OFFICIAL STATEMENT

NEW ISSUES
BOOK-ENTRY-ONLY

Rating: Standard & Poor's – "AA-"
(See "MISCELLANEOUS- RATING" herein)

In the opinion of the Bond Counsel, interest on the Series 2015B Bonds will be included in gross income of the owners thereof for federal income tax purposes. In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, interest on the Series 2015C Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "LEGAL MATTERS - Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "LEGAL MATTERS - Tax Matters" herein).

$9,215,000

SMITH COUNTY, TENNESSEE

$900,000 General Obligation Refunding Bonds, Series 2015B (Federally Taxable)
$8,315,000 General Obligation Refunding Bonds, Series 2015C (Bank Qualified)

Dated: August 20, 2015. Due: June 1, as shown below.

The $900,000 General Obligation Refunding Bonds, 2015B (Federally Taxable) (the "Series 2015B Bonds") and the $8,315,000 General Obligation Refunding Bonds, Series 2015C (Bank Qualified) (the "Series 2015C Bonds") (collectively, the "Bonds") of Smith County, Tennessee (the "County") shall be issued as book-entry-only Bonds in denominations of $5,000 and authorized integral multiples thereof. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") except as otherwise described herein. DTC will act as securities depository of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, as the nominee for DTC, principal and interest with respect to the Bonds shall be payable to Cede & Co., as nominee for DTC, which will, in turn, remit such principal and interest to the DTC participants for subsequent disbursements to the beneficial owners of the Bonds. Individual purchases of the Bonds will be made in book-entry-only form, in denominations of $5,000 or integral multiples thereof and will bear interest at the annual rates as shown below. Interest on the Bonds is payable semi-annually from the date thereof commencing on December 1, 2015 and thereafter on each June 1 and December 1 by check or draft mailed to the owners thereof as shown on the books and records of Regions Bank, Nashville, Tennessee, the registration and paying agent (the "Registration Agent"). In the event of discontinuation of the book-entry system, principal of and interest on the Bonds are payable at the principal corporate trust office of the Registration Agent.

The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

The Bonds maturing June 1, 2021 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2020.

Series 2015B (Federally Taxable)

Maturity (June 1)	Amount	Interest Rate	Yield	CUSIPS **
2016	$475,000	4.00%	0.45%	832016 FT1
2017	425,000	4.00	1.00	832016 FU8

Series 2015C (Bank Qualified)

Maturity (June 1)	Amount	Interest Rate	Yield	CUSIPS **	Maturity (June 1)	Amount	Interest Rate	Yield	CUSIPS **
2017	$100,000	2.00%	0.85%	832016 FV6	2024	$625,000	2.50%	2.00% c	832016 GC7
2018	550,000	2.00	1.00	832016 FW4	2025	640,000	2.50	2.15 c	832016 GD5
2019	560,000	2.00	1.20	832016 FX2	2026	655,000	2.75	2.30 c	832016 GE3
2020	575,000	2.00	1.40	832016 FY0	2027	670,000	3.00	2.40 c	832016 GF0
2021	585,000	2.00	1.60 c	832016 FZ7	2028	695,000	3.00	2.55 c	832016 GG8
2022	600,000	2.00	1.80 c	832016 GA1	2029	715,000	3.00	2.70 c	832016 GH6
2023	610,000	2.25	1.90 c	832016 GB9	2030	735,000	3.00	2.80 c	832016 GJ2

c = Yield to call on June 1, 2020.

This cover page contains certain information for quick reference only. It is not a summary of these issues. Investors must read the entire OFFICIAL STATEMENT to obtain information essential to make an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval of the legality thereof by Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the County by Branden Bellar, County Attorney. It is expected that the Bonds will be available for delivery through the facilities of Depository Trust Company in New York, New York, on or about August 20, 2015.

Cumberland Securities Company, Inc.
Financial Advisor

July 15, 2015

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement may contain forecasts, projections, and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties, which could cause actual results to differ materially from those contemplated in such forward-looking statements. These forward-looking statements speak only as of the date of this Official Statement. The Issuer disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Issuer's expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based.

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate, and the security and sources of payment for the Bonds. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions and statutes, the Resolution, the Disclosure Certificate, and other documents are intended as summaries only and are qualified in their entirety by reference to such documents and laws, and references herein to the Bonds are qualified in their entirety to the forms thereof included in the Bond Resolution.

The Bonds have not been registered under the Securities Act of 1933, as amended, and the Resolution has not been qualified under the Trust Indenture Act of 1939, in reliance on exemptions contained in such Acts. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

No dealer, broker, salesman, or other person has been authorized by the Issuer, the Financial Advisor or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Issuer, the Financial Advisor or the Underwriter. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

** These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a division of the McCraw-Hill Companies, Inc., and are included solely for the convenience of the Bond holders. The County is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

SMITH COUNTY, TENNESSEE

OFFICIALS

County Mayor	Michael F. Nesbitt
County Clerk	Clifa L. Norris
Assessor of Property	Terry Collins
County Trustee	Lee Ann Williams
County Attorney	Branden Bellar

BOARD OF COUNTY COMMISSIONERS

Tommy Bane	Billy Halliburton
Billy Bass	Mark Jones
Pam Billington	Barbara Kannapel
Carolyn Boles	Chas Kent
Ronald Cowan	Josh Kirby
Daniel Cripps	Joseph Nixon
Potsie Enoch	Linda Nixon
Thomas Gibbs	Glenn Reece
Frank Gibbs	James Winfree
Randy Glover	Frank Woodard
David Gross	Michael Woodard
Dennis Hackett	Billy Woodard

UNDERWRITER

Series 2015B Bonds	**Series 2015C Bonds**
SunTrust Robinson Humphrey	FTN Financial Capital Markets
Nashville, Tennessee	Memphis, Tennessee

REGISTRATION AND PAYING AGENT

Regions Bank
Nashville, Tennessee

BOND COUNSEL

Bass, Berry & Sims PLC
Knoxville, Tennessee

FINANCIAL ADVISOR

Cumberland Securities Company, Inc.
Knoxville, Tennessee

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APPENDIX B: SUPPLEMENTAL INFORMATION STATEMENT

APPENDIX C: GENERAL PURPOSE FINANCIAL STATEMENTS

SUMMARY STATEMENT

The information set forth below is provided for convenient reference and does not purport to be complete and is qualified in its entirety by the information and financial statements appearing elsewhere in this *Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Official Statement*.

The Issuer ..... Smith County, Tennessee (the "County" or "Issuer"). See APPENDIX B contained herein.

Securities Offered ..... The $900,000 General Obligation Refunding Bonds, 2015B (Federally Taxable) (the "Series 2015B Bonds") and the $8,315,000 General Obligation Refunding Bonds, Series 2015C (Bank Qualified) (the "Series 2015C Bonds") (collectively, the "Bonds") of the County, dated August 20, 2015. The Series 2015B Bonds will mature each June 1 beginning June 1, 2016 and June 1, 2017. The Series 2015C Bonds will mature each June 1 beginning June 1, 2017 through June 1, 2030, inclusive. See the section entitled "SECURITIES OFFERED – Authority and Purpose".

Security ..... The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

Purpose ..... The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, certain Outstanding Debt of the County, as described herein and financing a termination payment relating to an interest rate collar agreement; and (ii) payment of the costs related to the issuance and sale of the Bonds. See the section entitled "SECURITIES OFFERED - Authority and Purpose" contained herein.

Optional Redemption ..... The Bonds maturing June 1, 2021 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2020. See Section entitled "SECURITIES OFFERED – Optional Redemption".

Tax Matters ..... In the opinion of Bond Counsel, interest on the Series 2015B Bonds will be included in gross income for federal income tax purposes. Interest on the Series 2015B Bonds will be exempt from certain taxation in Tennessee; all as more fully described in the section entitled "(See "LEGAL MATTERS -Tax Matters" herein.)

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, interest on the Series 2015C Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. Interest on the Series 2015C Bonds will be exempt from certain taxation in Tennessee, all as more fully described in the section entitled "LEGAL MATTERS-Tax Matters" and APPENDIX A (form of opinion) included herein.

Bank Qualification ..... The Series 2015C Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended. See the section entitled "LEGAL MATTERS - Tax Matters" for additional information.

Rating ..... Standard & Poor's: "AA-". See the section entitled "MISCELLANEOUS - Rating" for more information.

Financial Advisor ..... Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled "MISCELLANEOUS-Financial Advisor; Related parties; Other" herein.

Underwriters ..... Series 2015B Bonds: SunTrust Robinson Humphrey., Nashville Tennessee.
Series 2015C Bonds: FTN Financial Capital Markets, Memphis, Tennessee.

Bond Counsel ..... Bass, Berry & Sims PLC, Knoxville, Tennessee.

Book-Entry Only ..... The Bonds will be issued under the Book-Entry-Only System except as otherwise described herein. For additional information, see the section entitled "BASIC DOCUMENTATION - Book-Entry-Only System"

Registration Agent..... Regions Bank, Nashville, Tennessee.

General..... The Bonds are being issued in full compliance with applicable provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as supplemented and revised. See "SECURITIES OFFERED" herein. The Bonds will be issued with CUSIP numbers and delivered through the facilities of The Depository Trust Company, New York, New York.

Disclosure ..... In accordance with Rule 15c2-12 of the U.S. Securities and Exchange Commission as amended, the County will provide the Municipal Securities Rulemaking Board (the "MSRB") and the State information depository ("SID"), if any, annual financial statements and other pertinent credit or event information, including Comprehensive Annual Financial Reports, see the section entitled "MISCELLANEOUS-Continuing Disclosure."

Other Information..... The information in this OFFICIAL STATEMENT is deemed "final" within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission as of the date which appears on the cover hereof. For more information concerning the County or the OFFICIAL STATEMENT contact Michael Nesbitt, County Mayor, 122 Turner High Circle, Carthage, Tennessee 37030, Telephone: (615) 735-2294, or the County's Financial Advisor, Cumberland Securities Company, Inc., 813 S. Northshore Drive, Suite 201A, Knoxville, Tennessee, 37919, Telephone: (865) 988-2663.

GENERAL FUND BALANCES
Summary of Changes In Fund Balances
For the Fiscal Year Ended June 30

	2010	2011	2012	2013	2014
Beginning Fund Balance	$1,283,966	$1,238,813	$785,436	$1,125,864	$1,126,515
Revenues	5,762,846	5,869,325	7,389,590	8,314,600	8,438,814
Expenditures	5,891,028	6,648,619	6,918,723	9,023,412	9,042,052
Excess (Deficiency) of Revenues Over Expenditures					
Debt Proceeds	140,869	-	191,000	774,907	364,036
Insurance Recovery	-	-	-	20,992	558
Transfers In	7,880	375,917	-	24,677	-
Transfers Out	(65,720)	(50,000)	(321,439)	(111,113)	-
Ending Fund Balance	**$1,238,813**	**$785,436**	**$1,125,864**	**$1,126,515**	**$887,871**

Source: Comprehensive Annual Financial Reports of the County.

$9,215,000

SMITH COUNTY, TENNESSEE

$900,000 General Obligation Refunding Bonds, Series 2015B

(Federally Taxable)

$8,315,000 General Obligation Refunding Bonds, Series 2015C

(Bank Qualified)

SECURITIES OFFERED

AUTHORITY AND PURPOSE

This OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by Smith County, Tennessee (the "County", "Municipality" or "Issuer") of its $900,000 General Obligation Refunding Bonds, 2015B (Federally Taxable) (the "Series 2015B Bonds") and the $8,315,000 General Obligation Refunding Bonds, Series 2015C (Bank Qualified) (the "Series 2015C Bonds") (collectively, the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Sections 9-21-101 et. seq., *Tennessee Code Annotated*, and other applicable provisions of law and pursuant to a resolution duly adopted by the Board of Commissioners of the County on May 11, 2015 (the "Resolutions").

The Bonds are being issued for the purpose of (i) refinancing, in whole or in part, certain Outstanding Debt, as described in the "Refunding Plan" below; and (ii) payment of the costs related to the issuance and sale of the Bonds.

REFUNDING PLAN

The County is proposing to refinance the County's outstanding Loan Agreement, Series 2008 dated May 30, 2008 maturing June 1, 2016 through June 1, 2021 (collectively, the "Outstanding Debt"). The Outstanding Debt is expected to be redeemed within 90 days of the issuance of the Bonds. Additionally, the County will terminate an interest rate collar agreement associated with the Outstanding Debt, and the termination payment will be financed with the proceeds of the Series 2015B Bonds.

