to be used for tourism promotion, tourism advertising, and tourism infrastructure. The City will begin collection of these taxes in fiscal year 2014.

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 City's financial position and results of operations.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2013

RETIREMENT PLANS -

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) |
|--------------------------------|---|--|-------------------------------------|--------------------------|---------------------------|---|
| July 01, 2007 | \$9,170 | \$10,156 | \$986 | 90.29% | \$7,158 | 13.77% |
| July 01, 2009 | \$11,328 | \$12,148 | \$820 | 93.25% | \$8,316 | 9.85% |
| July 01, 2011 | \$16,002 | \$16,628 | \$626 | 96.24% | \$9,707 | 6.45% |

Sevier County Electric System Employee's Pension Plan

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (EAN) (b) | Unfunded AAL (UAAL) (b) - (a) | Percentage Funded (a)/(b) | Annual Covered Payroll (c) | Unfunded AAL as % Payroll ((b - a) / c) |
|--------------------------------|--|--|-------------------------------------|---------------------------------|-------------------------------------|--|
| 7/2/2010 | \$12,123,047 | \$22,939,706 | \$10,816,659 | 52.8% | \$7,091,028 | 152.5% |
| 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% |

OTHER POST-EMPLOYMENT BENEFIT PLANS (OPEB) -

City of Sevierville Post Employment Benefits Program

| 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 Employee's OPEB 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.

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 City 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.

CITY OF SEVIERVILLE, TENNESSEE

Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2013

| | Special Revenue Funds | | | Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------------------|-----------------------------|-----------------------------|--------------------------------------|---------------------------|--|
| | State Street Aid Fund | Drug Enforcement Fund | Total Special Revenue Funds | Capital Budget Fund | |
| <u>ASSETS</u> | | | | | |
| Cash and cash equivalents | \$ - | \$ - | \$ - | \$ 1,672,923 | \$ 1,672,923 |
| Due from other governments | - | - | - | - | - |
| Restricted assets: | | | | | |
| Cash and cash equivalents | 133,867 | 192,620 | 326,487 | - | 326,487 |
| Due from other governments | 69,294 | - | 69,294 | - | 69,294 |
| Total assets | <u>\$ 203,161</u> | <u>\$ 192,620</u> | <u>\$ 395,781</u> | <u>\$ 1,672,923</u> | <u>\$ 2,068,704</u> |
| <u>LIABILITIES AND FUND EQUITIES</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 33,658 | \$ 154 | \$ 33,812 | \$ 3,170 | \$ 36,982 |
| Total liabilities | <u>33,658</u> | <u>154</u> | <u>33,812</u> | <u>3,170</u> | <u>36,982</u> |
| Fund equity: | | | | | |
| Restricted | 169,503 | 192,466 | 361,969 | - | 361,969 |
| Assigned | - | - | - | 1,669,753 | 1,669,753 |
| Total fund equity | <u>169,503</u> | <u>192,466</u> | <u>361,969</u> | <u>1,669,753</u> | <u>2,031,722</u> |
| Total liabilities and fund equity | <u>\$ 203,161</u> | <u>\$ 192,620</u> | <u>\$ 395,781</u> | <u>\$ 1,672,923</u> | <u>\$ 2,068,704</u> |

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, 2013

| | 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 | \$ 386,166 | \$ 386,166 | \$ 381,106 | \$ - | \$ - | \$ - | \$ 386,166 | \$ 386,166 | \$ 381,106 |
| Fines, forfeits and penalties | - | - | - | 30,000 | 30,000 | 30,210 | 30,000 | 30,000 | 30,210 |
| Other revenues | - | - | 267 | 100,000 | 100,000 | 7,786 | 100,000 | 100,000 | 8,053 |
| Total revenues | 386,166 | 386,166 | 381,373 | 130,000 | 130,000 | 37,996 | 516,166 | 516,166 | 419,369 |
| Expenditures: | | | | | | | | | |
| Contractual services | - | - | - | 5,000 | 5,000 | - | 5,000 | 5,000 | - |
| Supplies | - | - | - | 10,550 | 10,550 | 7,068 | 10,550 | 10,550 | 7,068 |
| Building materials | 386,166 | 386,166 | 370,037 | - | - | - | 386,166 | 386,166 | 370,037 |
| Grants, contributions and other | - | - | - | 32,786 | 32,786 | 24,720 | 32,786 | 32,786 | 24,720 |
| Capital outlay | - | - | - | - | - | - | - | - | - |
| Total expenditures | 386,166 | 386,166 | 370,037 | 48,336 | 48,336 | 31,788 | 434,502 | 434,502 | 401,825 |
| Revenues over (under) expenditures | - | - | 11,336 | 81,664 | 81,664 | 6,208 | 81,664 | 81,664 | 17,544 |
| Other financing sources (uses): | | | | | | | | | |
| Transfers from general fund | - | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - | - | - | - | - | - |
| Revenues and other financing sources over (under) expenditures and other financing uses | - | - | 11,336 | 81,664 | 81,664 | 6,208 | 81,664 | 81,664 | 17,544 |
| Fund balances, beginning | 158,167 | 158,167 | 158,167 | 186,258 | 186,258 | 186,258 | 344,425 | 344,425 | 344,425 |
| Fund balances, ending | \$ 158,167 | \$ 158,167 | \$ 169,503 | \$ 267,922 | \$ 267,922 | \$ 192,466 | \$ 426,089 | \$ 426,089 | \$ 361,969 |

(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, 2013

| | Capital Budget Fund | | | Total Nonmajor Governmental Funds | | |
|---|---------------------|--------------|--------------|-----------------------------------|--------------|--------------|
| | Original Budget | Final Budget | Actual | Original Budget | Final Budget | Actual |
| Revenues: | | | | | | |
| Intergovernmental revenue | \$ 462,051 | \$ 462,051 | \$ 1,248 | \$ 848,217 | \$ 848,217 | \$ 382,354 |
| Fines, forfeits and penalties | - | - | - | 30,000 | 30,000 | 30,210 |
| Other revenues | - | - | 2,994 | 100,000 | 100,000 | 11,047 |
| Total revenues | 462,051 | 462,051 | 4,242 | 978,217 | 978,217 | 423,611 |
| Expenditures: | | | | | | |
| Contractual services | - | - | - | 5,000 | 5,000 | - |
| Supplies | - | - | - | 10,550 | 10,550 | 7,068 |
| Building materials | - | - | - | 386,166 | 386,166 | 370,037 |
| Grants, contributions and other | - | - | - | 32,786 | 32,786 | 24,720 |
| Capital outlay | 1,259,819 | 1,259,819 | 547,052 | 1,259,819 | 1,259,819 | 547,052 |
| Total expenditures | 1,259,819 | 1,259,819 | 547,052 | 1,694,321 | 1,694,321 | 948,877 |
| Revenues over (under) expenditures | (797,768) | (797,768) | (542,810) | (716,104) | (716,104) | (525,266) |
| Other financing sources (uses): | | | | | | |
| Transfers from general fund | - | - | 200,000 | - | - | 200,000 |
| Total other financing sources (uses) | - | - | 200,000 | - | - | 200,000 |
| Revenues and other financing sources over (under) expenditures and other financing uses | (797,768) | (797,768) | (342,810) | (716,104) | (716,104) | (325,266) |
| Fund balances, beginning | 2,012,563 | 2,012,563 | 2,012,563 | 2,356,988 | 2,356,988 | 2,356,988 |
| Fund balances, ending | \$ 1,214,795 | \$ 1,214,795 | \$ 1,669,753 | \$ 1,640,884 | \$ 1,640,884 | \$ 2,031,722 |

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 City and employees of Sevier Solid Waste Authority and Sevierville Housing Authority. The City 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 City'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, 2013

| | Insurance Fund | Flexible Spending Fund | Total |
|-------------------------------------|---------------------|------------------------------|---------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 2,259,609 | \$ 48,126 | \$ 2,307,735 |
| Other receivables | 2,493 | 9,219 | 11,712 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 8,392 | 8,392 |
| Total assets | <u>2,262,102</u> | <u>65,737</u> | <u>2,327,839</u> |
| <u>LIABILITIES</u> | | | |
| Liabilities: | | | |
| Due to other funds | - | 57,345 | 57,345 |
| Reserve for health insurance claims | 185,979 | - | 185,979 |
| Revenue collected in advance | 869 | - | 869 |
| Total liabilities | <u>186,848</u> | <u>57,345</u> | <u>244,193</u> |
| <u>NET POSITION</u> | | | |
| Net position: | | | |
| Restricted | - | 8,392 | 8,392 |
| Unrestricted | <u>2,075,254</u> | <u>-</u> | <u>2,075,254</u> |
| Total net position | <u>\$ 2,075,254</u> | <u>\$ 8,392</u> | <u>\$ 2,083,646</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, 2013