As required by Title 9, Chapter 21, Part 9 of *Tennessee Code Annotated* as supplemented and revised, a plan of refunding (the "Plan") for the Outstanding Debt was submitted to the Director of the Office of State and Local Finance for review, and a report was received thereon.

DESCRIPTION OF THE BONDS

The Bonds will be dated and bear interest from their date of issuance and delivery August 20, 2015. Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing

December 1, 2015. The Bonds are issuable in book-entry-only form in $5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

The Bonds shall be signed by the County Mayor and shall be attested by the County Clerk. No Bond shall be valid until it has been authorized by the manual signature of an authorized officer or employee of the Registration Agent and the date of the authentication noted thereon.

SECURITY

The Bonds are payable from unlimited *ad valorem* taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

The County, through its governing body, shall annually levy and collect a tax on all taxable property within the County, in addition to all other taxes authorized by law, sufficient to pay the principal of and interest on the Bonds when due. Principal and interest on the Bonds falling due at any time when there are insufficient funds from such tax shall be paid from the current funds of the County and reimbursement therefore shall be made out of taxes provided by the Resolution when the same shall have been collected. The taxes may be reduced to the extent of direct appropriations from the General Fund of the County to the payment of debt service on the Bonds.

The Bonds are not obligations of the State of Tennessee (the "State") or any political subdivision thereof other than the County.

SERIES 2015C BONDS QUALIFIED TAX-EXEMPT OBLIGATIONS

Under the Internal Revenue Code of 1986, as amended (the "Code"), in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations," as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the County as to the Series 2015C Bonds, Bond Counsel has determined that the Series 2015C Bonds, upon issuance, will be "qualified tax-exempt obligations" within the meaning of the Code.

OPTIONAL REDEMPTION OF THE BONDS

The Bonds maturing June 1, 2021 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2020 in whole or part at any time at a redemption price of par plus accrued interest.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of County Commissioners, in its discretion. If less than all the principal amount of the Bonds of a maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the amount of the interest of each DTC Participant in the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(ii) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

NOTICE OF REDEMPTION

Notice of call for redemption, shall be given by the Registration Agent on behalf of the County not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. The notice may state that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to affect the redemption with the Registration Agent no later than the redemption date ("Conditional Redemption"). As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the County nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the County pursuant to written instructions from an authorized representative of the County (other than for a mandatory sinking fund redemption, notices of which shall be given on the dates provided herein) given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided as set forth herein. In the case of a Conditional Redemption, the failure of the County to make funds available in part or in whole on or before the redemption date shall not constitute an event of default, and the Registration Agent shall give immediate notice to the Depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain outstanding.

PAYMENT OF BONDS

The Bonds will bear interest from their date or from the most recent interest payment date to which interest has been paid or duly provided for, on the dates provided herein, such interest being computed upon the basis of a 360-day year of twelve 30-day months. Interest on each Bond shall be paid by check or draft of the Registration Agent to the person in whose name such Bond is registered at the close of business on the 15th day of the month next preceding the interest payment date. The

principal of and premium, if any, on the Bonds shall be payable in lawful money of the United States of America at the principal corporate trust office of the Registration Agent.

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BASIC DOCUMENTATION

REGISTRATION AGENT

The Registration Agent, Regions Bank, Nashville, Tennessee, its successor or the County will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent, except as follows

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. For additional information, see the following section.

BOOK-ENTRY-ONLY SYSTEM

The Registration Agent, its successor or the Issuer will make all interest payments with respect to the Bonds on each interest payment date directly to Cede & Co., as nominee of DTC, the registered owner as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by check or draft mailed to such owner at its address shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Issuer in respect of such Bonds to the extent of the payments so made, except as described above. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds.

The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee, except as described above. When the Bonds are issued, ownership interests will be available to purchasers only through a book entry system maintained by DTC (the "Book-Entry-Only System"). One fully registered bond certificate will be issued for each maturity, in the entire aggregate principal amount of the Bonds and will be deposited with DTC.

DTC and its Participants. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry-only transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of

securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates rep resenting their ownership interests in Bonds, except in the event that use of the book-entry-only system for the Bonds is discontinued.

Payments of Principal and Interest. Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Registration Agent on the payable date in accordance with their respective holdings shown on DTC's records, unless DTC has reason to believe it will not receive payment on such date. Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer or the Registration Agent subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, tender price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of Direct and Indirect Participants.

Notices. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds f or their benefit has agreed to obtain and transmit notices to Beneficial

Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as practicable after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

NONE OF THE ISSUER, THE UNDERWRITER, THE BOND COUNSEL, THE FINANCIAL ADVISOR OR THE REGISTRATION AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENT TO, OR THE PROVIDING OF NOTICE FOR, SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES.

Transfers of Bonds. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the beneficial owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

None of the Issuer, the Bond Counsel, the Registration Agent, the Financial Advisor or the Underwriter will have any responsibility or obligation, legal or otherwise, to any party other than to the registered owners of any Bond on the registration books of the Registration Agent.

DISCONTINUANCE OF BOOK-ENTRY-ONLY SYSTEM

In the event that (i) DTC determines not to continue to act as securities depository for the Bonds or (ii) to the extent permitted by the rules of DTC, the County determines to discontinue the Book-Entry-Only System, the Book-Entry-Only System shall be discontinued. Upon the occurrence of the event described above, the County will attempt to locate another qualified securities depository, and if no qualified securities depository is available, Bond certificates will be printed and delivered to beneficial owners.

No Assurance Regarding DTC Practices. The foregoing information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the County believes to be reliable, but the County, the Bond Counsel, the Registration Agent and the Financial Advisor do not take any responsibility for the accuracy thereof. So long as Cede & Co. is the registered owner of the Bonds as nominee of DTC, references herein to the holders or registered owners of the Bonds will mean Cede & Co. and will not mean the beneficial owners of the Bonds. None of the County, the Bond Counsel, the Registration Agent or the Financial Advisor will have any responsibility or obligation to the Participants, DTC or the persons for

whom they act with respect to (i) the accuracy of any records maintained by DTC or by any Direct or Indirect Participant of DTC, (ii) payments or the providing of notice to Direct Participants, the Indirect Participants or the beneficial owners or (iii) any other action taken by DTC or its partnership nominee as owner of the Bonds.

For more information on the duties of the Registration Agent, please refer to the Resolution. Also, please see the section entitled "SECURITIES OFFERED – Redemption."

DISPOSITION OF BOND PROCEEDS

The proceeds of the sale of the Bonds shall be applied by the County as follows:

(a) all accrued interest, if any, shall be deposited to the appropriate fund of the County to be used to pay interest on the Bonds on the first interest payment date following delivery of the Bonds;

(b) an amount, which together with investment earnings thereon and legally available funds of the County, if any, that will be sufficient to pay principal of, premium, if any, and interest on the portion of the Outstanding Debt being refunded shall be applied to the payment of such outstanding portion of the Outstanding Debt; and

(c) the remainder of the proceeds of the sale of the Bonds shall be used to pay the costs of issuance the Bonds, and all necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, bond insurance premium, if any, administrative and clerical costs, rating agency fees, registration agent fees, and other necessary miscellaneous expenses incurred in connection with the issuance and sale of the Bonds.

DISCHARGE AND SATISFACTION OF BONDS

If the County shall pay and discharge the indebtedness evidenced by any of the Bonds in any one or more of the following ways:

1. By paying or causing to be paid, by deposit of sufficient funds as and when required with the Registration Agent, the principal of and interest on such Bonds as and when the same become due and payable;

2. By depositing or causing to be deposited with any trust company or financial institution whose deposits are insured by the Federal Deposit Insurance Corporation or similar federal agency and which has trust powers ("an Agent"; which Agent may be the Registration Agent) in trust or escrow, on or before the date of maturity or redemption, sufficient money or Defeasance Obligations, as hereafter defined, the principal of and interest on which, when due and payable, will provide sufficient moneys to pay or redeem such Bonds and to pay interest thereon when due until the maturity or redemption date (provided, if such Bonds are to be redeemed prior to maturity thereof, proper notice of such redemption shall have been given or adequate provision shall have been made for the giving of such notice); or

3. By delivering such Bonds to the Registration Agent, for cancellation by it;

and if the County shall also pay or cause to be paid all other sums payable hereunder by the County with respect to such Bonds, or make adequate provision therefor, and by resolution of the Governing Body instruct any such Escrow Agent to pay amounts when and as required to the Registration Agent for the payment of principal of and interest on such Bonds when due, then and in that case the indebtedness evidenced by such Bonds shall be discharged and satisfied and all covenants, agreements and obligations of the County to the holders of such Bonds shall be fully discharged and satisfied and shall thereupon cease, terminate and become void.

If the County shall pay and discharge the indebtedness evidenced by any of the Bonds in the manner provided in either clause (a) or clause (b) above, then the registered owners thereof shall thereafter be entitled only to payment out of the money or Defeasance Obligations deposited as aforesaid.

Except as otherwise provided in this Section, neither Defeasance Obligations nor moneys deposited with the Registration Agent pursuant to this Section nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Registration Agent, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the County as received by the Registration Agent and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due the principal and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the County, as received by the Registration Agent. For these purposes, Defeasance Obligations shall direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations at the time of the purchase thereof are permitted investments under Tennessee law for the purposes described in this Section, which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof.

REMEDIES OF BONDHOLDERS

Under Tennessee law, any Bondholder has the right, in addition to all other rights:

(1) By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce its rights against the County, including, but not limited to, the right to require the County to assess, levy and collect taxes adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the County to carry out any other covenants and agreements, or

(2) By action or suit in equity, to enjoin any acts or things which may be unlawful or a violation of the rights of such Bondholder.

LEGAL MATTERS

LITIGATION

There are no suits threatened or pending challenging the legality or validity of the Bonds or the right of the County to sell or issue the Bonds.

FEDERAL TAX MATTERS – SERIES 2015B BONDS

Disclaimer. Any discussion of the tax issues relating to the Series 2015B Bonds in this Official Statement was written to support the promotion or marketing of the Series 2015B Bonds. Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Each investor should seek advice with respect to the Series 2015B Bonds based on its particular circumstances from an independent tax advisor.

General. The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Series 2015B Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Series 2015B Bonds held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Series 2015B Bonds as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the United States dollar. Potential purchasers of the Series 2015B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, ownership and disposition of the Series 2015B Bonds.

Interest on the Series 2015B Bonds is included from gross income for federal income tax purposes and so will be fully subject to federal income taxation. Purchasers other than those who purchase Series 2015B Bonds in the initial offering at their stated principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Series 2015B Bonds. In general, interest paid on the Series 2015B Bonds accrual of original issue discount and market discount, if any, will be treated as ordinary income to an owner of Series 2015B Bonds and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

Original Issue Discount. The following summary is a general discussion of certain federal income tax consequences of the purchase, ownership and disposition of Series 2015B Bonds issued with original issue discount ("Discount Series 2015B Bonds"). A Bond will be treated as having original issue discount if the excess of its "stated redemption price at maturity" (defined below) over its issue price (defined as the initial offering price at which a substantial amount of the Series 2015B Bonds of the same maturity have first been sold to the public,

excluding Bond houses and brokers) equals or exceeds one quarter of one percent of such Bond's stated redemption price at maturity multiplied by the number of complete years to its maturity.

A Discount Bond's "stated redemption price at maturity" is the total of all payments provided by the Discount Bond that are not payments of "qualified stated interest." Generally, the term "qualified stated interest" includes stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate.

In general, the amount of original issue discount includible in income by the initial holder of a Discount Bond is the sum of the "daily portions" of original issue discount with respect to such Discount Bond for each day during the taxable year in which such holder held such Discount Bond. The daily portion of original issue discount on any Discount Bond is determined by allocating to each day in any "accrual period" a ratable portion of the original issue discount allocable to that accrual period.

An accrual period may be of any length, and may vary in length over the term of a Discount Bond, provided that each accrual period is not longer than one year and each scheduled payment of principal or interest occurs at the end of an accrual period. The amount of original issue discount allocable to each accrual period is equal to the difference between (i) the product of the Discount Bond's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of a Discount Bond at the beginning of any accrual period is the sum of the issue price of the Discount Bond plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the Discount Bond that were not qualified stated interest payments. Under these rules, holders will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

Holders utilizing the accrual method of accounting may generally, upon election, include all interest (including stated interest, acquisition discount, original issue discount, de minimis original issue discount, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable Bond premium or acquisition premium) on the Discount Bond by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount. Any owner who purchases a Bond at a price which includes market discount in excess of a prescribed de minimis amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Bond as ordinary income to the extent of any remaining accrued market discount (under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes The Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner who acquires a Bond at a market discount also may be required to defer, until the maturity date of such Series 2015B Bonds or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Bond in excess of the aggregate amount of interest (including original issue discount) includable in such owner's gross income for the taxable year with respect to such Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Bond for the days during the taxable year on which the owner held the Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the Bondowner elects to include such market discount in income currently as described above.

Bond Premium. A purchaser who purchases a Bond at a cost greater than its then principal amount (or, in the case of a Bond issued with original issue premium, at a price in excess of its adjusted issue price) will have amortizable Bond premium. If the holder elects to amortize the premium under Section 171 of the Code (which election will apply to all Series 2015B Bonds held by the holder on the first day of the taxable year to which the election applies, and to all Series 2015B Bonds thereafter acquired by the holder), such a purchaser must amortize the premium using constant yield principles based on the purchaser's yield to maturity. Amortizable Bond premium is generally treated as an offset to interest income, and a reduction in basis is required for amortizable Bond premium that is applied to reduce interest payments. Purchasers of any Series 2015B Bonds who acquire such Series 2015B Bonds at a premium (or with acquisition premium) should consult with their own tax advisors with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2015B Bonds.

Sale or Redemption of Series 2015B Bonds. A Bondowner's tax basis for a Bond is the price such owner pays for the Bond plus the amount of any original issue discount and market discount previously included in income, reduced on account of any payments received (other than "qualified stated interest" payments) and any amortized Bond premium. Gain or loss recognized on a sale, exchange or redemption of a Bond, measured by the difference between the amount realized and the basis of the Bond as so adjusted, will generally give rise to capital gain or loss if the Bond is held as a capital asset (except as discussed above under "Market Discount"). The legal defeasance of Series 2015B Bonds may result in a deemed sale or exchange of such Series 2015B Bonds under certain circumstances; owners of such Series 2015B Bonds should consult their tax advisors as to the Federal income tax consequences of such an event.

Backup Withholding. A Bondowner may, under certain circumstances, be subject to "backup withholding" (currently the rate of this withholding obligation is 28%, but the rate may change in the future) with respect to interest or original issue discount on the Series 2015B Bonds. This withholding generally applies if the owner of a Bond (a) fails to furnish the Trustee or other payor with its taxpayer identification number, (b) furnishes the Trustee or other payor an incorrect taxpayer identification number, (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to Bondowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Owners of the Series 2015B Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

Backup withholding is not an additional tax. Any amount paid as backup withholding would be credited against the Bondholder's U.S. federal income tax liability, provided that the requisite information is timely provided to the IRS. The amount of "reportable payments" for each calendar year and the amount of tax withheld, if any, with respect to payments on the Series 2015B Bonds will be reported to the Bondowners and to the Internal Revenue Service.

Nonresident Borrowers. Under the Code, interest and original issue discount income with respect to Series 2015B Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the United States withholding tax (or backup withholding) if the County (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement that the beneficial owner of the Bond is a Nonresident. Notwithstanding the foregoing, if any such payments are effectively connected with a United States trade or business conducted by a Nonresident Bondowner, they will be subject to regular United States income tax, but will ordinarily be exempt from United States withholding tax.

ERISA. The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax-qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Series 2015B Bonds.

The opinions of Bond Counsel are not intended or written by Bond Counsel to be used and cannot be used by an owner of the Series 2015B Bonds for the purpose of avoiding penalties that may be imposed on the owner of the Series 2015B Bonds. The opinions of Bond Counsel are provided to support the promotion or marketing of the Series 2015B Bonds. In all events, all investors should consult their own tax advisors in determining the Federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Series 2015B Bonds.

Prospective Bondholders should consult their own tax advisors regarding the foregoing matters.

FEDERAL TAX MATTERS - SERIES 2015C BONDS

Federal

General. Bass, Berry & Sims PLC, Knoxville, Tennessee, is Bond Counsel to the County for the Series 2015C Bonds. Their opinion under existing law, relying on certain statements by the County and assuming compliance by the County with certain covenants, is that interest on the Series 2015C Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the "Code),
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Series 2015C Bonds that the County must continue to meet after the Series 2015C Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the County does not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2015C Bonds in its federal gross income on a retroactive basis to the date of issue. The County has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Series 2015C Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit or
- a borrower of money to purchase or carry the Series 2015C Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Series 2015C Bonds or affect the market price of the Series 2015C Bonds. See also "Changes in Federal and State Law" below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2015C Bonds, or under State, local or foreign tax law.

Bond Premium. If a bondholder purchases a Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Bond will be reduced. The holder of a Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Series 2015C Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with a bond premium, even though the Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Series 2015C Bonds with a bond premium, it should consult its tax advisor regarding the tax accounting treatment of a bond premium.

Original Issue Discount. A Bond will have "original issue discount" if the price paid by the original purchaser of such Bond is less than the principal amount of such Bond. Bond Counsel's opinion is that any original issue discount on these Series 2015C Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of an original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Series 2015C Bonds will be increased. If a bondholder owns one of these Series 2015C Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

Series 2015C Bonds - Qualified Tax-Exempt Obligations. Under the Code, in the case of certain financial institutions, no deduction from income under the federal tax law will be allowed for that portion of such institution's interest expense which is allocable to tax-exempt interest received on account of tax-exempt obligations acquired after August 7, 1986. The Code, however, provides that certain "qualified tax-exempt obligations", as defined in the Code, will be treated as if acquired on August 7, 1986. Based on an examination of the Code and the factual representations and covenants of the County as to the Series 2015C Bonds, Bond Counsel has determined that the Series 2015C Bonds, upon issuance, will be "qualified tax-exempt obligations" within the meaning of the Code.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest on tax-exempt obligations, including the Series 2015C Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2015C Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

STATE TAX MATTERS

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

CHANGES IN FEDERAL AND STATE TAX LAW

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby. Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the County will execute in a form satisfactory to Bond Counsel, certain closing certificates including the following: (i) a certificate as to the *Official Statement*, in final form, signed by the County Mayor acting in his official capacity to the effect that to the best of his knowledge and belief, and after reasonable investigation, (a) neither the *Official Statement*, in final form, nor any amendment or supplement thereto, contains any untrue statements of material fact or omits to state any material fact necessary to make statements therein, in light of the circumstances in which they are made, misleading, (b) since the date of the *Official Statement*, in final form, no event has occurred which should have been set forth in such a memo or supplement, (c) there has been no material adverse change in the operation or the affairs of the County since the date of the *Official Statement*, in final form, and having attached thereto a copy of

the *Official Statement*, in final form, and (d) there is no litigation of any nature pending or threatened seeking to restrain the issuance, sale, execution and delivery of the Bonds, or contesting the validity of the Bonds or any proceeding taken pursuant to which the Bonds were authorized; (ii) certificates as to the delivery and payment, signed by the County Mayor acting in his official capacity, evidencing delivery of and payment for the Bonds; (iii) a signature identification and incumbency certificate, signed by the County Mayor and County Clerk acting in their official capacities certifying as to the due execution of the Bonds; and, (iv) a Continuing Disclosure Certificate regarding certain covenants of the County concerning the preparation and distribution of certain annual financial information and notification of certain material events, if any.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Bass, Berry & Sims PLC, Knoxville, Tennessee, Bond Counsel. Bond Counsel has not prepared the *Preliminary Official Statement* or the *Official Statement*, in final form, or verified their accuracy, completeness or fairness. Accordingly, Bond Counsel expresses no opinion of any kind concerning the *Preliminary Official Statement* or *Official Statement*, in final form, except for the information in the section entitled "LEGAL MATTERS - Tax Matters." The opinion of Bond Counsel will be limited to matters relating to authorization and validity of the Bonds and to the tax-exemption of interest on the Bonds under present federal income tax laws, both as described above. The legal opinion will be delivered with the Bonds and the form of the opinion is included in APPENDIX A. For additional information, see the section entitled "MISCELLANEOUS – "Competitive Public Sale", "Additional Information" and "Continuing Disclosure."

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MISCELLANEOUS

RATING

Standard & Poor's Rating Services ("Standard & Poor's") has given the Bonds the rating of "AA-".

There is no assurance that such rating will continue for any given period of time or that the rating may not be suspended, lowered or withdrawn entirely by Standard & Poor's, if circumstances so warrant. Due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Bonds. Any such downward change in or withdrawal of the rating may have an adverse effect on the secondary market price of the Bonds.

The rating reflects only the views of Standard & Poor's and any explanation of the significance of such rating should be obtained from Standard & Poor's.

COMPETITIVE PUBLIC SALE

The Bonds were offered for sale at competitive public bidding on July 15, 2015. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated July 8, 2015.

The successful bidder for the Series 2015B Bonds was an account led by SunTrust Robinson Humphrey, Nashville, Tennessee (the "Underwriters") who contracted with the County, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Series 2015B Bonds at a purchase price of $932,184.50 (consisting of the par amount of the Bonds, plus an offering premium of $35,559.50 less an underwriter's discount of $3,375.00) or 103.576% of par.

The successful bidder for the Series 2015C Bonds was an account led by FTN Financial Capital Markets, Memphis, Tennessee (the "Underwriters") who contracted with the County, subject to the conditions set forth in the Official Notice of Sale and Bid Form to purchase the Series 2015C Bonds at a purchase price of $8,420,806.78 (consisting of the par amount of the Bonds, plus an offering premium of $160,936.45 less an underwriter's discount of $55,129.67) or 101.272% of par.

FINANCIAL ADVISOR; RELATED PARTIES; OTHER

Financial Advisor. Cumberland Securities Company, Inc., Knoxville, Tennessee has been employed by the County to serve as its Financial Advisor. The Financial Advisor is an independently owned financial advisory firm.

Regions Bank. Regions Bank (the "Bank") is a wholly-owned subsidiary of Regions Financial Corporation. The Bank provides, among other services, commercial banking, investments and corporate trust services to private parties and to State and local jurisdictions, including serving as registration, paying agent or filing agent related to debt offerings. The Bank will receive compensation for its role in serving as Registration and Paying Agent for the Bonds. In instances where the Bank serves the County in other normal commercial banking capacities, it will be compensated separately for such services.

Official Statement. Certain information relative to the location, economy and finances of the Issuer is found in the *Preliminary Official Statement*, in final form and the *Official Statement*, in final form. Except where otherwise indicated, all information contained in this Official Statement has been provided by the Issuer. The information set forth herein has been obtained by the Issuer from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Financial Advisor or the Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Issuer, or the other matters described herein since the date hereof or the earlier dates set forth herein as of which certain information contained herein is given.

Cumberland Securities Company, Inc. distributed the *Preliminary Official Statement*, in final form, and the *Official Statement*, in final form on behalf of the County and will be compensated and/or reimbursed for such distribution and other such services.

Bond Counsel. From time to time, Bass, Berry & Sims PLC has represented the Bank on legal matters unrelated to the County and may do so again in the future.

Other. Among other services, Cumberland Securities Company, Inc. and the Bank may also assist local jurisdictions in the investment of idle funds and may serve in various other capacities, including Cumberland Securities Company's role as serving as the County's Dissemination Agent. If the County chooses to use one or more of these other services provided by Cumberland Securities Company, Inc. including Dissemination Agent and/or the Bank, then Cumberland Securities Company, Inc. and/or the Bank may be entitled to separate compensation for the performance of such services.

ADDITIONAL DEBT

The County has not authorized any additional debt. However, the County has ongoing captial needs that may or may not require the issuance of additional debt.

DEBT LIMITATIONS

Pursuant to Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, there is no limit on the amount of bonds that may be issued when the County uses the statutory authority granted therein to issue bonds. (see "DEBT STRUCTURE - Indebtedness and Debt Ratios" for additional information.)

DEBT RECORD

There is no record of a default on principal and interest payments by the County from information available. Additionally, no agreements or legal proceedings of the County relating to securities have been declared invalid or unenforceable.