| | Insurance Fund | Flexible Spending Fund | Total |
|--|---------------------|------------------------------|---------------------|
| Operating revenues: | | | |
| Premiums | \$ 5,622,023 | \$ - | \$ 5,622,023 |
| Other revenues | - | 94,575 | 94,575 |
| Total operating revenues | <u>5,622,023</u> | <u>94,575</u> | <u>5,716,598</u> |
| Operating expenses: | | | |
| Operations: | | | |
| Insurance claims | 4,312,648 | - | 4,312,648 |
| Insurance premiums | 340,761 | - | 340,761 |
| Medical, dental and childcare payments | - | 87,013 | 87,013 |
| Total operating expenses | <u>4,653,409</u> | <u>87,013</u> | <u>4,740,422</u> |
| Administration: | | | |
| Commissions | 47,317 | - | 47,317 |
| Administrative services | 100,139 | - | 100,139 |
| Total administration | <u>147,456</u> | <u>-</u> | <u>147,456</u> |
| Total operating expenses | <u>4,800,865</u> | <u>87,013</u> | <u>4,887,878</u> |
| Operating income | <u>821,158</u> | <u>7,562</u> | <u>828,720</u> |
| Non-operating revenue (expense): | | | |
| Interest income | 1,294 | 75 | 1,369 |
| Total non-operating revenue (expense) | <u>1,294</u> | <u>75</u> | <u>1,369</u> |
| Change in net position | 822,452 | 7,637 | 830,089 |
| Net position, beginning | <u>1,252,802</u> | <u>755</u> | <u>1,253,557</u> |
| Net position, ending | <u>\$ 2,075,254</u> | <u>\$ 8,392</u> | <u>\$ 2,083,646</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, 2013

| | Insurance Fund | Flexible Spending Fund | Total |
|---|---------------------|------------------------------|---------------------|
| Cash flows from operating activities: | | | |
| Cash received from employees, other participants and other funds | \$ 5,619,077 | \$ 95,051 | \$ 5,714,128 |
| Cash payments to suppliers for goods and services | (488,217) | - | (488,217) |
| Cash payments for claims | (4,377,713) | (87,014) | (4,464,727) |
| Net cash provided by operating activities | <u>753,147</u> | <u>8,037</u> | <u>761,184</u> |
| Cash flows from noncapital financing activities: | | | |
| Decrease in due to other funds | (121,344) | (1,156) | (122,500) |
| Net cash used by noncapital financing activities | <u>(121,344)</u> | <u>(1,156)</u> | <u>(122,500)</u> |
| Cash flows from investing activities: | | | |
| Decrease in due from other funds | 252,442 | - | 252,442 |
| Interest received on invested funds | 1,294 | 75 | 1,369 |
| Net cash provided by investing activities | <u>253,736</u> | <u>75</u> | <u>253,811</u> |
| Net increase in cash and cash equivalents | 885,539 | 6,956 | 892,495 |
| Cash and cash equivalents, beginning | <u>1,374,070</u> | <u>49,562</u> | <u>1,423,632</u> |
| Cash and cash equivalents, ending | <u>\$ 2,259,609</u> | <u>\$ 56,518</u> | <u>\$ 2,316,127</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 821,158 | \$ 7,562 | \$ 828,720 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Decrease in other receivables | 528 | 475 | 1,003 |
| Decrease in insurance claims reserve | (65,065) | - | (65,065) |
| Decrease in other liabilities | (3,474) | - | (3,474) |
| Net cash provided by operating activities | <u>\$ 753,147</u> | <u>\$ 8,037</u> | <u>\$ 761,184</u> |

See independent auditor's report.

Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2013

| Grantor Agency | Program Identification or Contract # | CFDA Number | Balance July 1, 2012 Receivable (Unexpended) | Receipts | Expenditures | Balance June 30, 2013 Receivable (Unexpended) |
|---|--------------------------------------|-------------|--|-------------------|-------------------|---|
| Federal Awards: | | | | | | |
| U.S. Department of Transportation - | | | | | | |
| 2009 Section 5309 Bus and Bus Facilities (Federal portion) | GG-11-33144-00 | 20.509 | \$ 66,567 | \$ 69,062 | \$ 2,495 | \$ - |
| State Discretionary Capital Grant (Federal portion) | GG-12-37682-00 | 20.500 | 33,957 | 33,957 | - | - |
| GHSO Grant - DUI Prevention | Z-13-GHS277 | 20.607 | - | 15,080 | 35,415 | 20,335 |
| GHSO Grant - DUI Prevention | Z-12-GHS259 | 20.607 | 4,238 | 7,795 | 3,557 | - |
| Total U.S. Department of Transportation | | | <u>104,762</u> | <u>125,894</u> | <u>41,467</u> | <u>20,335</u> |
| U.S. Department of Justice - | | | | | | |
| Bulletproof Vest Program | 2010 | 16.607 | 2,989 | 2,989 | - | - |
| Bulletproof Vest Program | 2011 | 16.607 | - | - | 736 | 736 |
| Bulletproof Vest Program | 2012 | 16.607 | - | - | 4,722 | 4,722 |
| Total U.S. Department of Justice | | | <u>2,989</u> | <u>2,989</u> | <u>5,458</u> | <u>5,458</u> |
| U.S. Department of Homeland Security - | | | | | | |
| Federal Emergency Management Agency 2011 Assistance to Firefighter Grant | BMW-2011FO-00412 | 97.044 | 52,383 | 129,339 | 78,423 | 1,467 |
| Total Federal Awards | | | <u>160,134</u> | <u>258,222</u> | <u>125,348</u> | <u>27,260</u> |
| State Awards: | | | | | | |
| Tennessee Department of Transportation - | | | | | | |
| 2013 Trolley Operating Grant | GG-13-33735-01 | N/A | - | 241,038 | 241,038 | - |
| State Discretionary Capital Grant (State portion) | GG-12-37682-00 | N/A | 3,478 | 3,478 | - | - |
| 2009 Section 5309 Bus and Bus Facilities (State portion) | GG-11-33144-00 | N/A | 8,320 | 7,073 | (1,247) | - |
| Total Tennessee Department of Transportation | | | <u>11,798</u> | <u>251,589</u> | <u>239,791</u> | <u>-</u> |
| Tennessee Department of Health - | | | | | | |
| Child Passenger Safety Seat | N/A | N/A | (1,047) | 5,176 | 5,230 | (993) |
| Total State Awards | | | <u>10,751</u> | <u>256,765</u> | <u>245,021</u> | <u>(993)</u> |
| Total Federal and State Awards | | | <u>\$ 170,885</u> | <u>\$ 514,987</u> | <u>\$ 370,369</u> | <u>\$ 26,267</u> |

Basis of Presentation: The accompanying Schedule of Expenditures of Federal and State Awards summarizes the expenditures of the City of Sevierville under programs of the federal and state governments for the year ended June 30, 2013. The schedule is presented using the modified accrual basis of accounting.

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 City's financial position and results of operations.

Schedule of Long-Term Debt Principal and Interest Requirements
 Governmental Activities
 June 30, 2013

| 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 3.00% - 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 |
| | 2014 | \$ 2,500,000 | \$ 365,914 | \$ 365,000 | \$ 10,227 | \$ 180,000 | \$ 11,412 | \$ 455,000 | \$ 501,206 | \$ 260,000 | \$ 24,000 | \$ - |
| 2015 | 5,817,873 | 239,015 | 380,000 | 4,985 | 185,000 | 6,012 | 485,000 | 476,247 | 265,000 | 16,200 | - | 265,075 |
| 2016 | - | - | - | - | - | - | 525,000 | 449,818 | 275,000 | 8,250 | 100,000 | 265,075 |
| 2017 | - | - | - | - | - | - | 1,255,000 | 420,649 | - | - | 100,000 | 263,075 |
| 2018 | - | - | - | - | - | - | 1,340,000 | 382,990 | - | - | 100,000 | 261,075 |
| 2019 | - | - | - | - | - | - | 1,405,000 | 343,143 | - | - | 100,000 | 259,075 |
| 2020 | - | - | - | - | - | - | 1,475,000 | 301,484 | - | - | 100,000 | 257,075 |
| 2021 | - | - | - | - | - | - | 1,675,000 | 257,627 | - | - | 100,000 | 255,075 |
| 2022 | - | - | - | - | - | - | 1,760,000 | 210,177 | - | - | 110,000 | 253,075 |
| 2023 | - | - | - | - | - | - | 1,850,000 | 160,282 | - | - | 100,000 | 250,875 |
| 2024 | - | - | - | - | - | - | 1,945,000 | 107,868 | - | - | 100,000 | 248,375 |
| 2025 | - | - | - | - | - | - | 2,040,000 | 52,707 | - | - | 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>\$ 8,317,873</u> | <u>\$ 604,929</u> | <u>\$ 745,000</u> | <u>\$ 15,212</u> | <u>\$ 365,000</u> | <u>\$ 17,424</u> | <u>\$ 16,210,000</u> | <u>\$ 3,664,198</u> | <u>\$ 800,000</u> | <u>\$ 48,450</u> | <u>\$ 9,160,000</u> | <u>\$ 4,377,786</u> |

(1) The interest rate used for this calculation was 1.43115%, which was the actual interest rate at June 30, 2013.

(2) The interest rate used for this calculation was 1.093%, which was the actual interest rate at June 30, 2013.