CONTINUING DISCLOSURE

The County will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information relating to the County by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2015 (the "Annual Report"), and to provide notice of the occurrence of certain significant events not later than ten business days after the occurrence of the events and notice of failure to provide any required financial information of the County. The Annual Report (and audited financial statements if filed separately) and notices described above will be filed by the County with the Municipal Securities Rulemaking Board ("MSRB") at www.emma.msrb.org and with any State Information Depository which may be established in Tennessee (the "SID"). The specific nature of the information to be contained in the Annual Report or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule").

Five-Year History of Filing. The County has not filed any Annual Reports or disclosure information in the last five years, as required under its formerly outstanding Continuing Disclosure Agreement that was entered into in connection with the issuance of the General Obligation School Refunding Bonds, Series 2005, dated January 1, 2005 (the "Series 2005 Bonds") and had failed to file notice of such failure to file. Therefore, on February 6, 2015, the County instructed Cumberland Securities Company, Inc. to file the last five years of audited financial statements and the additional information for the fiscal year ended June 30, 2014. On April 1, 2015, the Series 2005 Bonds were redeemed and the related Continuing Disclosure Agreement was no longer in effect. The County on March 31, 2015, issued its General Obligation Refunding Bonds, Series 2015A, dated March 31, 2015 (the, "Series 2015A Bonds") and entered into a new Continuing Disclosure Agreement (the "2015A Agreement"). The County is in compliance with the 2015A Agreement. Additionally, the County will retain Cumberland Securities Company, Inc. as its Dissemination Agent to file its required information going forward on an annual basis.

Content of Annual Report. The County's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the County for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the County's

audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information included in APPENDIX B entitled "SUPPLEMENTAL INFORMATION STATEMENT."

1. Summary of Long-term indebtedness as of the end of such fiscal year as shown on page B-7;

2. The indebtedness and debt ratios as of the end of such fiscal year, together with information about the property tax base as shown on pages B-8 through B-9;

3. Information about the Bonded Debt Service Requirements – General Obligation Debt Service Fund as of the end of such fiscal year as shown on page B-10;

4. Information about the Bonded Debt Service Requirements – Courthouse / Jail Maintenance Debt Service Fund as of the end of such fiscal year as shown on page B-11;

5. Information about the Bonded Debt Service Requirements – Education Debt Service Fund as of the end of such fiscal year as shown on page B-12;

6. Information about the Bonded Debt Service Requirements – Solid Waste Fund as of the end of such fiscal year as shown on page B-13;

7. Information about the Bonded Debt Service Requirements – Highway Fund as of the end of such fiscal year as shown on page B-14;

8. The fund balances and retained earnings for the fiscal year as shown on page B-15;

9. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-16;

10. The estimated assessed value of property in the County for the tax year ending in such fiscal year and the total estimated actual value of all taxable property for such year as shown on page B-18;

11. Property tax rates and tax collections of the County for the tax year ending in such fiscal year as well as the uncollected balance for such fiscal year as shown on page B-19; and

12. The ten largest taxpayers as shown on page B-19.

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the County or related public entities, which have been submitted to each of the Repositories or the U.S. Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement,

in final form, it will be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. The County will file notice regarding material events with the MSRB and the SID, if any, as follows:

1. Upon the occurrence of a Listed Event (as defined in (3) below), the County shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and SID, if any. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

2. For Listed Events where notice is only required upon a determination that such event would be material under applicable Federal securities laws, the County shall determine the materiality of such event as soon as possible after learning of its occurrence.

3. The following are the Listed Events:

    a. Principal and interest payment delinquencies;

    b. Non-payment related defaults, if material;

    c. Unscheduled draws on debt service reserves reflecting financial difficulties;

    d. Unscheduled draws on credit enhancements reflecting financial difficulties;

    e. Substitution of credit or liquidity providers, or their failure to perform;

    f. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

    g. Modifications to rights of Bondholders, if material;

    h. Bond calls, if material, and tender offers;

    i. Defeasances;

    j. Release, substitution, or sale of property securing repayment of the securities, if material;

    k. Rating changes;

    l. Bankruptcy, insolvency, receivership or similar event of the obligated person;

m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

n. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Termination of Reporting Obligation. The County's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the County may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default. In the event of a failure of the County to comply with any provision of the Disclosure Certificate, any Bondholder or any beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under the Disclosure Certificate. A default under

the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance.

ADDITIONAL INFORMATION

Use of the words "shall," "must," or "will" in this Official Statement in summaries of documents or laws to describe future events or continuing obligations is not intended as a representation that such event will occur or obligation will be fulfilled but only that the document or law contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Bonds.

The references, excerpts and summaries contained herein of certain provisions of the laws of the State of Tennessee, and any documents referred to herein, do not purport to be complete statements of the provisions of such laws or documents, and reference should be made to the complete provisions thereof for a full and complete statement of all matters of fact relating to the Bonds, the security for the payment of the Bonds, and the rights of the holders thereof.

The PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT, in final form, and any advertisement of the Bonds, is not to be construed as a contract or agreement between the County and the purchasers of any of the Bonds. Any statements or information printed in this PRELIMINARY OFFICIAL STATEMENT or the OFFICIAL STATEMENT, in final form, involving matters of opinions or of estimates, whether or not expressly so identified, is intended merely as such and not as representation of fact.

The County has deemed this OFFICIAL STATEMENT as “final” as of its date within the meaning of Rule 15c2-12(b) of the U.S. Securities and Exchange Commission.

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CERTIFICATION OF THE COUNTY

On behalf of the County, we hereby certify that to the best of our knowledge and belief, the information contained herein as of this date is true and correct in all material respects, and does not contain an untrue statement of material fact or omit to state a material fact required to be stated where necessary to make the statement made, in light of the circumstance under which they were made, not misleading.

/s/ Michael Nesbitt
County Mayor

ATTEST:

/s/ Clifa Norris
County Clerk

APPENDIX A

LEGAL OPINIONS

LAW OFFICES OF
BASS, BERRY & SIMS PLC
900 SOUTH GAY STREET, SUITE 1700
KNOXVILLE, TENNESSEE 37902

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by Smith County, Tennessee (the "Issuer") of the $900,000 General Obligation Refunding Bonds, Series 2015B (Federally Taxable) (the "Series 2015B Bonds") and the $8,315,000 General Obligation Refunding Bonds, Series 2013C (Bank Qualified) (the "Series 2015C Bonds," and together with the Series 2015B Bonds, the "Bonds") dated August 20, 2015. We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.

2. The resolution of the Board of County Commissioners of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The Bonds constitute general obligations of the Issuer to which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the territorial limits of the Issuer.

4. Interest on the Series 2015C Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Interest on the Series 2015B Bonds is not

excludable from gross income for federal income tax purposes. Except as set forth in this Paragraph 4 and Paragraph 6, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

6. The Series 2015C Bonds are "qualified tax-exempt" obligations within the meaning of Section 265 of the Code.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolutions authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

APPENDIX B

SUPPLEMENTAL INFORMATION STATEMENT

GENERAL INFORMATION

LOCATION

Smith County (the "County") lies along the western foothills of the Cumberland Mountains in the central portion of the State of Tennessee. The City of Carthage (the "City") serves as the county seat. The County is bordered to the north by Trousdale, Macon and Jackson Counties. Putnam County provides the County's eastern border, while Dekalb County makes up the County's southern border. To the west, the County is bordered by Wilson County. The City is located 49 miles southeast of Nashville. The other incorporated cities in the County include Gordonsville and South Carthage. The population according to the 2010 U.S. Census for the County was 19,166 and for the City was 2,306.

GENERAL

Approximate land area of the County measures 314 square miles. Leading crops include hay, soybeans, corn and tobacco.

The County is part of the Nashville-Murfreesboro Metropolitan Statistical Area (the "MSA"), which includes Cannon, Cheatham, Davidson, Dickson, Hickman, Macon, Maury, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson and Wilson Counties. According to the 2010 US Census the MSA had a population of 1,674,191.

The County is also part of the Nashville-Murfreesboro Combined Statistical Area (the "CSA") which includes Cannon, Cheatham, Davidson, Dickson, Hickman, Macon, Maury, Robertson, Rutherford, Smith, Sumner, Trousdale, Williamson and Wilson Counties. According to the 2010 Census, the CSA had a population of 1,674,191. The City of Nashville, the State Capital, is the largest city in the CSA with a population of 626,681 according to the 2010 Census.

TRANSPORTATION

Transportation for the County is provided by a variety of sources. The County is served by Interstate 40, U.S. Highways 70N and 141, and State Highways 25, 53, 80, 85, 263, and 264. One motor freight carrier maintains routes throughout the County. Nashville and Eastern Railroad provide the County's rail services. The nearest port facility is 50 miles away in Nashville on the Cumberland River. Private air service is provided by the Lebanon Municipal Airport about 22 miles away which has a 5,000 foot runway. The closest full-service commercial airport is located 49 miles away at the Nashville International Airport.

EDUCATION

The *Smith County School System* serves the County with nine total schools, which include six elementary schools, one middle school and two high schools. The fall 2013 enrollment was 3,210 students with 185 teachers.

Source: Tennessee Department of Education.

Volunteer State Community College is a public two-year community college in Gallatin, Tennessee, serving a twelve-county region including the counties of Clay, Jackson, Macon, Overton, Pickett, Putnam, Robertson, Smith, Sumner, Trousdale and Wilson. Fall 2013 enrollment was 8,190. Off-Campus operations include two Degree-Granting Centers, five major teaching sites, high-school dual enrollment sites and various allied health and business sites in Davidson, Macon, Robertson, Overton and Wilson Counties.

Source: Volunteer State Community College.

The Tennessee Technology Center at Hartsville. The Tennessee Technology Center at Hartsville is part of a statewide system of 26 vocational-technical schools. The Tennessee Technology Center meets a Tennessee mandate that no resident is more than 50 miles from a vocational-technical shop. The institution's primary purpose is to meet the occupational and technical training needs of the citizens including employees of existing and prospective businesses and industries in the region. The Technology Center at Hartsville serves the north central region of the state including Trousdale, Macon, Smith and Sumner Counties. The Technology Center at Hartsville began operations in 1965, and the 20 acre main campus is located in Trousdale County. Fall 2012 enrollment was 913 students. There are also Instructional Service Centers located at the Trousdale County High School and Gallatin Housing Authority (SumHar Rose Learning Center).

Source: Tennessee Technology Center at Hartsville.

MEDICAL FACILITIES

Riverview Regional Medical Center. Riverview Regional Medical Center ("RRMC") in Carthage has 63 staffed beds and provides general medical and surgical care, 24-hour emergency services, skilled nursing, psychiatric services and geriatric care to residents of Smith and surrounding counties. Formerly Carthage General Hospital, the hospital was built in 1966 and HighPoint Health System acquired the hospital in 2004. More than 80 physicians and mid-level providers are on the RRMC medical staff.

The HighPoint Health System is comprised of four hospitals, including Sumner Regional Medical Center, the 155-bed flagship hospital located in Gallatin; Riverview Regional Medical Center - North, a 63-bed acute care hospital in Carthage; Riverview Regional Medical Center – South, a 25-bed critical access hospital in Carthage; and Trousdale Medical Center, a 25-bed critical access hospital in Hartsville. The system is part of LifePoint Hospital, Inc. based in Brentwood, Tennessee. LifePoint's network of 50 hospital facilities nationwide, which includes six other hospitals in Tennessee: Athens Regional Medical Center in Athens, Crockett Hospital in Lawrenceburg, Livingston Regional Hospital in Livingston, Hillside Hospital in Pulaski, Southern Tennessee Medical Center in Winchester and Emerald-Hodgson Hospital (a campus of Southern Tennessee Medical Center) in Sewanee. (See "RECENT DEVELOPMENTS" for more information.)

Source: Riverview Regional Medical Center.

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MANUFACTURING AND COMMERCE

The following is a list of the major industrial employers in the County:

Major Industrial Employers in Smith County

Company	Product	Employment
Nyrstar Zinc Mine	Zinc mining	450
Bonnell Aluminum	Aluminum extrusion	440
Dana Driveshaft Products, LLC	Driveshaft supplier	225
Shiroki Manufacturing	Automotive supplier	209
Graphic Packaging	Paper board packaging	200
Fabricated Tube Products	Metal tube fabrication	140
Taiho TN, Mfg. LLC	Head gaskets	50
Rackley Roofing Co	. Commercial roofing-sheet metal	35
Elmet-ETI	High condition components	30
Tom Arnold Construction	State bid work	24
Prospect, Inc.		20
Filtra Systems	Filtra equipment	20
Eatherly Group, Inc.	Road-bridge construction	20

Source: Middle Tennessee Industrial Development Association - 2014.

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EMPLOYMENT INFORMATION

For the month of March 2015, the unemployment rate for Smith County stood at 6.5% with 8,060 persons employed out of a labor force of 8,620.

The Nashville-Murfreesboro-Franklin MSA's unemployment for March 2015 was at 4.6% with 876,310 persons employed out of a labor force of 918,450. As of March 2015, the unemployment rate in the Nashville-Murfreesboro CSA stood at 4.7%, representing 924,740 persons employed out of a workforce of 970,220.

Unemployment

	Annual Average **2010**	Annual Average **2011**	Annual Average **2012**	Annual Average **2013**	Annual Average **2014**
National	9.6%	8.9%	8.1%	7.4%	6.2%
Tennessee	9.7%	9.2%	8.0%	8.2%	6.7%
Smith County	**10.4%**	**9.4%**	**7.5%**	**7.5%**	**6.3%**
Index vs. National	108	106	93	101	102
Index vs. State	107	102	94	91	94
Nashville – Murfreesboro MSA	**8.6%**	**8.0%**	**6.6%**	**6.5%**	**5.2%**
Index vs. National	90	90	81	88	84
Index vs. State	89	87	82	79	78
Nashville – Murfreesboro CSA	**8.9%**	**8.2%**	**6.7%**	**6.6%**	**5.4%**
Index vs. National	93	92	83	89	87
Index vs. State	92	89	84	80	81

Source: Tennessee Department of Employment Security, CPS Labor Force Estimates Summary.

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ECONOMIC DATA

Per Capita Personal Income

	2009	2010	2011	2012	2013
National	$39,379	$40,144	$42,332	$44,200	$44,765
Tennessee	$34,439	$35,426	$37,151	$39,002	$39,558
Smith County	**$28,577**	**$29,814**	**$31,698**	**$33,545**	**$34,371**
Index vs. National	73	74	75	76	77
Index vs. State	83	84	85	86	87
Nashville – Murfreesboro MSA	**$39,369**	**$40,571**	**$42,494**	**$45,207**	**$45,759**
Index vs. National	100	101	100	102	102
Index vs. State	114	115	114	116	116
Nashville – Murfreesboro CSA	**$38,549**	**$39,704**	**$41,576**	**$44,217**	**$44,800**
Index vs. National	98	99	98	100	100
Index vs. State	112	112	112	113	113

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Social and Economic Characteristics

	National	Tennessee	Smith County
Median Value Owner Occupied Housing	$176,700	$139,200	$113,800
% High School Graduates or Higher Persons 25 Years Old and Older	86.0%	84.4%	78.9%
% Persons with Income Below Poverty Level	15.4%	17.6%	19.4%
Median Household Income	$53,046	$44,298	$42,383

Source: U.S. Census Bureau State & County QuickFacts - 2013.

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RECREATION

Cordell Hull Birthplace State Park. The Cordell Hull Birthplace and Museum is a historic site located in Jackson, Smith and Pickett Counties. The site is located on 45-acres on the Highland Rim near the Kentucky border. The site consists of a representation of Hull's log cabin birthplace, an activities center and a museum housing documents and artifacts. Also on the park is beautiful Bunkum Cave Trail leading to an overlook and the actual entrance of historic Bunkum Cave where Cordell Hull's father made moonshine years ago. The collection includes his Nobel Peace Prize that is on display. Following nomination by Roosevelt, the Norwegian Nobel Committee presented the 1945 Nobel Prize for Peace to Hull in recognition of his work in the Western Hemispheres, for his international trade agreements, and for his efforts in establishing the United Nations.

Source: Tennessee State Parks.

Cordell Hull Lake. Cordell Hull Lake is located on the Cumberland River in Smith, Jackson, and Clay Counties of Tennessee. The 72-mile long lake has 381 miles of shoreline and contains 11,960 surface areas of water. Total storage capacity at maximum pool is 13,920 acres. Cordell Hull Lake has a total of 38,633 acres of land and water. Picnicking, camping, boating, and fishing are all popular activities on the Lake.

Source: US Army Corps of Engineers

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SMITH COUNTY, TENNESSEE

SUMMARY OF BONDED INDEBTEDNESS

AMOUNT ISSUED		PURPOSE	DUE DATE	INTEREST RATE(S)	Estimated As of June 30, 2015 (1) OUTSTANDING
$ 1,250,000		General Obligation Bond, Series 2009 (General Fund) (Fire Trucks)	June 2029	Fixed	$ 982,364
60,000		Capital Outlay Notes, Series 2010B (General Fund) (Ambulances)	July 2016	Fixed	20,000
112,500		Capital Outlay Notes, Series 2010 (General Fund) (EMS)	July 2019	Fixed	62,500
191,000		Capital Outlay Notes, Series 2012 (General Fund) (Patrol Cars)	Aug 2015	Fixed	63,667
191,000		Capital Outlay Notes, Series 2013 (GDSF) (Patrol Cars)	Dec 2016	Fixed	127,333
90,000		General Obligation Bond, Series 2003 (GDSF) (Welcome Center)	Oct 2042	Fixed	77,285
1,250,000	(2)	Loan Agreement, Series 2005 (General Debt Service Fund)	May 2025	Variable	702,000
257,200		USDA Loan Agreement, Series 2006 (GDSF) (Community Center)	May 2042	Fixed	225,635
1,378,600	(2)	Loan Agreement, Series 2007 (General Debt Service Fund)	May 2027	Variable	980,940
1,066,800		Capital Outlay Notes, Series 2007 (GDSF) (Health Dept)	Jan 2019	Fixed	355,600
260,000		Capital Outlay Notes, Series 2008 (GDSF) (Health Center)	Mar 2020	Fixed	108,333
300,000		Capital Outlay Notes, Series 2012 (GDSF) (Lighting)	Dec 2015	Fixed	100,000
100,000		Capital Outlay Notes, Series 2013 (GDSF) (Highway)	April 2019	Fixed	66,667
205,907		Capital Outlay Notes, Series 2013 (GDSF) (Mowers)	Jan 2016	Fixed	68,635
78,000		Capital Outlay Notes, Series 2013 (GDSF) (Ambulance)	Feb 2016	Fixed	26,000
85,000		Capital Outlay Notes, Series 2014 (GDSF) (Lights)	Mar 2017	Fixed	56,667
88,036		Capital Outlay Notes, Series 2014 (GDSF) (Ambulance)	Jan 2017	Fixed	58,691
10,000,000	(2)	Loan Agreement, Series 2008 (Jail Maintenance Fund)	May 2030	Variable	8,329,000
8,930,000		General Obligation Refunding Bonds, Series 2015A (Education Debt Service) (As of April 01, 2015)	April 2021	Fixed	8,930,000
2,000,000		General Obligation Bond, Series 2005 (Solid Waste)	Dec 2045	Fixed	1,805,154
700,000		Capital Outlay Notes, Series 2007 (Solid Waste)	July 2016	Fixed	155,555
508,138		Capital Outlay Notes, Series 2012 (Solid Waste)	Mar 2021	Fixed	338,759
258,200		Capital Outlay Notes, Series 2013 (Solid Waste)	Dec 2019	Fixed	215,233
2,280,990		Capital Outlay Notes, Series 2013 (Solid Waste)	July 2022	Fixed	2,027,546
553,055		Capital Outlay Notes, Series 2014 (Solid Waste)	April 2017	Fixed	368,704
82,000		Capital Outlay Notes, Series 2014 (Solid Waste)	Mar 2017	Fixed	54,667
182,000		Capital Outlay Notes, Series 2014 (Highway)	Jan 2017	Fixed	121,333
200,000		Capital Outlay Notes, Series 2015 (Highway) (Post 6-30-2014)	Feb 2018	Fixed	173,423
$ 32,658,426		**TOTAL BONDED DEBT**			$ 26,601,691
$ 900,000		General Obligation Refunding Bonds, Series 2015B (Federally Taxable)	June 2017	Fixed	$ 900,000
8,315,000		General Obligation Refunding Bonds, Series 2015C (Bank-Qualified)	June 2030	Fixed	8,315,000
(10,000,000)		Less: Bonds Being Refinanced			(8,329,000)
$ 31,873,426		**NET BONDED DEBT**			$ 27,487,691

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) The County budgets to account for interest rate and/or basis risk.

SMITH COUNTY, TENNESSEE

Indebtedness and Debt Ratios

INTRODUCTION

The information set forth in the following table is based upon information derived in part from the CAFR and the table should be read in conjunction with those statements.

	For Fiscal Year Ended June 30				Unaudited	After Issuance
INDEBTEDNESS	**2011**	**2012**	**2013**	**2014**	**2015**	**2015**
TAX SUPPORTED						
General Obligation Bonds & Notes	$ 15,283,633	$ 12,754,487	$ 12,237,097	$ 12,164,657	$ 12,706,073	$ 13,297,317
School Bonds & Notes (Education Debt Service)	14,000,000	12,900,000	11,780,000	10,550,000	8,930,000	8,930,000
TOTAL TAX SUPPORTED	$ 29,283,633	$ 25,654,487	$ 24,017,097	$ 22,714,657	$ 21,636,073	$ 22,227,317
REVENUE SUPPORTED						
Solid Waste Debt (Tax Backed)	$ 3,326,730	$ 3,598,753	$ 3,305,074	$ 5,631,512	$ 4,965,617	$ 4,965,617
TOTAL DEBT	$ 32,610,363	$ 29,253,240	$ 27,322,171	$ 28,346,169	$ 26,601,691	$ 27,192,934
Less: Solid Waste Debt	$ (3,326,730)	$ (3,598,753)	$ (3,305,074)	$ (5,631,512)	$ (4,965,617)	$ (4,965,617)
Less: General Debt Service Fund	$ (556,198)	(926,713)	(717,924)	(315,111)	(315,111)	(315,111)
Less: Education Debt Service Fund	(1,692,002)	(1,964,162)	(2,277,469)	(2,607,520)	(2,607,520)	(2,607,520)
NET DIRECT DEBT	$ 27,035,433	$ 22,763,612	$ 21,021,704	$ 19,792,026	$ 18,713,442	$ 19,304,686
PROPERTY TAX BASE						
Estimated Actual Value	$ 1,204,765,530	$ 1,188,002,481	$ 1,181,067,409	$ 1,198,555,548	$ 1,237,394,023	$ 1,237,394,023
Appraised Value	$ 1,092,119,953	$ 1,127,889,555	$ 1,181,067,409	$ 1,198,555,548	$ 1,227,742,350	$ 1,227,742,350
Assessed Value	$ 303,942,400	$ 315,547,770	$ 331,767,763	$ 336,700,765	$ 346,544,229	$ 346,544,229

Source: General Purpose Financial Statements and County Officials.

DEBT RATIOS	For Fiscal Year Ended June 30 2011	2012	2013	2014	Unaudited 2015	After Issuance 2015
TOTAL DEBT to Estimated Actual Value	2.43%	2.16%	2.03%	1.90%	1.75%	1.80%
TOTAL DEBT to Appraised Value	2.68%	2.27%	2.03%	1.90%	1.76%	1.81%
TOTAL DEBT to Assessed Value	9.63%	8.13%	7.24%	6.75%	6.24%	6.41%
NET DIRECT DEBT to Estimated Actual Value	9.08%	7.51%	6.55%	5.97%	5.49%	5.66%
NET DIRECT DEBT to Appraised Value	2.53%	2.10%	1.84%	1.68%	1.55%	1.60%
NET DIRECT DEBT to Assessed Value	9.08%	7.51%	6.55%	5.97%	5.49%	5.66%
PER CAPITA RATIOS						
POPULATION (1)	19,129	19,126	19,061	19,009	19,074	19,074
PER CAPITA PERSONAL INCOME (2)	$31,698	$33,545	$34,371	$34,371	$34,371	$34,371
Estimated Actual Value to POPULATION	62,981	62,115	61,963	63,052	64,873	64,873
Assessed Value to POPULATION	15,889	16,498	17,406	17,713	18,168	18,168
Total Debt to POPULATION	1,705	1,530	1,433	1,491	1,395	1,426
Net Direct Debt to POPULATION	1,413	1,190	1,103	1,041	981	1,012
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	4.83%	4.00%	3.67%	3.48%	3.30%	3.39%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	4.46%	3.55%	3.21%	3.03%	2.85%	2.94%

(1) Per Capita computations are based upon POPULATION data according to the U.S. Census.