(Continued)

Schedule of Long-Term Debt Principal and Interest Requirements
 Governmental Activities (Continued)
 June 30, 2013

| Year Ending June 30, | \$75,000,000 Local Government Public Improvement Bonds Series 2009A | | \$24,500,000 Local Government Public Improvement Bonds Series 2009B | | \$25,000,000 Local Government Public Improvement Bonds Series 2010A | | \$26,100,000 Local Government Public Improvement Bonds Series 2010B | | Total | |
|----------------------------|--|---------------------|--|----------------------|--|----------------------|--|----------------------|------------------------|----------------------|
| | Variable (3) | | Variable (4) | | Variable (5) | | Variable (6) | | General Long-Term Debt | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 75,000,000 | \$ 2,988,367 | \$ - | \$ 964,651 | \$ - | \$ 1,031,933 | \$ - | \$ 1,202,064 | \$ 78,760,000 | \$ 7,365,585 |
| 2015 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 7,132,873 | 4,206,182 |
| 2016 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 900,000 | 3,921,791 |
| 2017 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,355,000 | 3,882,372 |
| 2018 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,440,000 | 3,842,713 |
| 2019 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,505,000 | 3,800,866 |
| 2020 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,575,000 | 3,757,207 |
| 2021 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,775,000 | 3,711,350 |
| 2022 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,870,000 | 3,661,900 |
| 2023 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,950,000 | 3,609,805 |
| 2024 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 2,045,000 | 3,554,891 |
| 2025 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 2,165,000 | 3,497,230 |
| 2026 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 400,000 | 3,441,398 |
| 2027 | - | - | - | 964,651 | - | 1,031,933 | - | 1,202,064 | 1,000,000 | 3,430,398 |
| 2028 | - | - | - | 964,651 | - | 1,031,933 | 4,100,000 | 1,186,886 | 5,100,000 | 3,385,200 |
| 2029 | - | - | - | 964,651 | - | 1,031,933 | 10,500,000 | 979,414 | 11,500,000 | 3,147,748 |
| 2030 | - | - | - | 964,651 | - | 1,031,933 | 11,000,000 | 491,166 | 12,000,000 | 2,629,500 |
| 2031 | - | - | - | 964,651 | 11,125,000 | 991,488 | 500,000 | 21,198 | 12,625,000 | 2,089,087 |
| 2032 | - | - | - | 964,651 | 12,175,000 | 506,638 | - | - | 13,175,000 | 1,553,039 |
| 2033 | - | - | 11,075,000 | 928,329 | 1,700,000 | 61,622 | - | - | 13,325,000 | 1,041,701 |
| 2034 | - | - | 13,425,000 | 484,724 | - | - | - | - | 14,000,000 | 519,974 |
| 2035 | - | - | - | - | - | - | - | - | 600,000 | 18,000 |
| | <u>\$ 75,000,000</u> | <u>\$ 2,988,367</u> | <u>\$ 24,500,000</u> | <u>\$ 19,741,422</u> | <u>\$ 25,000,000</u> | <u>\$ 19,102,609</u> | <u>\$ 26,100,000</u> | <u>\$ 19,507,560</u> | <u>\$ 186,197,873</u> | <u>\$ 70,067,957</u> |

- (3) Interest is payable quarterly at variable rates. The interest rate used for this calculation was 4.347%, the projected long-term rate at June 30, 2013. The City anticipates refinancing these maturities back to their original amortization schedules, pending market conditions.
- (4) Interest is payable at variable rates. The City 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 3.95438%, consisting of actual interest rate at June 30, 2013 of 1.17297%, plus 3.49% (the fixed component of the interest rate swap agreement) less 0.70859% (59% CMS LIBOR 5-year rate at June 30, 2013); and 2) interest on \$150,000 was 1.17297%.
- (5) Interest is payable at variable rates. The City 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 4.38434%, consisting of actual interest rate at June 30, 2013 of 1.17297%, plus 3.968% (the fixed component of the interest rate swap agreement) less 0.75663% (63% CMS LIBOR 5-year rate at June 30, 2013); 2) interest on \$13,800,000 was 3.95438%, consisting of actual interest rate at June 30, 2013 of 1.17297%, plus 3.49% (the fixed component of the swapped interest rate) less 0.70859% (59% CMS LIBOR 5-year rate at June 30, 2013); and 3) interest on \$150,000 was 1.17297%.
- (6) Interest is payable at variable rates. The City 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 4.64252%, consisting of actual interest rate at June 30, 2013 of 1.43115%, plus 3.968% (the fixed component of the interest rate swap agreement) less 0.75663% (63% CMS LIBOR 5-year rate at June 30, 2013); and 2) interest on \$300,000 was 1.43115%.

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Long-Term Debt Principal and Interest Requirements
 Proprietary Funds
 June 30, 2013

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) | | Total Water and Sewer Department Fund | |
|----------------------------|---|---------------------|---|---------------------|---|------------------|--|---------------------|---|-------------------|---|------------------|--|----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 9,125,000 | \$ 922,228 | \$ - | \$ 406,666 | \$ 400,000 | \$ 35,988 | \$ - | \$ 148,469 | \$ 695,000 | \$ 102,600 | \$ - | \$ 8,744 | \$ 10,220,000 | \$ 1,624,695 |
| 2015 | 12,012,127 | 493,493 | - | 406,666 | 415,000 | 23,987 | - | 148,469 | 715,000 | 81,750 | - | 8,744 | 13,142,127 | 1,163,109 |
| 2016 | - | - | - | 406,666 | 300,000 | 10,500 | - | 148,469 | 740,000 | 60,300 | 725,000 | 8,084 | 1,765,000 | 634,019 |
| 2017 | - | - | - | 406,666 | - | - | - | 148,469 | 760,000 | 38,100 | 75,000 | 751 | 835,000 | 593,986 |
| 2018 | - | - | - | 406,666 | - | - | - | 148,469 | 775,000 | 22,900 | - | - | 775,000 | 578,035 |
| 2019 | - | - | - | 406,666 | - | - | - | 148,469 | 370,000 | 7,400 | - | - | 370,000 | 562,535 |
| 2020 | - | - | - | 406,666 | - | - | - | 148,469 | - | - | - | - | - | 555,135 |
| 2021 | - | - | - | 406,666 | - | - | - | 148,469 | - | - | - | - | - | 555,135 |
| 2022 | - | - | - | 406,666 | - | - | - | 148,469 | - | - | - | - | - | 555,135 |
| 2023 | - | - | - | 406,666 | - | - | - | 148,469 | - | - | - | - | - | 555,135 |
| 2024 | - | - | - | 406,666 | - | - | - | 148,469 | - | - | - | - | - | 555,135 |
| 2025 | - | - | - | 406,666 | - | - | 550,000 | 148,469 | - | - | - | - | 550,000 | 555,135 |
| 2026 | - | - | - | 406,666 | - | - | 1,000,000 | 134,031 | - | - | - | - | 1,000,000 | 540,697 |
| 2027 | - | - | - | 406,666 | - | - | 1,050,000 | 104,031 | - | - | - | - | 1,050,000 | 510,697 |
| 2028 | - | - | - | 406,666 | - | - | 1,100,000 | 72,531 | - | - | - | - | 1,100,000 | 479,197 |
| 2029 | - | - | 500,000 | 404,548 | - | - | 700,000 | 39,531 | - | - | - | - | 1,200,000 | 444,079 |
| 2030 | - | - | 1,100,000 | 376,589 | - | - | 175,000 | 18,531 | - | - | - | - | 1,275,000 | 395,120 |
| 2031 | - | - | 1,150,000 | 320,461 | - | - | 200,000 | 13,281 | - | - | - | - | 1,350,000 | 333,742 |
| 2032 | - | - | 1,200,000 | 261,791 | - | - | 225,000 | 7,031 | - | - | - | - | 1,425,000 | 268,822 |
| 2033 | - | - | 1,250,000 | 200,579 | - | - | - | - | - | - | - | - | 1,250,000 | 200,579 |
| 2034 | - | - | 1,350,000 | 136,614 | - | - | - | - | - | - | - | - | 1,350,000 | 136,614 |
| 2035 | - | - | 1,450,000 | 67,566 | - | - | - | - | - | - | - | - | 1,450,000 | 67,566 |
| | <u>\$ 21,137,127</u> | <u>\$ 1,415,721</u> | <u>\$ 8,000,000</u> | <u>\$ 7,868,138</u> | <u>\$ 1,115,000</u> | <u>\$ 70,475</u> | <u>\$ 5,000,000</u> | <u>\$ 2,170,595</u> | <u>\$ 4,055,000</u> | <u>\$ 313,050</u> | <u>\$ 800,000</u> | <u>\$ 26,323</u> | <u>\$ 40,107,127</u> | <u>\$ 11,864,302</u> |

(1) Interest is payable at variable rates. The City has entered into an interest rate swap agreement for these bonds. The interest rate used for this calculation was 5.08332%, consisting of actual interest rate at June 30, 2013 of 1.43115%, plus 4.41% (the fixed component of the interest rate swap agreement) less 0.75783% (63.1% CMS LIBOR 5-year rate at June 30, 2013).

(2) The interest rate used for this calculation was 1.093%, which was the actual interest rate at June 30, 2013.