(2) PER CAPITA PERSONAL INCOME is based upon the most current data available from the U. S. Department of Commerce.

SMITH COUNTY, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - GENERAL

General Fund / General Debt Service Fund

F.Y. Ended 6/30	Estimated Total Bonded Debt Service Requirements (1) Principal	Interest (2)	TOTAL	% All Principal Repaid
2016	$ 681,597	$ 116,178	$ 797,776	18.92%
2017	428,469	97,161	525,630	
2018	303,491	84,317	387,808	
2019	309,067	74,294	383,362	
2020	210,291	64,087	274,378	53.65%
2021	183,136	57,524	240,660	
2022	190,389	52,053	242,443	
2023	197,886	46,356	244,242	
2024	204,637	40,426	245,063	
2025	212,664	34,271	246,935	81.10%
2026	140,971	27,995	168,967	
2027	147,569	22,927	170,496	
2028	97,934	17,719	115,653	
2029	102,345	13,309	115,653	
2030	10,858	8,700	19,558	94.97%
2031	11,351	8,208	19,558	
2032	11,865	7,693	19,558	
2033	12,403	7,155	19,558	
2034	12,966	6,592	19,558	
2035	13,554	6,004	19,558	96.69%
2036	14,169	5,390	19,558	
2037	14,811	4,747	19,558	
2038	15,483	4,075	19,558	
2039	16,185	3,373	19,558	
2040	16,919	2,639	19,558	98.85%
2041	17,687	1,871	19,558	
2042	18,489	1,069	19,558	
2043	4,526	230	4,756	
2044	886	38	924	100.00%
	$ 3,602,601	$ 816,403	$ 4,419,004	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) The County budgets to account for interest rate and/or basis risk.

SMITH COUNTY, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION

Courthouse / Jail Maintenance Fund

F.Y. Ended 6/30	Existing Debt - General Obligation as of June 30, 2015 (1)			General Obligation Refunding Bonds, Series 2015B			% 2015B Principal Repaid	General Obligation Refunding Bonds, Series 2015C			% 2015C Principal Repaid	Less: Refunded Debt			Estimated Total Bonded Debt Service Requirements (1)			% All Principal Repaid
	Principal	Interest (2)	TOTAL	Principal	Interest (3)	TOTAL		Principal	Interest (4)	TOTAL		Principal	Interest	TOTAL	Principal	Interest (2)	TOTAL	
2016	$ 416,139	$ 374,605	$ 790,744	$ 475,000	$ 28,100	$ 503,100	52.78%	$ -	$ 161,741	$ 161,741	0.00%	$ (386,000)	$ (365,061)	$ (751,061)	$ 505,139	$ 199,385	$ 704,524	5.21%
2017	436,646	356,946	793,591	425,000	17,000	442,000	100.00%	100,000	207,213	307,213		(405,000)	(348,007)	(753,007)	556,646	233,151	789,797	
2018	459,225	338,413	797,638	-	-	-		550,000	205,213	755,213		(426,000)	(330,110)	(756,110)	583,225	213,516	796,741	
2019	481,888	318,925	800,813	-	-	-		560,000	194,213	754,213		(447,000)	(311,289)	(758,289)	594,888	201,849	796,736	
2020	505,634	298,476	804,109	-	-	-		575,000	183,013	758,013	21.47%	(469,000)	(291,540)	(760,540)	611,634	189,948	801,582	29.41%
2021	531,463	277,016	808,479	-	-	-		585,000	171,513	756,513		(493,000)	(270,816)	(763,816)	623,463	177,712	801,175	
2022	557,390	254,463	811,853	-	-	-		600,000	159,813	759,813		(517,000)	(249,036)	(766,036)	640,390	165,240	805,629	
2023	585,409	230,809	816,218	-	-	-		610,000	147,813	757,813		(543,000)	(226,193)	(769,193)	652,409	152,428	804,838	
2024	614,527	205,966	820,493	-	-	-		625,000	134,088	759,088		(570,000)	(202,202)	(772,202)	669,527	137,852	807,379	
2025	645,757	179,886	825,642	-	-	-		640,000	118,463	758,463	58.27%	(599,000)	(177,016)	(776,016)	686,757	121,332	808,089	63.17%
2026	678,094	152,481	830,575	-	-	-		655,000	102,463	757,463		(629,000)	(150,550)	(779,550)	704,094	104,393	808,488	
2027	711,545	123,705	835,250	-	-	-		670,000	84,450	754,450		(660,000)	(122,760)	(782,760)	721,545	85,395	806,940	
2028	693,000	93,599	786,599	-	-	-		695,000	64,350	759,350		(693,000)	(93,599)	(786,599)	695,000	64,350	759,350	
2029	728,000	62,979	790,979	-	-	-		715,000	43,500	758,500		(728,000)	(62,979)	(790,979)	715,000	43,500	758,500	
2030	764,000	30,815	794,815	-	-	-		735,000	22,050	757,050	100.00%	(764,000)	(30,815)	(794,815)	735,000	22,050	757,050	100.00%
	$ 8,808,716	$ 3,299,082	$ 12,107,798	$ 900,000	$ 45,100	$ 945,100		$ 8,315,000	$ 1,999,891	$ 10,314,891		$ (8,329,000)	$ (3,231,972)	$ (11,560,972)	$ 9,694,716	$ 2,112,101	$ 11,806,817	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

(2) The County budgets to account for interest rate and/or basis risk.

(3) Average Coupon 4.00%.

(4) Average Coupon 2.6640%.

SMITH COUNTY, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION (Education Debt Service Fund)

As of June 30, 2015

F.Y. Ended 6/30	**Total Bonded Debt Service Requirements (1)** Principal	Interest	TOTAL	% All Principal Repaid
2016	$ 1,335,000	$ 351,022	$ 1,686,022	14.95%
2017	1,400,000	283,300	1,683,300	30.63%
2018	1,455,000	213,300	1,668,300	46.92%
2019	1,525,000	140,550	1,665,550	64.00%
2020	1,600,000	64,300	1,664,300	81.91%
2021	1,615,000	32,300	1,647,300	100.00%
	$ 8,930,000	$ 1,084,772	$ 10,014,772	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

SMITH COUNTY, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION

Solid Waste Fund - Revenue Supported - Tax-Backed

F.Y. Ended 6/30	Estimated Total Bonded Debt Service Requirements (1) Principal	Interest	TOTAL	% All Principal Repaid
2016	$ 672,548	$ 171,907	$ 844,456	13.54%
2017	673,854	150,080	823,934	
2018	385,754	129,833	515,587	
2019	387,175	117,239	504,414	
2020	388,659	104,582	493,241	50.51%
2021	347,160	92,393	439,553	
2022	292,314	80,669	372,983	
2023	293,999	70,139	364,138	
2024	42,313	63,959	106,272	
2025	44,147	62,125	106,272	71.05%
2026	46,060	60,212	106,272	
2027	48,056	58,216	106,272	
2028	50,139	56,133	106,272	
2029	52,312	53,960	106,272	
2030	54,579	51,693	106,272	76.10%
2031	56,944	49,328	106,272	
2032	59,412	46,860	106,272	
2033	61,987	44,285	106,272	
2034	64,673	41,599	106,272	
2035	67,476	38,796	106,272	82.36%
2036	70,401	35,871	106,272	
2037	73,452	32,820	106,272	
2038	76,635	29,637	106,272	
2039	79,956	26,316	106,272	
2040	83,421	22,851	106,272	90.09%
2041	87,036	19,236	106,272	
2042	90,808	15,464	106,272	
2043	94,744	11,528	106,272	
2044	98,850	7,422	106,272	
2045	103,134	3,138	106,272	99.65%
2046	17,618	94	17,712	100.00%
	$ 4,965,617	$ 1,748,383	$ 6,714,000	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

SMITH COUNTY, TENNESSEE

BONDED DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION

Highway Fund - Tax-Backed

F.Y. Ended 6/30	**Estimated Total Bonded Debt Service Requirements (1)** Principal	Interest	TOTAL	% All Principal Repaid
2016	$ 124,674	$ 5,130	$ 129,804	42.30%
2017	125,901	2,708	128,608	85.01%
2018	44,182	315	44,498	100.00%
	$ 294,757	$ 8,153	$ 302,910	

NOTES:

(1) The above figures do not include short-term notes outstanding, if any. For more information, see the notes to the Financial Statements in the CAFR.

FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND PRESENTATION

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The modified accrual basis of accounting is used to account for all governmental funds of the County. Revenues for such funds are recognized when they become measurable and available as net current assets. Expenditures, other than interest or long-term debt, are recognized when incurred and measurable.

All proprietary funds are accounted for using the accrual basis of accounting, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred except for prepaid expenses, such as insurance, which are fully expended at the time of payment.

FUND BALANCES, NET ASSETS AND RETAINED EARNINGS

The following table depicts audited fund balances, net assets and retained earnings for the last five fiscal years ending June 30:

	For the Fiscal Year Ended June 30,				
Fund Type	**2010**	**2011**	**2012**	**2013**	**2014**
Governmental Funds:					
General	$1,238,813	$ 785,436	$1,125,864	$1,126,515	$ 887,871
Highway/Public Works	317,056	634,446	560,719	538,482	549,561
Education Debt Service	1,492,183	1,692,002	1,964,162	2,277,469	2,607,520
Nonmajor Funds	1,930,750	1,086,090	1,469,370	992,878	491,073
TOTAL	**$4,978,802**	**$4,197,974**	**$5,120,115**	**$4,935,344**	**$4,536,025**
Proprietary Fund	$(321,436)	$(288,705)	$(415,437)	$(461,173)	$(359,636)

Source: Comprehensive Financial Audit Reports of the County.

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SMITH COUNTY, TENNESSEE

Five Year Summary of Revenues, Expenditures and
Changes In Fund Balances - General Fund
For the Fiscal Year Ended June 30

	2010	2011	2012	2013	2014
Revenues:					
Local Taxes	$ 3,539,678	$ 3,643,058	$ 4,053,025	$ 4,152,481	$ 4,312,509
Licenses and Permits	73,490	56,539	78,460	74,168	134,699
Fines and Forfeits	24,535	53,909	45,641	29,889	29,053
Charges for Current Services	63,146	75,869	135,377	1,035,746	1,083,536
Other Local Revenues	263,027	397,533	520,200	445,229	312,427
Fees Recv'd from County Officials	888,295	812,798	816,666	861,461	852,532
State of Tennessee	762,873	665,259	1,574,542	1,448,458	1,369,840
Federal Government	85,568	84,276	84,373	185,085	181,808
Other Governments & Citizens Groups	62,234	80,084	81,306	82,083	162,410
Total Revenues	$ 5,762,846	$ 5,869,325	$ 7,389,590	$ 8,314,600	$ 8,438,814
Expenditures and Other Uses:					
General Government	$ 963,110	$ 1,085,519	$ 1,125,369	$ 1,167,333	$ 1,203,844
Finance	492,105	518,584	512,238	557,545	562,424
Administration of Justice	465,446	493,501	509,760	515,915	525,484
Public Safety	2,672,274	3,272,355	3,484,917	3,650,874	3,792,472
Public Health & Welfare	128,010	135,922	147,745	1,341,209	1,651,248
Social, Cultural, & Recreational Services	137,040	210,927	239,540	536,143	309,503
Agricultural & Natural Resources	111,916	200,425	153,434	130,103	138,774
Other Operations	713,473	522,102	549,970	851,328	599,947
Capital Outlay	-	-	-	-	-
Debt Service	207,654	209,284	195,750	272,962	258,356
Capital Projects	-	-	-	-	-
Total Expenditures	$ 5,891,028	$ 6,648,619	$ 6,918,723	$ 9,023,412	$ 9,042,052
Excess of Revenues & Over (under) Expenditures	$ (128,182)	$ (779,294)	$ 470,867	$ (708,812)	$ (603,238)
Other Financing Sources (Uses):					
Debt Proceeds	$ 140,869	$ -	$ 191,000	$ 774,907	$ 364,036
Insurance Recovery	-	-	-	20,992	558
Interfund Transfers - In	7,880	375,917	-	24,677	-
Interfund Transfers - Out	(65,720)	(50,000)	(321,439)	(111,113)	-
Total Other Financing Sources (Uses)	$ 83,029	$ 325,917	$ (130,439)	$ 709,463	$ 364,594
Excess of Revenue & Other Sources over (Under) Expenditures & Other Sources	$ (45,153)	$ (453,377)	$ 340,428	$ 651	$ (238,644)
Fund Balance July 1	$ 1,283,966	$ 1,238,813	$ 785,436	$ 1,125,864	$ 1,126,515
Prior Period Adjustment	-	-	-	-	-
Fund Balance June 30	**$ 1,238,813**	**$ 785,436**	**$ 1,125,864**	**$ 1,126,515**	**$ 887,871**

Source: Comprehensive Annual Financial Report for Smith County, Tennessee.