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Long-Term Debt Principal and Interest Requirements
 Proprietary Funds (Continued)
 June 30, 2013

ELECTRIC DEPARTMENT FUND

| Year Ending June 30, | Local Government Public Improvement Revenue Bonds | | Total Electric Department Fund | | Total Proprietary Funds | |
|----------------------------|---|---------------------|-----------------------------------|---------------------|----------------------------|----------------------|
| | Principal | Interest* | Principal | Interest | Principal | Interest |
| | 2014 | \$ 1,070,000 | \$ 523,827 | \$ 1,070,000 | \$ 523,827 | \$ 11,290,000 |
| 2015 | 1,125,000 | 487,229 | 1,125,000 | 487,229 | 14,267,127 | 1,650,338 |
| 2016 | 1,180,000 | 448,750 | 1,180,000 | 448,750 | 2,945,000 | 1,082,769 |
| 2017 | 1,240,000 | 408,390 | 1,240,000 | 408,390 | 2,075,000 | 1,002,376 |
| 2018 | 1,305,000 | 365,977 | 1,305,000 | 365,977 | 2,080,000 | 944,012 |
| 2019 | 1,370,000 | 321,332 | 1,370,000 | 321,332 | 1,740,000 | 883,867 |
| 2020 | 1,445,000 | 274,478 | 1,445,000 | 274,478 | 1,445,000 | 829,613 |
| 2021 | 1,520,000 | 225,059 | 1,520,000 | 225,059 | 1,520,000 | 780,194 |
| 2022 | 1,600,000 | 173,075 | 1,600,000 | 173,075 | 1,600,000 | 728,210 |
| 2023 | 1,685,000 | 118,355 | 1,685,000 | 118,355 | 1,685,000 | 673,490 |
| 2024 | 1,560,000 | 60,712 | 1,560,000 | 60,712 | 1,560,000 | 615,847 |
| 2025 | - | - | - | - | 550,000 | 555,135 |
| 2026 | - | - | - | - | 1,000,000 | 540,697 |
| 2027 | - | - | - | - | 1,050,000 | 510,697 |
| 2028 | - | - | - | - | 1,100,000 | 479,197 |
| 2029 | - | - | - | - | 1,200,000 | 444,079 |
| 2030 | - | - | - | - | 1,275,000 | 395,120 |
| 2031 | - | - | - | - | 1,350,000 | 333,742 |
| 2032 | - | - | - | - | 1,425,000 | 268,822 |
| 2033 | - | - | - | - | 1,250,000 | 200,579 |
| 2034 | - | - | - | - | 1,350,000 | 136,614 |
| 2035 | - | - | - | - | 1,450,000 | 67,566 |
| | <u>\$ 15,100,000</u> | <u>\$ 3,407,184</u> | <u>\$ 15,100,000</u> | <u>\$ 3,407,184</u> | <u>\$ 55,207,127</u> | <u>\$ 15,271,486</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 3.420% was assumed for this calculation.

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Plant
 Water and Sewer Department Fund
 June 30, 2013

| | Assets | | | Accumulated Depreciation | | | | | Net |
|-------------------------------------|-------------------------|------------|--------------------------------------|--------------------------|-------------------------|--------------|--------------------------------------|--------------------------|---------------|
| | Balance July 1, 2012 | Additions | Retirements and Reclassifications | Balance June 30, 2013 | Balance July 1, 2012 | Expense | Retirements and Reclassifications | Balance June 30, 2013 | |
| Water and Sewer Plant: | | | | | | | | | |
| Land | \$ 427,269 | \$ - | \$ - | \$ 427,269 | \$ - | \$ - | \$ - | \$ - | \$ 427,269 |
| Water treatment and disposal tanks | 28,905,981 | - | (750) | 28,905,231 | 4,040,044 | 959,817 | (750) | 4,999,111 | 23,906,120 |
| Wastewater treatment plant | 12,189,358 | - | - | 12,189,358 | 6,740,832 | 390,158 | - | 7,130,990 | 5,058,368 |
| Transmission and distribution lines | 25,364,624 | 6,316 | (1,511) | 25,369,429 | 6,328,567 | 494,136 | (1,511) | 6,821,192 | 18,548,237 |
| Collection lines | 28,298,169 | - | - | 28,298,169 | 6,870,698 | 566,644 | - | 7,437,342 | 20,860,827 |
| Water meters | 2,684,151 | 9,685 | - | 2,693,836 | 1,258,818 | 229,330 | - | 1,488,148 | 1,205,688 |
| Pump and lift stations | 2,537,848 | 149,590 | (950) | 2,686,488 | 566,790 | 87,928 | (650) | 654,068 | 2,032,420 |
| Transportation equipment | 1,623,041 | - | 15,069 | 1,638,110 | 1,002,565 | 111,459 | 15,069 | 1,129,093 | 509,017 |
| Machinery and equipment | 2,100,802 | 13,221 | (100,864) | 2,013,159 | 1,808,144 | 54,001 | (92,551) | 1,769,594 | 243,565 |
| Other capital assets | 1,770,657 | 365,739 | - | 2,136,396 | 113,948 | 167,570 | - | 281,518 | 1,854,878 |
| Total water and sewer plant | 105,901,900 | 544,551 | (89,006) | 106,357,445 | 28,730,406 | 3,061,043 | (80,393) | 31,711,056 | 74,646,389 |
| Construction work in progress | 4,696,711 | 175,120 | - | 4,871,831 | - | - | - | - | 4,871,831 |
| Total plant | \$ 110,598,611 | \$ 719,671 | \$ (89,006) | \$ 111,229,276 | \$ 28,730,406 | \$ 3,061,043 | \$ (80,393) | \$ 31,711,056 | \$ 79,518,220 |

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Utility Plant
 Electric Department Fund
 June 30, 2013

| | Assets | | | | Accumulated Depreciation | | | | | Net | |
|-------------------------------|-----------------------|---------------------|---------------------|-------------|--------------------------|----------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|
| | Balance | Additions | Deductions | Other | Balance | Balance | Current Year | Retirements | Other | | Balance |
| | July 1, 2012 | | | | June 30, 2013 | | | | | | July 1, 2012 |
| Electric plant in service: | | | | | | | | | | | |
| Land and land rights | \$ 6,878,687 | \$ 75,192 | \$ - | \$ - | \$ 6,953,879 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 6,953,879 |
| Office furniture and fixtures | 1,715,455 | 15,090 | - | - | 1,730,545 | 1,490,117 | 43,708 | - | - | 1,533,825 | 196,720 |
| Transportation equipment | 4,450,378 | 275,658 | - | - | 4,726,036 | 2,808,152 | 225,998 | - | - | 3,034,150 | 1,691,886 |
| Machinery and equipment | 992,639 | 360,132 | - | - | 1,352,771 | 879,707 | 56,711 | - | - | 936,418 | 416,353 |
| Electric distribution system | 180,973,814 | 5,902,759 | (872,100) | - | 186,004,473 | 63,735,012 | 6,294,232 | (872,100) | (168,512) | 68,988,632 | 117,015,841 |
| | 195,010,973 | 6,628,831 | (872,100) | - | 200,767,704 | 68,912,988 | 6,620,649 | (872,100) | (168,512) | 74,493,025 | 126,274,679 |
| Construction work in progress | 2,343,195 | (689,364) | - | - | 1,653,831 | - | - | - | - | - | 1,653,831 |
| Retirement work in progress | 72,274 | - | - | - | 72,274 | - | - | - | - | - | 72,274 |
| | <u>\$ 197,426,442</u> | <u>\$ 5,939,467</u> | <u>\$ (872,100)</u> | <u>\$ -</u> | <u>\$ 202,493,809</u> | <u>\$ 68,912,988</u> | <u>\$ 6,620,649</u> | <u>\$ (872,100)</u> | <u>\$ (168,512)</u> | <u>\$ 74,493,025</u> | <u>\$ 128,000,784</u> |

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, 2013**

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>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</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 | 12,312 |
| Sewer | 9,387 |

* 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, 2013

Power Rates

RESIDENTIAL RATE - SCHEDULE RSBase Charges

| | |
|--------------------------|---------|
| Customer charge | \$12.50 |
| Energy Charge per kWh | 6.774¢ |
| TVA Fuel Cost Adjustment | 2.483¢ |

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 | 7.958¢ |
| TVA Fuel Cost Adjustment | 2.456¢ |
| 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 | \$12.35 |
| <u>Energy Charge per kWh:</u> | |
| First 15,000 kW per month | 7.947¢ |
| TVA Fuel Cost Adjustment | 2.456¢ |
| Additional kWh per month | 3.937¢ |
| TVA Fuel Cost Adjustment | 2.424¢ |
| 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 | \$13.62 |
| Over 2,500 kW of billing demand per month | \$14.02 |
| Plus an additional \$12.26 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, 2013

Power Rates (Continued)

COMMERCIAL RATE - SCHEDULE GSA (Continued)Base Charges (Continued)

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

| | |
|--------------------------|--------|
| Energy Charge per kWh | 3.937¢ |
| TVA Fuel Cost Adjustment | 2.424¢ |

Number of Customers

| | |
|-------|--------|
| Power | 55,028 |
|-------|--------|

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Schedule of Changes in Property Taxes Receivable
For the Fiscal Year Ended June 30, 2013

| Tax Year | Balance June 30, 2012 | Additions | Collections/ Reductions | Adjustments/ Abatements | Balance June 30, 2013 |
|----------|--------------------------|--------------|----------------------------|----------------------------|--------------------------|
| 2012 | \$ - | \$ 2,231,454 | \$ 2,066,742 | \$ (1,192) | \$ 163,520 |
| 2011 | 177,905 | - | 124,696 | (2,009) | 51,200 |
| 2010 | 76,873 | - | 44,121 | 213 | 32,965 |
| 2009 | 18,094 | - | 12,667 | 12 | 5,439 |
| 2008 | 5,246 | - | 409 | (148) | 4,689 |
| 2007 | 600 | - | 24 | (166) | 410 |
| 2006 | 563 | - | 255 | (1) | 307 |
| 2005 | 420 | - | 15 | - | 405 |
| 2004 | 1,610 | - | - | - | 1,610 |
| 2003 | 340 | - | - | (5) | 335 |
| 2002 | 2,393 | - | - | (5) | 2,388 |
| 2001 | 195 | - | - | - | 195 |
| Total | \$ 284,239 | \$ 2,231,454 | \$ 2,248,929 | \$ (3,301) | 263,463 |

January 1, 2013 property assessment not
to be billed until October 1, 2013

2,239,874

\$ 2,503,337

See independent auditor's report.

| AWWA WLCC Free Water Audit Software: Reporting Worksheet | | | |
|---|--|---------------------------------|--|
| Copyright © 2010, American Water Works Association. All Rights Reserved. | | WAS v4.2 | Back to Instructions |
| Water Audit Report for: City of Sevierville Reporting Year: 2013 / 7/2012 - 6/2013 | | | |
| 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 | 1,460.170 Million gallons (US) /yr (MG/Yr) |
| | Master meter error adjustment (enter positive value): | 6 | 5.000 over-registered MG/Yr |
| | Water imported: | n/a | 0.000 MG/Yr |
| | Water exported: | n/a | 0.000 MG/Yr |
| WATER SUPPLIED: | | 1,455.170 | MG/Yr |
| AUTHORIZED CONSUMPTION | | | |
| | Billed metered: | 10 | 936.467 MG/Yr |
| | Billed unmetered: | n/a | 0.000 MG/Yr |
| | Unbilled metered: | 10 | 94.511 MG/Yr |
| | Unbilled unmetered: | 8 | 29.612 MG/Yr |
| AUTHORIZED CONSUMPTION: | | 1,060.590 | MG/Yr |
| WATER LOSSES (Water Supplied - Authorized Consumption) 394.580 MG/Yr | | | |
| Apparent Losses | | | |
| | Unauthorized consumption: | 5 | 3.638 MG/Yr |
| Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed | | | |
| | Customer metering inaccuracies: | 8 | 31.886 MG/Yr |
| | Systematic data handling errors: | 10 | 9.565 MG/Yr |
| Apparent Losses: | | 45.089 | |
| Real Losses (Current Annual Real Losses or CARL) | | | |
| | Real Losses = Water Losses - Apparent Losses: | 349.491 | MG/Yr |
| WATER LOSSES: | | 394.580 | MG/Yr |
| NON-REVENUE WATER 518.703 MG/Yr | | | |
| = Total Water Loss + Unbilled Metered + Unbilled Unmetered | | | |
| SYSTEM DATA | | | |
| | Length of mains: | 10 | 343.7 miles |
| | Number of active AND inactive service connections: | 9 | 13,296 |
| | Connection density: | 39 | conn./mile main |
| | Average length of customer service line: | 3 | 30.0 ft (pipe length between curbside and customer meter or property boundary) |
| | Average operating pressure: | 7 | 110.0 psi |
| COST DATA | | | |
| | Total annual cost of operating water system: | 10 | \$6,136,864 /Year |
| | Customer retail unit cost (applied to Apparent Losses): | 8 | \$5.38 /1000 gallons (US) |
| | Variable production cost (applied to Real Losses): | 10 | \$1.70 /Million gallons |
| PERFORMANCE INDICATORS | | | |
| Financial Indicators | | | |
| | Non-revenue water as percent by volume of Water Supplied: | 35.6% | |
| | Non-revenue water as percent by cost of operating system: | 4.0% | |
| | Annual cost of Apparent Losses: | \$242,578 | |
| | Annual cost of Real Losses: | \$594 | |
| Operational Efficiency Indicators | | | |
| | Apparent Losses per service connection per day: | 9.29 gallons/connection/day | |
| | Real Losses per service connection per day*: | 72.01 gallons/connection/day | |
| | Real Losses per length of main per day*: | N/A | |
| | Real Losses per service connection per day per psi pressure: | 0.65 gallons/connection/day/psi | |
| | Unavoidable Annual Real Losses (UARL): | 177.48 million gallons/year | |
| | From Above, Real Losses = Current Annual Real Losses (CARL): | 349.49 million gallons/year | |
| | Infrastructure Leakage Index (ILI) [CARL/UARL]: | 1.97 | |
| * 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; font-weight: bold; color: red; font-size: 1.2em;"> *** YOUR SCORE IS: 86 out of 100 *** </div> A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score | | | |
| 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-bottom: 2px;">1: Master meter error adjustment</div> <div style="border: 1px solid red; padding: 2px; margin-bottom: 2px;">2: Volume from own sources</div> <div style="border: 1px solid red; padding: 2px;">3: Unauthorized consumption</div> | | | |
| <div style="border: 1px solid black; padding: 2px; display: inline-block;"> For more information, click here to see the Grading Matrix worksheet </div> | | | |

CITY OF SEVIERVILLE, TENNESSEE

Balance Sheet
 Solid Waste Department Activity
 June 30, 2013

| | <u>Total</u> |
|--|-------------------|
| <u>ASSETS</u> | |
| Cash and cash equivalents | \$ 388,694 |
| Receivable from customers - garbage fees (net of allowance for doubtful accounts of \$1,928) | <u>37,714</u> |
| Total assets | <u>\$ 426,408</u> |
| <u>LIABILITIES AND FUND EQUITIES</u> | |
| Liabilities: | |
| Accounts payable | \$ 58,066 |
| Accrued expenses | <u>7,991</u> |
| Total liabilities | <u>66,057</u> |
| Fund equity: | |
| Assigned | <u>360,351</u> |
| Total fund equity | <u>360,351</u> |
| Total liabilities and fund equities | <u>\$ 426,408</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, 2013

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> |
|---|----------------------------|-------------------------|-------------------|
| Revenues: | | | |
| Licenses and permits | \$ 500 | \$ 500 | \$ 400 |
| Charges for services | 658,000 | 658,000 | 738,789 |
| Other revenues | <u>500</u> | <u>500</u> | <u>1,381</u> |
| Total revenues | <u>659,000</u> | <u>659,000</u> | <u>740,570</u> |
| Expenditures: | | | |
| Personal services | 669,904 | 669,904 | 662,989 |
| Contractual services | 591,740 | 591,740 | 616,200 |
| Supplies | 238,200 | 238,200 | 217,545 |
| Debt service | 191,663 | 191,663 | 191,819 |
| Grants, contributions and other | <u>-</u> | <u>-</u> | <u>2,306</u> |
| Total expenditures | <u>1,691,507</u> | <u>1,691,507</u> | <u>1,690,859</u> |
| Revenues over (under) expenditures | <u>(1,032,507)</u> | <u>(1,032,507)</u> | <u>(950,289)</u> |
| Other financing sources (uses): | | | |
| Transfers from general fund | <u>1,032,507</u> | <u>1,032,507</u> | <u>982,507</u> |
| Total other financing sources (uses) | <u>1,032,507</u> | <u>1,032,507</u> | <u>982,507</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | - | - | 32,218 |
| Fund balance, beginning | <u>328,133</u> | <u>328,133</u> | <u>328,133</u> |
| Fund balance, ending | <u>\$ 328,133</u> | <u>\$ 328,133</u> | <u>\$ 360,351</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 | 105 - 110 |
| <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 | 111 - 114 |
| <i>These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.</i> | |
| Debt Capacity | 115 - 116 |
| <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 | 117 - 118 |
| <i>These schedules present information to help the reader understand the environment within which the government's financial activities take place.</i> | |
| Operating Information | 119 - 121 |
| <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 | | | | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Governmental activities: | | | | | | | | | | |
| Net investment in capital assets | \$ 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 | \$ 15,034,399 |
| Restricted | 4,670,528 | 4,449,355 | 282,323 | 248,728 | 256,396 | 257,576 | 438,879 | 401,226 | 482,507 | 599,056 |
| Unrestricted | (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 | 18,375,956 |
| Total governmental activities net position | (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 | 34,009,411 |
| Business-type activities: | | | | | | | | | | |
| Net investment in capital assets | 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 | 91,699,235 |
| Restricted | 2,228,157 | 2,208,566 | 1,840,644 | | | | | | - | - |
| Unrestricted | 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 | 18,132,879 |
| Total business-type activities net position | 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 | 109,832,114 |
| Primary government: | | | | | | | | | | |
| Net investment in capital assets | 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 | 106,733,634 |
| Restricted | 6,898,685 | 6,657,921 | 2,122,967 | 248,728 | 256,396 | 257,576 | 438,879 | 401,226 | 482,507 | 599,056 |
| Unrestricted | (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 | 36,508,835 |
| Total primary government net position | \$ 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 | \$143,841,525 |