INVESTMENT AND CASH MANAGEMENT PRACTICES

Investment of idle County operating funds is controlled by state statute and local policies and administered by the County Trustee. Generally, such policies limit investment instruments to direct U. S. Government obligations, those issued by U.S. Agencies or Certificates of Deposit. As required by prevailing statutes, all demand deposits or Certificates of Deposit are secured by similar grade collateral pledged at 110% of market value for amounts in excess of that guaranteed through federally sponsored insurance programs. Deposits with savings and loan associations must be collateralized as outlined above, by an irrevocable letter of credit issued by the Federal Home Loan Bank or by providing notes secured by the first mortgages or first deeds for trust upon residential property in the state equal to at least 150 percent of the amount of uninsured deposits. All collateral must be held in a third party escrow account for the benefit of the County. For reporting purposes, all investments are stated at cost which approximates market value. The County Trustee is responsible for all County investments.

PROPERTY TAX

Introduction. The County is authorized to levy a tax on all property within the County without limitation as to rate or amount. All real and personal property within the County is assessed in accordance with the state constitutional and statutory provisions by the County Property Tax Assessor except most utility property, which is assessed by the Office of State Assessed Properties. All property taxes are due on October 1 of each year based upon appraisals as of January 1 of the same calendar year. All property taxes are delinquent on March 1 of the subsequent calendar year.

Reappraisal Program. Title 67, Chapter 5, Part 16, Tennessee Code Annotated, as supplemented and amended, mandates that after June 1, 1989, all property in the State of Tennessee will be reappraised on a continuous six (6) year cycle composed of an on-sight review of each parcel of property over a five (5) year period followed by reevaluation of all such property in the year following the completion of the review. In the second and fourth years of the review, there shall be an updating of all real property values by application of an index or indexes established for the jurisdiction by the State Board of Equalization, so as to maintain real property values at full value as defined in Title 67, Chapter 5, Part 6, Tennessee Code Annotated. The State Board of Equalization shall also consider a plan submitted by a local assessor which would have the effect of maintaining real property values at full value which may be used in lieu of indexing.

Title 67, Chapter 5, Part 17, Tennessee Code Annotated, provides that at such time as such reappraisal and reassessment processes are completed in a particular county, the respective governing bodies of the county and the municipalities located therein shall determine and certify a tax rate which will provide the same ad valorem tax revenue for the respective jurisdiction as was levied prior to reappraisal and reassessment. In computing the new tax rate, the estimated assessed value of all new construction and improvements placed on the tax rolls since the previous year, and the assessed value of all deletions from the previous tax roll are excluded. The new tax rate therefore, is derived from a comparison of tax revenues, tax rates and assessed values of property on the tax roll in both the year before and the year after the reappraisal. The effect of the reappraisal and reassessment statutes is to adjust the property tax rate downward to prevent a taxing unit from collecting additional property tax revenues as a result of reappraisal.

Once a municipality or county complies with state law and certifies a tax rate which provides the same property tax revenue as was collected before reappraisal, its governing body may vote to approve a tax rate change which would produce more or less tax revenue. The County has a reappraisal program, conducted by the State Board of Equalization, Division of Property Assessment, which was completed as of January 1, 2013.

Assessed Valuations. According to the Tax Aggregate Report, property in the County reflected a ratio of appraised value to true market value of 0.9922. The following table shows pertinent data for tax year 2014.

Class	**Estimated Assessed Valuation**	**Assessment Rate**	**Estimated Appraised Value**
Public Utilities	$ 27,483,948	55%	$ 62,964,371
Commercial and Industrial	57,741,160	40%	145,487,734
Personal Tangible Property	36,508,846	30%	122,631,598
Residential and Farm	224,810,275	25%	906,310,320
TOTAL	**$346,544,229**		**$1,237,394,023**

Source: 2014 Tax Aggregate Report of Tennessee and the County.

The estimated assessed value of property in the County for the fiscal year ending June 30, 2015 (tax year 2014) is $346,544,229 compared to $336,700,765 for the fiscal year ending June 30, 2014 (tax year 2013). The estimated actual value of all taxable property for tax year 2014 is $1,237,394,023 compared to $1,198,555,548 for tax year 2013.

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[1] The tax year coincides with the calendar year; therefore tax year 2014 is actually fiscal year 2014-2015.

Property Tax Rates and Collections. The following table shows the property tax rates and collections of the County for tax years 2010 through 2014 as well as the aggregate uncollected balances for each fiscal year ending June 30.

PROPERTY TAX RATES AND COLLECTIONS				Fiscal Yr Collections		Aggregate Uncollected Balance	
Tax Year	Assessed Valuation	Tax Rates	Taxes Levied	Amount	Pct	as of June 30, 2014 Amount	Pct
2010	$303,942,400	$2.19	$6,728,590	$6,527,642	97.0%	N/A	
2011	315,547,770	2.28	7,257,975	7,058,014	97.2%	N/A	
2012	331,767,763	2.23	7,416,800	7,231,714	97.5%	N/A	
2013	336,700,765	2.23	7,639,911	7,338,836	96.1%	$301,075	3.9%
2014	346,544,229	2.32	8,0.8,925*	IN PROGRESS			

* Estimated

[1] The tax year coincides with the calendar year; therefore tax year 2014 is actually fiscal year 2014-2013.

Ten Largest Taxpayers. For the fiscal year ending June 30, 2014 (tax year 2013), the ten largest taxpayers in the County are as follows:

	Taxpayer	Business Type	Assessment	Taxes Paid
1.	Upper Cumberland Electric	Public Utility	$ 16,654,151	$ 371,388
4.	Nystar Gordonsville LLC	Zinc mining	14,765,317	252,296
2.	Bon L Manufacturing Co.	Manufacturing	9,428,561	210,258
3.	Graphic Packing	Paper board packaging	3,537,107	78,877
5.	East TN Natural Gas	Public Utility	2,510,822	55,991
6.	WalMart Real Estate	Retail	2,196,320	48,976
7.	Bonnell Aluminum	Aluminum extrusion	1,985,520	44,277
8.	Torque Traction Tech	Manufacturing	1,872,483	41,756
9.	Taiho Manufacturing	Head gaskets	1,576,584	35,157
10.	Heath Care Prop. Inc.	Heathcare	1,434,200	31,983
	TOTAL		**$55,961,065**	**$1,170,959**

Source: The County.

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Ten Largest Taxpayers. For the fiscal year ending June 30, 2013 (tax year 2012), the ten largest taxpayers in the County are as follows:

	Taxpayer	Business Type	Assessment	Taxes Paid
1.	Upper Cumberland Electric	Public Utility	$ 16,003,493	$ 356,877
4.	Nystar Gordonsville LLC	Zinc mining	13,811,818	235,398
3.	Bon L Manufacturing Co.	Manufacturing	5,074,586	113,163
4.	Graphic Packing	Paper board packaging	3,327,635	74,206
5.	WalMart Real Estate	Retail	2,196,320	48,978
6.	The Industrial BD	Manufacturing	2,188,170	48,796
7.	Bonnell Aluminum	Aluminum extrusion	1,985,520	44,277
8.	East TN Natural Gas	Public Utility	1,970,541	43,943
9.	Taiho Manufacturing	Head gaskets	1,712,383	38,186
10.	Torque Traction Tech	Manufacturing	1,578,790	35,207
	TOTAL		**$49,849,256**	**$1,039,031**

Source: The County.

LOCAL OPTION SALES TAX

Fiscal Year	General Fund	Education Debt Service	General Purpose School	Cities	Total
2010	$700,433	$490,087	$1,307,079	$1,098,049	$3,595,653
2011	689,980	508,645	1,356,575	1,176,450	3,731,652
2012	683,972	502,889	1,341,221	1,163,007	3,691,089
2013	724,427	538,890	1,437,238	1,254,726	3,955,276
2014	441,499	324,235	864,747	749,247	2,379,728

Source: The County.

PENSION PLANS

Employees of Smith County 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, Chapters 34-37 of *Tennessee Code Annotated.* State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Smith County 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.

For additional information of the funding status, trend information and actuarial status of the County's retirement programs, please refer to the appropriate Notes to Financial Statements located in the General Purpose Financial Statements of the County located herein.

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APPENDIX C

GENERAL PURPOSE FINANCIAL STATEMENTS

OF

SMITH COUNTY, TENNESSEE

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the Smith County for the fiscal year ended June 30, 2014 which is available upon request from the County.

ANNUAL FINANCIAL REPORT
SMITH COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2014

TENNESSEE
COMPTROLLER
OF THE TREASURY

ANNUAL FINANCIAL REPORT

SMITH COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2014

COMPTROLLER OF THE TREASURY
JUSTIN P. WILSON

DIVISION OF LOCAL GOVERNMENT AUDIT
JAMES R. ARNETTE
Director

STEVE REEDER, CPA, CGFM, CFE
Audit Manager

MICHAEL FORD, CPA, CGFM
Auditor 4

GARY D. RAMSEY, CPA
RODNEY MALIN, CGFM
COURTNEY FLATT
KELLEY J. MCNEAL, CPA, CGFM
State Auditors

This financial report is available at www.comptroller.tn.gov

SMITH COUNTY, TENNESSEE
TABLE OF CONTENTS

Summary of Audit Findings

Annual Financial Report
Smith County, Tennessee
For the Year Ended June 30, 2014

Scope

We have audited the basic financial statements of Smith County as of and for the year ended June 30, 2014.

Results

Our report on Smith County's financial statements is unmodified.

Our audit resulted in nine findings and recommendations, which we have reviewed with Smith County management. Detailed findings, recommendations, and management's responses are included in the Single Audit section of this report.

Findings

The following are summaries of the audit findings:

OFFICE OF COUNTY MAYOR

- The Education Debt Service Fund required a material audit adjustment for proper financial statement presentation.
- The Solid Waste Disposal Fund had a deficit in unrestricted net position.
- Several departments did not deposit some funds within three days of collection.
- Expenditures exceeded appropriations.

OFFICE OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK

- Execution docket trial balances did not reconcile with general ledger accounts.
- Unclaimed funds were not reported and paid to the state.

OFFICES OF CIRCUIT AND GENERAL SESSIONS COURTS CLERK AND CLERK AND MASTER

- Multiple employees operated from the same cash drawer.

OFFICES OF ROAD COMMISSIONER, DIRECTOR OF SCHOOLS, CLERK AND MASTER, AND SHERIFF

- Duties were not segregated adequately.

SMITH COUNTY

- Smith County had deficiencies related to Section 1033 Excess Federal Property.