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

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

| | Fiscal Year | | | | | | | | | |
|---------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | \$ 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 | \$ 4,361,119 |
| Public safety | 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 | 5,590,457 |
| Public works | 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 | 3,695,710 |
| Recreation | 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 | 3,335,484 |
| Contingency reserve | 166,457 | 55,199 | 233,612 | 245,017 | 98,118 | 222,627 | 157,394 | 102,715 | 86,383 | 126,655 |
| Debt administration | 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 | 1,519,338 |
| Capital outlays | 746,761 | 1,409,743 | 1,013,346 | 1,323,387 | 1,112,707 | 324,365 | 236,119 | 379,382 | 453,498 | 367,774 |
| Total governmental activities | 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 | 18,996,537 |
| Business-type activities: | | | | | | | | | | |
| Water and sewer | 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 | 6,686,085 |
| Electric | 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 | 84,193,073 |
| Total business-type activities | 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 | 90,879,158 |
| Total expenses | \$ 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 | \$ 109,875,695 |
| Program revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | \$ 18,253 | \$ 107,107 | \$ 153,865 | \$ 165,245 | \$ 157,481 | \$ 147,758 | \$ 139,929 | \$ 91,804 | \$ 63,846 | \$ 68,922 |
| Public safety | 515,571 | 505,257 | 649,889 | 645,684 | 686,469 | 863,138 | 537,276 | 475,102 | 543,848 | 505,007 |
| Public works | 1,063,926 | 1,436,696 | 685,636 | 660,177 | 625,567 | 593,403 | 526,920 | 485,101 | 440,856 | 404,443 |
| Recreation | 481,874 | 514,000 | 458,327 | 468,918 | 495,981 | 465,352 | 431,236 | 390,036 | 1,623,077 | 1,549,984 |
| Operating grants and contributions | 840,006 | 638,434 | 1,030,109 | 1,849,503 | 1,903,843 | 1,619,573 | 1,485,691 | 1,410,610 | 129,125 | 269,588 |
| Capital grants and contributions | 79,670 | 378,881 | 606,995 | 1,127,284 | 141,754 | 466,247 | - | 341,509 | 2,060,807 | 237,146 |
| Total governmental activities | 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 | 3,035,090 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water and sewer | 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 | 8,101,627 |
| Electric | 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 | 88,195,689 |
| Operating grants and contributions | - | - | - | - | - | 858,163 | 648,471 | 1,236,347 | 712,118 | 665,741 |
| Capital grants and contributions | - | - | - | - | 7,137,040 | - | - | 295 | 65,387 | 63,994 |
| Total business-type activities | 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 | 97,027,051 |
| Total program revenues | \$ 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 | \$ 100,062,141 |
| Net revenue (expense): | | | | | | | | | | |
| Governmental activities | \$ (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) | \$ (15,961,447) |
| Business-type activities | 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 | 6,147,893 |
| Total net revenue (expense) | \$ (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) | \$ (9,813,554) |

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

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

| | Fiscal Year | | | | | | | | | |
|--|----------------------|----------------------|----------------------|-----------------------|----------------------|------------------------|------------------------|------------------------|-----------------------|----------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Governmental activities: | | | | | | | | | | |
| General revenues: | | | | | | | | | | |
| Sales taxes | \$ 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 | \$ 11,674,691 |
| Property taxes | 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 | 1,595,805 |
| Wholesale beer tax | 1,286,449 | 1,221,871 | 1,119,312 | 1,063,394 | 1,001,388 | 911,787 | 820,172 | 711,088 | 669,589 | 655,696 |
| Business taxes | 1,142,652 | 1,022,341 | 1,008,676 | 982,094 | 1,017,422 | 1,128,091 | 989,056 | - | - | - |
| Hotel/motel taxes | 1,853,546 | 1,233,248 | 1,124,411 | 1,074,609 | 933,227 | 737,704 | 710,983 | - | - | - |
| Other taxes | 926,581 | 820,096 | 811,011 | 812,727 | 899,699 | 806,623 | 797,777 | 2,342,889 | 2,508,553 | 2,409,842 |
| Interest earned | 25,872 | 71,949 | 137,383 | 320,811 | 985,878 | 2,974,558 | 5,335,479 | 3,450,353 | 1,408,087 | 157,305 |
| Miscellaneous | 155,515 | 110,319 | 23,023 | 1,147,524 | 171,568 | 79,994 | 14,206 | 49,339 | 11,953 | 22,694 |
| Gain (loss) on disposal of assets | (299,826) | 50,720 | 20,688 | 193,468 | (42,893) | (22,288) | 41,236 | 509,728 | 376 | - |
| Gain (loss) on investment derivatives | 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 | 1,327,296 | 1,304,638 | 1,178,125 | 1,103,324 | 1,056,908 | 1,108,169 | 873,238 | 861,245 | 854,646 | 731,891 |
| 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) | - |
| Total general revenues, contributions, transfers and other items | <u>35,556,559</u> | <u>32,566,285</u> | <u>25,071,820</u> | <u>14,711,225</u> | <u>20,104,201</u> | <u>9,430,009</u> | <u>(15,882,654)</u> | <u>(11,056,809)</u> | <u>13,991,204</u> | <u>17,247,924</u> |
| Business-type activities: | | | | | | | | | | |
| General revenues: | | | | | | | | | | |
| Interest earned | 155,225 | 298,423 | 267,349 | 328,126 | 549,951 | 1,090,201 | 1,795,077 | 1,223,598 | 753,405 | 506,270 |
| Miscellaneous | 38,697 | 6,221 | 8,625 | 29,164 | 74,440 | 165,458 | 143,182 | 77,035 | 118,787 | 68,960 |
| Gain (loss) on disposal of assets | (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 | (1,327,296) | (1,304,638) | (1,178,125) | (1,103,324) | (1,056,908) | (1,108,169) | (873,238) | (861,245) | (854,646) | (731,891) |
| Total general revenues, contributions and transfers | <u>(1,141,987)</u> | <u>410,776</u> | <u>(902,151)</u> | <u>(743,534)</u> | <u>(432,517)</u> | <u>443,990</u> | <u>1,065,021</u> | <u>439,388</u> | <u>(2,576,254)</u> | <u>(156,661)</u> |
| Total primary government | <u>\$ 34,414,572</u> | <u>\$ 32,977,061</u> | <u>\$ 24,169,669</u> | <u>\$ 13,967,691</u> | <u>\$ 19,671,684</u> | <u>\$ 9,873,999</u> | <u>\$ (14,817,633)</u> | <u>\$ (10,617,421)</u> | <u>\$ 11,414,950</u> | <u>\$ 17,091,263</u> |
| Change in net position: | | | | | | | | | | |
| Governmental activities | \$ 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) | \$ 1,286,477 |
| Business-type activities | 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 | 5,991,232 |
| Total change in net position | <u>\$ 9,573,092</u> | <u>\$ 11,143,414</u> | <u>\$ 5,004,418</u> | <u>\$ (7,887,918)</u> | <u>\$ 4,670,807</u> | <u>\$ (12,417,201)</u> | <u>\$ (33,980,799)</u> | <u>\$ (25,730,362)</u> | <u>\$ (1,183,950)</u> | <u>\$ 7,277,709</u> |

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 | | | | | | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| General fund: | | | | | | | | | | |
| Assigned | \$ 360,351 | \$ 328,133 | \$ 2,915,568 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Unassigned | 11,193,463 | 10,860,577 | 9,985,573 | - | - | - | - | - | - | - |
| Reserved | - | - | - | - | - | - | - | 171,407 | 22,970 | 584,557 |
| Unreserved | - | - | - | 14,176,246 | 14,410,552 | 16,878,751 | 18,065,315 | 19,073,374 | 15,741,775 | 13,547,168 |
| Total general fund | \$ 11,553,814 | \$ 11,188,710 | \$ 12,901,141 | \$ 14,176,246 | \$ 14,410,552 | \$ 16,878,751 | \$ 18,065,315 | \$ 19,244,781 | \$ 15,764,745 | \$ 14,131,725 |
| All other governmental funds: | | | | | | | | | | |
| Restricted | \$ 4,662,136 | \$ 4,449,355 | \$ 6,805,997 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Committed | 6,966,663 | 7,616,663 | 9,066,663 | - | - | - | - | - | - | - |
| Assigned | 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 | 73,250,881 |
| Unreserved | - | - | - | 3,396,209 | 4,530,107 | 5,409,158 | 6,597,426 | 6,729,491 | 730,562 | 5,034,313 |
| Total all other governmental funds | \$ 13,298,552 | \$ 14,078,581 | \$ 18,411,133 | \$ 24,391,022 | \$ 35,410,964 | \$ 41,675,393 | \$ 63,903,920 | \$ 107,441,426 | \$ 44,360,531 | \$ 78,285,194 |

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 | | | | | | | | | |
|--|-------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| REVENUES | | | | | | | | | | |
| Local taxes | \$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 | \$15,581,373 |
| Licenses and permits | 98,256 | 143,010 | 120,908 | 125,570 | 243,056 | 482,854 | 192,342 | 150,993 | 159,125 | 140,719 |
| Intergovernmental | 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 | 1,992,729 |
| Charges for services | 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 | 2,012,875 |
| Fines, forfeitures and penalties | 423,765 | 387,290 | 412,573 | 406,685 | 364,240 | 317,182 | 276,519 | 274,129 | 339,324 | 337,516 |
| Other revenue | 276,798 | 365,995 | 321,949 | 2,009,906 | 1,297,027 | 3,196,018 | 5,474,685 | 3,566,999 | 2,408,656 | 217,804 |
| Total revenues | 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 | 20,283,016 |
| EXPENDITURES | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | 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 | 4,058,527 |
| Public safety | 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 | 6,073,525 |
| Public works | 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 | 4,004,891 |
| Culture and recreation | 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 | 3,300,920 |
| Contingency reserves | 166,457 | 55,199 | 233,612 | 245,017 | 124,118 | 202,628 | 157,388 | 102,715 | 132,546 | 126,586 |
| Debt administration: | | | | | | | | | | |
| Principal | 996,300 | 1,532,590 | 1,025,106 | 1,134,971 | 951,875 | 914,500 | 859,500 | 674,500 | 884,464 | 1,064,900 |
| Interest | 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 | 1,352,799 |
| Debt service charges | 537,437 | 617,678 | 694,633 | 590,946 | 809,921 | 846,401 | 922,838 | 625,625 | 494,900 | 166,539 |
| Bond issuance costs | 194,860 | 155,293 | 339,672 | 300,000 | 502,115 | - | - | - | - | 1,949,177 |
| Capital outlay | 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 | 20,255,472 |
| Total expenditures | 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 | 42,353,336 |
| Excess (deficiency) of revenues over expenditures | (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) | (22,070,320) |

(Continued)

CITY OF SEVIERVILLE, TENNESSEE

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

| | Fiscal Year | | | | | | | | | |
|---|---------------------|-----------------------|-----------------------|------------------------|-----------------------|------------------------|------------------------|----------------------|------------------------|----------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Transfers in (out) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (250,000) | \$ (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 - Sevier County Electric System | 1,307,296 | 1,284,638 | 1,158,125 | 1,083,324 | 1,036,908 | 1,088,169 | 853,238 | - | - | - |
| In-lieu of tax - Sevierville Water Department | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | - | - | - |
| Gain on sale of development property | - | - | - | - | - | - | - | 509,779 | - | - |
| Refunding bonds issued | 9,160,000 | 17,275,000 | - | - | - | - | - | - | - | - |
| Premium on refunding bonds issued | 284,860 | 58,039 | - | - | 6,695,169 | - | - | - | - | - |
| Proceeds from issuance of bonds | - | - | 26,100,000 | 49,500,000 | 114,211,720 | - | - | 83,657,316 | - | 75,000,000 |
| Payments to refunded bond escrow agent | (9,250,000) | (17,177,746) | (25,800,000) | (49,200,000) | (115,130,000) | - | - | - | (2,833,443) | - |
| Issuance of bond anticipation notes | - | - | - | - | - | - | - | - | - | 21,000,000 |
| Retirement of bond anticipation notes | - | - | - | - | - | - | - | - | (21,144,375) | - |
| Total other financing sources (uses) | <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> | <u>95,750,000</u> |
| Net change in fund balances | <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> | <u>\$ 73,679,680</u> |
| Debt service as a percentage of noncapital expenditures | 44.13% | 47.36% | 45.43% | 43.87% | 57.13% | 51.48% | 49.66% | 33.40% | 28.51% | 26.00% |

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 |
|----------------------------|---------------------------|--------------------------|-------------------|------------------|------------------------------|--|--------------------------------|-------------------|
| 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 |
| 2004 | 163,255,000 | 222,697,000 | 29,737,229 | 226,050 | 415,915,279 | 31.77% | 1,309,293,656 | 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: City 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 |
| 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 |
| 2004 | 0.38 | 1.66 | 2.04 |

Source: City 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 | 5.4% | | | |
| 2 | Five Oaks Development Group | 35,471,268 | 2 | 4.9% | \$ 22,545,115 | 1 | 5.3% |
| 3 | Wilderness Tenn Venture | 25,656,474 | 3 | 3.6% | | | |
| 4 | M & S Properties | 8,775,690 | 4 | 1.2% | 9,560,070 | 2 | 2.2% |
| 5 | Miller Land Properties | 7,717,925 | 5 | 1.1% | 4,568,895 | 5 | 1.0% |
| 6 | The Universe | 7,396,720 | 6 | 1.0% | | | |
| 7 | Charles Blalock & Sons | 7,353,283 | 7 | 1.0% | | | |
| 8 | B S & J Enterprises, L.P. | 6,939,707 | 8 | 1.0% | 4,284,925 | 6 | 1.0% |
| 9 | Ogle, Ronald & Betty | 6,610,605 | 9 | 0.9% | 3,370,225 | 7 | 0.8% |
| 10 | Mountain National Bank | 6,121,220 | 10 | 0.9% | | | |
| | Governor's Crossing Outlet Mall | | | | 4,808,470 | 3 | 1.1% |
| | Fairfield Resorts | | | | 4,769,650 | 4 | 1.1% |
| | Riverwalk Properties | | | | 2,623,275 | 8 | 0.6% |
| | FFD Development | | | | 2,620,268 | 9 | 0.6% |
| | Fairfield Communities | | | | 2,559,025 | 10 | 0.6% |
| | | <u>\$150,466,207</u> | | <u>21.0%</u> | <u>\$ 61,709,918</u> | | <u>14.3%</u> |

Source: City 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 |
| 2013 | \$ 2,230,262 | \$ 2,066,742 | 92.67% | \$ - | \$ 2,066,742 | 92.67% |
| 2012 | 2,228,253 | 2,066,742 | 92.75% | 110,311 | 2,177,053 | 97.70% |
| 2011 | 2,198,474 | 2,020,397 | 91.90% | 145,112 | 2,165,509 | 98.50% |
| 2010 | 2,254,031 | 2,014,702 | 89.38% | 233,890 | 2,248,592 | 99.76% |
| 2009 | 2,193,853 | 2,046,177 | 93.27% | 142,987 | 2,189,164 | 99.79% |
| 2008 | 2,011,734 | 1,935,183 | 96.19% | 76,141 | 2,011,324 | 99.98% |
| 2007 | 1,921,566 | 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% |
| 2004 | 1,660,424 | 1,544,539 | 93.02% | 115,550 | 1,660,089 | 99.98% |

Source: City Finance Department

See independent auditor's report.

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

| Fiscal Year | General Obligation Bonds (1) | Capital Outlay Notes | Bond Anticipation Notes | General Obligation Bonds | State Revolving Loans | Total Outstanding Debt | Percentage of Estimated Actual Property Value (2) | Population (3) | Debt per Capita |
|-------------------------|------------------------------|----------------------|-------------------------|--------------------------|-----------------------|------------------------|---|----------------|-----------------|
| Governmental Activities | | | | Business-Type Activities | | | | | |
| 2013 | \$ 187,251,307 | \$ - | \$ - | \$ 55,921,045 | \$ - | \$ 243,172,352 | 10.68% | 15,613 | \$ 15,575 |
| 2012 | 188,438,614 | - | - | 59,134,539 | - | 247,573,153 | 10.98% | 15,037 | 16,464 |
| 2011 | 190,173,454 | - | - | 54,659,079 | 5,570,194 | 250,402,727 | 10.79% | 14,807 | 16,911 |
| 2010 | 191,432,757 | - | - | 57,860,002 | 6,355,582 | 255,648,341 | 11.42% | 17,295 | 14,782 |
| 2009 | 192,636,925 | - | - | 60,706,060 | 7,301,199 | 260,644,184 | 12.67% | 16,846 | 15,472 |
| 2008 | 192,200,000 | 101,875 | - | 62,025,958 | 8,215,029 | 262,542,862 | 13.53% | 16,051 | 16,357 |
| 2007 | 193,080,000 | 136,375 | - | 63,104,990 | 9,098,148 | 265,419,513 | 14.46% | 15,489 | 17,136 |
| 2006 | 193,905,000 | 170,875 | - | 63,970,022 | 9,951,610 | 267,997,507 | 19.29% | 12,451 | 21,524 |
| 2005 | 110,295,000 | 205,375 | - | 31,796,045 | 10,776,441 | 153,072,861 | 11.27% | 12,434 | 12,311 |
| 2004 | 115,678,800 | 239,875 | 21,000,000 | 29,995,754 | 11,575,001 | 178,489,430 | 13.63% | 12,434 | 14,355 |

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

(2) Estimated Actual Property Values is disclosed on page 111.

(3) United States Census Bureau

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Direct and Overlapping Governmental Activities Debt
As of June 30, 2013

| <u>Jurisdiction</u> | <u>Net Direct Outstanding Debt</u> | <u>Percentage Applicable to Sevierville</u> | <u>Direct and Overlapping Debt</u> |
|---------------------|--|---|--|
| City | \$ 186,197,873 | 100.00% | \$ 186,197,873 |
| Sevier County | <u>126,042,008</u> | 16.88% | <u>21,275,891</u> |
| | <u>\$ 312,239,881</u> | | <u>\$ 207,473,764</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 City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the property taxpayers of the City of Sevierville. 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 (1)</u> | <u>Personal Income</u> | <u>Unemployment Rate (2)</u> |
|--------------------|-----------------------|------------------------------|------------------------|------------------------------|
| 2013 | ** | ** | ** | 8.20% |
| 2012 | 15,613 | \$ 21,519 | \$ 335,976,147 | 8.30% |
| 2011 | 15,037 | 22,314 | 335,535,618 | 10.00% |
| 2010 | 14,807 | ** | ** | 10.30% |
| 2009 | 17,295 | ** | ** | 10.80% |
| 2008 | 16,846 | ** | ** | 6.90% |
| 2007 | 16,051 | ** | ** | 5.80% |
| 2006 | 15,489 | ** | ** | 3.10% |
| 2005 | 12,451 | ** | ** | 4.60% |
| 2004 | 12,434 | ** | ** | 6.00% |

Sources: (1) U.S. Census Bureau

(2) Tennessee Department of Labor and Workforce Development
unemployment rate for the County (not seasonally adjusted)

** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Principal Employers
Current Year and Nine Years Ago

| Employer | 2013 | | | 2004 | | |
|-----------------------------|--------------|------|-------------------------------------|-----------|------|-------------------------------------|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City 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 | | | | | | | | | |
|---------------------------|--|------|------|------|------|------|------|------|------|------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| General government | 32 | 32 | 32 | 40 | 40 | 32 | 32 | 37 | 27 | 25 |
| Public safety | | | | | | | | | | |
| Police | | | | | | | | | | |
| Officers | 60 | 59 | 58 | 58 | 57 | 56 | 56 | 52 | 52 | 52 |
| Civilians | 14 | 14 | 15 | 15 | 14 | 14 | 14 | 13 | 13 | 13 |
| Fire | | | | | | | | | | |
| Firefighters and officers | 33 | 33 | 33 | 33 | 34 | 33 | 33 | 33 | 21 | 21 |
| Civilians | | | | | | | | | | |
| Codes enforcement | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 5 |
| Public works | | | | | | | | | | |
| Highways and streets | 17 | 17 | 17 | 17 | 16 | 15 | 15 | 15 | 15 | 13 |
| City garage | 8 | 8 | 8 | 8 | 8 | 8 | 7 | 7 | 5 | 4 |
| Sanitation | 11 | 11 | 11 | 11 | 12 | 13 | 12 | 11 | 11 | 12 |
| Culture and recreation | 26 | 25 | 25 | 24 | 24 | 24 | 31 | 40 | 39 | 36 |
| Water | 48 | 48 | 48 | 48 | 48 | 45 | 45 | 41 | | |
| Public Building Authority | | | | | | | | | | |
| Administrative | 3 | 3 | 3 | 3 | 3 | 3 | 0 | 0 | 0 | 0 |
| Convention Center | 8 | 8 | 8 | 8 | 9 | 10 | 0 | 0 | 0 | 0 |
| Recreation - Golf Club | 15 | 15 | 17 | 10 | 10 | 10 | 0 | 0 | 0 | 0 |
| Transit | | | | | | | | | | |
| Total | 282 | 280 | 282 | 282 | 282 | 270 | 252 | 256 | 190 | 181 |

Sources: Various City Departments

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Operating Indicators by Function
Last Ten Years

| | Fiscal Year | | | | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| General government: | | | | | | | | | | |
| Building permits issued | 184 | 231 | 219 | 256 | 244 | 296 | 361 | 309 | 308 | 348 |
| Public safety: | | | | | | | | | | |
| Number of police (regular employees) | 74 | 73 | 73 | 73 | 71 | 70 | 70 | 65 | 65 | 65 |
| Number of arrests | 2,893 | 3,585 | 3,670 | 3,730 | 4,053 | 3,620 | 2,471 | 2,058 | 1,981 | 1,698 |
| Number of traffic violations | 6,834 | 7,112 | 6,308 | 7,993 | 8,261 | 7,318 | 5,585 | 4,542 | 4,496 | 5,141 |
| Number of parking violations | 2 | 12 | 8 | 11 | 10 | 20 | 27 | 63 | 210 | 210 |
| Number of paid firefighters (regular employees) | 33 | 33 | 33 | 33 | 34 | 33 | 33 | 33 | 21 | 21 |
| Number of fire emergency responses | 1,712 | 1,803 | 1,844 | 1,788 | 1,789 | 1,700 | 1,676 | 1,606 | 1,557 | 1,442 |
| Number of fires extinguished | 77 | 86 | 74 | 73 | 103 | 124 | 113 | 96 | 91 | 92 |
| Number of fire inspections | 432 | 265 | 382 | 251 | 250 | 247 | 150 | 250 | 252 | 321 |
| Public works: | | | | | | | | | | |
| Tons collected and disposed: | | | | | | | | | | |
| Solid waste | 10,912 | 10,221 | 9,612 | 9,225 | 8,795 | 8,618 | ** | ** | ** | ** |
| Metal | 18 | ** | ** | ** | ** | ** | ** | ** | ** | ** |
| Papers | 82 | ** | ** | ** | ** | ** | ** | ** | ** | ** |
| Recyclable containers | 98 | 49 | 39 | ** | ** | ** | ** | ** | ** | ** |
| Leaves (tonnage) | 327 | 403 | 344 | 342 | 287 | 286 | ** | ** | ** | ** |
| Number of shade trees: | | | | | | | | | | |
| Planted - Parks and Recreation | 56 | 49 | ** | ** | ** | ** | ** | ** | ** | ** |
| Removed - Parks and Recreation | 86 | 76 | ** | ** | ** | ** | ** | ** | ** | ** |
| Trimmed - Parks and Recreation | 462 | 798 | ** | ** | ** | ** | ** | ** | ** | ** |
| Stumps removed - Parks and Recreation | 5 | 4 | ** | ** | ** | ** | ** | ** | ** | ** |
| Recreation and parks: | | | | | | | | | | |
| Field permits issued | 20 | 20 | 20 | ** | ** | ** | ** | ** | ** | ** |
| Recreation permits issued - memberships and shelter reservations | 6,221 | 758 | 606 | ** | ** | ** | ** | ** | ** | ** |
| Number of youth programs | 4 | 3 | 4 | ** | ** | ** | ** | ** | ** | ** |
| Number of adult programs | 4 | 4 | 4 | ** | ** | ** | ** | ** | ** | ** |
| Number for senior citizens programs | 1 | 1 | 1 | ** | ** | ** | ** | ** | ** | ** |
| Water: | | | | | | | | | | |
| Average daily distribution (gallons) | 3,671,416 | 3,521,583 | 3,598,333 | 3,250,000 | 3,940,000 | 3,512,050 | 3,158,700 | 3,143,400 | 2,741,554 | 2,954,687 |
| Number of metered accounts (water customers) | 12,312 | 12,183 | 12,023 | 11,917 | 11,670 | 11,457 | 11,032 | 10,533 | 9,744 | 8,924 |
| Number of fire lines | 189 | 189 | 188 | 184 | 178 | 170 | 164 | 160 | 146 | 121 |

Sources: Various City Departments
** Data not available

See independent auditor's report.

CITY OF SEVIERVILLE, TENNESSEE

Capital Asset Statistics by Function
Last Ten Fiscal Years

| | Fiscal Year | | | | | | | | | |
|---|-------------|------|------|------|------|------|------|------|------|------|
| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| General government: | | | | | | | | | | |
| Number of general government buildings | 1 | 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 | 2 |
| Number of fire stations (stations and substations) | 2 | 2 | 2 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| Parking department: | | | | | | | | | | |
| Number of parking garages | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Public works: | | | | | | | | | | |
| Number of public works buildings | 4 | 4 | 4 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| Miles of streets (approximate) | 202 | 201 | 200 | 198 | 195 | 190 | 185 | 180 | 170 | 160 |
| Miles of sanitary sewers (sewer mains) | 296 | 255 | 255 | 250 | 247 | 247 | 231 | 219 | 194 | 194 |
| Miles of storm water drains (approximate) | 15 | 15 | 15 | 15 | 15 | 14 | 14 | 14 | 14 | 14 |
| Recreation and parks: | | | | | | | | | | |
| Number of parks and recreation facilities | 20 | 20 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| Acres of parks/areas maintained | 123 | 123 | 121 | 119 | 119 | 119 | 119 | 119 | 119 | 119 |
| Water: | | | | | | | | | | |
| Miles of water mains | 374 | 314 | 314 | 313 | 312 | 312 | 299 | 290 | 256 | 256 |
| Number of fire hydrants | 1,153 | 990 | 965 | 865 | 859 | 660 | 748 | 685 | 676 | 676 |

Source: Various City 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, 2013, 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, 2013.

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.



CERTIFIED PUBLIC ACCOUNTANTS

Knoxville, Tennessee
December 31, 2013