Introductory Section

Smith County Officials
June 30, 2014

Officials

Michael Nesbitt, County Mayor
Steve Coble, Road Commissioner
Roger Lewis, Director of Schools
Lee Ann Williams, Trustee
Terry Collins, Assessor of Property
Clifa Norris, County Clerk
Angie Hunter, Circuit and General Sessions Courts Clerk
Thomas Dillehay, Clerk and Master
Jerri Lin Vaden, Register of Deeds
Steve Hopper, Sheriff

Board of County Commissioners

Michael Nesbitt, County Mayor, Chairman
Joseph Anderson
Tommy Bane
Billy Bass
Pamela Billington
Carolyn Boles
Ronnie Bussell
Ronald Cowan
Daniel Cripps
Linda Dickens
Phillip Enoch
Frank Gibbs
David Gross
Billy Halliburton
Sabra Hodge
Rob Hord
Barbara Kannapel
Charles Kent
Joshua Dean Kirby
Joseph Nixon
Linda Nixon
James Winfree
Billy Woodard
Frank Woodard
Michael Woodard

Board of Education

Michael Collins, Chairman
William Barrick
Scotty Enoch
Tommy Manning
Tim Maynard
Robin Moore
Brian Smith
Joe Taylor

Audit Committee

Larry Wilkerson, Chairman
Anthony Apple
Joseph Nixon
Laura Piper
David West

Financial Section

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-1402
PHONE (615) 401-7841

Independent Auditor's Report

Smith County Mayor and
Board of County Commissioners
Smith County, Tennessee

To the County Mayor and Board of County Commissioners:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Smith County, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the county'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 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 did not audit the financial statements of the Smith County Emergency Communications District, which represent 2.15 percent, 2.45 percent, and 1.28 percent, respectively, of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Smith County Emergency Communications District, is based solely on the report of the other auditors. 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, based on our report and the report of other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Smith County, Tennessee, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Highway/Public Works funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note V.B., Smith County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees*, which have an effective date of June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress – pension plan and other postemployment benefits plan on pages 78 - 80 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Smith County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, combining and individual fund financial statements of the Smith County School Department (a discretely presented component unit), and miscellaneous schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

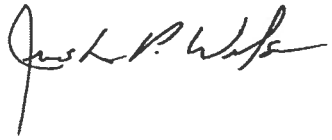
The combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, combining and individual fund financial statements of the Smith County School Department (a discretely presented component unit), and miscellaneous schedules 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 and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the Education Debt Service Fund, combining and individual fund financial statements of the Smith County School Department (a discretely presented component unit), and miscellaneous schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2015, on our consideration of Smith County'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 financial 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 Smith County's internal control over financial reporting and compliance.

Very truly yours,



Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

January 27, 2015

JPW/sb

Basic Financial Statements

Exhibit A

Smith County, Tennessee
Statement of Net Position
June 30, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Smith County School Department	Smith County Emergency Communications District
ASSETS					
Cash	$ 2,334	$ 0	$ 2,334	$ 0	$ 467,881
Equity in Pooled Cash and Investments	3,694,651	1,186,545	4,881,196	4,738,691	0
Accounts Receivable	429,723	197,513	627,236	2,085	13,281
Allowance for Uncollectibles	(149,370)	0	(149,370)	0	0
Due from Other Governments	737,554	1,829	739,383	381,557	8,168
Due from Other Funds	14	0	14	0	0
Due from Component Units	296,000	0	296,000	0	0
Property Taxes Receivable	4,545,630	0	4,545,630	3,499,733	0
Allowance for Uncollectible Property Taxes	(216,198)	0	(216,198)	(166,454)	0
Prepaid Items	400	0	400	0	1,272
Notes Receivable	30,000	0	30,000	0	0
Capital Assets:					
Assets Not Depreciated:					
Land	974,935	2,052,484	3,027,419	1,230,238	30,000
Intangible Assets - Indefinite Life	1,009,865	1,329,286	2,339,151	0	0
Assets Net of Accumulated Depreciation:					
Buildings and Improvements	14,250,921	50,132	14,301,053	26,878,251	146,032
Infrastructure	19,036,766	0	19,036,766	93,256	0
Other Capital Assets	2,300,570	611,323	2,911,893	1,532,855	173,281
Landfill Facilities and Development	0	2,741,365	2,741,365	0	0
Total Assets	$ 46,943,795	$ 8,170,477	$ 55,114,272	$ 38,190,212	$ 839,915
DEFERRED OUTFLOWS OF RESOURCES					
Accumulated Decrease in Fair Value of Hedging Derivative - Interest Rate Collar	$ 847,789	$ 0	$ 847,789	$ 0	$ 0
Total Deferred Outflows of Resources	$ 847,789	$ 0	$ 847,789	$ 0	$ 0
LIABILITIES					
Accounts Payable	$ 0	$ 28,507	$ 28,507	$ 21,196	$ 200
Accrued Payroll	36,886	0	36,886	1,602	0
Payroll Deductions Payable	69,004	4,647	73,651	593,548	0
Due to Other Funds	0	14	14	0	0
Due to Primary Government	0	0	0	296,000	0
Due to State of Tennessee	0	0	0	11,653	0
Accrued Interest Payable	286,211	0	286,211	0	0
Derivative - Interest Rate Collar	847,789	0	847,789	0	0
Noncurrent Liabilities:					
Due Within One Year	2,617,286	591,335	3,208,621	24,439	0
Due in More Than One Year	21,949,993	7,905,610	29,855,603	600,977	0
Total Liabilities	$ 25,807,169	$ 8,530,113	$ 34,337,282	$ 1,549,415	$ 200

(Continued)

Exhibit A

Smith County, Tennessee
Statement of Net Position (Cont.)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Smith County School Department	Smith County Emergency Communications District
DEFERRED INFLOWS OF RESOURCES					
Deferred Current Property Taxes	$ 4,232,241	$ 0	$ 4,232,241	$ 3,258,451	$ 0
Total Deferred Inflows of Resources	$ 4,232,241	$ 0	$ 4,232,241	$ 3,258,451	$ 0
NET POSITION					
Net Investment in Capital Assets	$ 13,392,374	$ 1,153,078	$ 14,545,452	$ 29,734,600	$ 349,313
Restricted for:					
General Government	8,364	0	8,364	0	0
Public Safety	57,000	0	57,000	0	0
Public Health and Welfare	80,311	0	80,311	0	0
Highway/Public Works	626,612	0	626,612	0	0
Debt Service	2,706,148	0	2,706,148	0	0
Education	0	0	0	829,951	0
Unrestricted	881,365	(1,512,714)	(631,349)	2,817,795	490,402
Total Net Position	$ 17,752,174	$ (359,636)	$ 17,392,538	$ 33,382,346	$ 839,715

The notes to the financial statements are an integral part of this statement.

Exhibit B

Smith County, Tennessee
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units: Smith County School Department	Component Units: Smith County Emergency Communications District
Primary Government:									
Governmental Activities:									
General Government	$ 2,094,118	$ 357,532	$ 418,375	$ 0	$ (1,318,211)	$ 0	$ (1,318,211)	$ 0	$ 0
Finance	561,507	482,442	0	0	(79,065)	0	(79,065)	0	0
Administration of Justice	525,484	354,875	9,000	0	(161,609)	0	(161,609)	0	0
Public Safety	4,128,211	1,391,254	229,396	0	(2,507,561)	0	(2,507,561)	0	0
Public Health and Welfare	1,704,023	765,157	120,251	0	(818,615)	0	(818,615)	0	0
Social, Cultural, and Recreational Services	288,698	22,249	19,842	0	(246,607)	0	(246,607)	0	0
Agriculture and Natural Resources	138,774	0	0	0	(138,774)	0	(138,774)	0	0
Highways/Public Works	2,259,213	18,534	1,522,777	262,478	(455,424)	0	(455,424)	0	0
Interest on Long-term Debt	976,521	0	0	0	(976,521)	0	(976,521)	0	0
Total Governmental Activities	$ 12,676,549	$ 3,392,043	$ 2,319,641	$ 262,478	$ (6,702,387)	$ 0	$ (6,702,387)	$ 0	$ 0
Business-type Activities:									
Solid Waste Disposal	$ 1,796,422	$ 1,890,610	$ 5,199	$ 0	$ 0	$ 99,387	$ 99,387	$ 0	$ 0
Total Business-type Activities	$ 1,796,422	$ 1,890,610	$ 5,199	$ 0	$ 0	$ 99,387	$ 99,387	$ 0	$ 0
Total Primary Government	$ 14,472,971	$ 5,282,653	$ 2,324,840	$ 262,478	$ (6,702,387)	$ 99,387	$ (6,603,000)	$ 0	$ 0
Component Units:									
School Department	$ 26,369,276	$ 610,986	$ 3,074,830	$ 0	$ 0	$ 0	$ 0	$ (22,683,460)	$ 0
Emergency Communications District	327,835	63,198	192,021	0	0	0	0	0	(72,616)
Total Component Units	$ 26,697,111	$ 674,184	$ 3,266,851	$ 0	$ 0	$ 0	$ 0	$ (22,683,460)	$ (72,616)

(Continued)

Exhibit B

Smith County, Tennessee
Statement of Activities (Cont.)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units: Smith County School Department	Component Units: Smith County Emergency Communications District
General Revenues:									
Taxes:									
Property Taxes Levied for General Purposes					$ 3,390,306	$ 0	$ 3,390,306	$ 3,354,776	$ 0
Property Taxes Levied for Debt Service					968,393	0	968,393	0	0
Local Option Sales Taxes					1,297,437	0	1,297,437	1,434,828	0
Wheel Tax					1,120,956	0	1,120,956	0	0
Litigation Tax - General					65,839	0	65,839	0	0
Litigation Tax - Jail, Workhouse, or Courthouse					86,234	0	86,234	0	0
Business Tax					131,995	0	131,995	0	0
Mineral Severance Tax					61,963	0	61,963	0	0
Wholesale Beer Tax					38,910	0	38,910	0	0
Other Local Taxes					9,211	0	9,211	1,998	0
Grants and Contributions Not Restricted to Specific Purposes					710,581	0	710,581	16,867,361	67,263
Interest Income					78,083	0	78,083	5,972	1,258
Miscellaneous					9,568	2,150	11,718	64,706	6,925
Sale of Equipment					19,897	0	19,897	0	0
Donation of Capital Assets					293,044	0	293,044	0	0
Total General Revenues					$ 8,282,417	$ 2,150	$ 8,284,567	$ 21,729,641	$ 75,446
Insurance Recovery					$ 7,116	$ 0	$ 7,116	$ 0	$ 0
Change in Net Position					$ 1,587,146	$ 101,537	$ 1,688,683	$ (953,819)	$ 2,830
Net Position, July 1, 2013					16,165,028	(461,173)	15,703,855	34,336,165	836,885
Net Position, June 30, 2014					$ 17,752,174	$ (359,636)	$ 17,392,538	$ 33,382,346	$ 839,715

The notes to the financial statements are an integral part of this statement.

Exhibit C-1

Smith County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2014

	Major Funds			Nonmajor Funds	
	General	Highway / Public Works	Education Debt Service	Other Govern-mental Funds	Total Governmental Funds
ASSETS					
Cash	$ 0	$ 0	$ 0	$ 2,334	$ 2,334
Equity in Pooled Cash and Investments	536,308	382,947	2,264,292	511,104	3,694,651
Accounts Receivable	429,250	0	0	473	429,723
Allowance for Uncollectibles	(149,370)	0	0	0	(149,370)
Due from Other Governments	236,205	317,336	92,595	91,418	737,554
Due from Other Funds	144,146	0	0	0	144,146
Due from Component Units	0	0	296,000	0	296,000
Property Taxes Receivable	3,318,712	216,420	469,045	541,453	4,545,630
Allowance for Uncollectible Property Taxes	(157,843)	(10,294)	(22,309)	(25,752)	(216,198)
Prepaid Items	400	0	0	0	400
Notes Receivable - Current	0	0	0	10,000	10,000
Notes Receivable - Long-term	0	0	0	20,000	20,000
Total Assets	$ 4,357,808	$ 906,409	$ 3,099,623	$ 1,151,030	$ 9,514,870
LIABILITIES					
Accounts Payable	$ 36,886	$ 0	$ 0	$ 0	$ 36,886
Payroll Deductions Payable	67,803	0	0	1,201	69,004
Due to Other Funds	0	0	0	144,132	144,132
Total Liabilities	$ 104,689	$ 0	$ 0	$ 145,333	$ 250,022
DEFERRED INFLOWS OF RESOURCES					
Deferred Current Property Taxes	$ 3,089,911	$ 201,499	$ 436,707	$ 504,124	$ 4,232,241
Deferred Delinquent Property Taxes	64,358	4,197	9,096	10,500	88,151
Other Deferred/Unavailable Revenue	210,979	151,152	46,300	0	408,431
Total Deferred Inflows of Resources	$ 3,365,248	$ 356,848	$ 492,103	$ 514,624	$ 4,728,823

(Continued)

Exhibit C-1

Smith County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	Major Funds			Nonmajor Funds	
	General	Highway / Public Works	Education Debt Service	Other Govern-mental Funds	Total Governmental Funds
FUND BALANCES					
Nonspendable:					
Endowments	$ 0	$ 0	$ 0	$ 40,284	$ 40,284
Restricted:					
Restricted for General Government	8,364	0	0	0	8,364
Restricted for Public Safety	7,466	0	0	49,534	57,000
Restricted for Public Health and Welfare	80,311	0	0	0	80,311
Restricted for Highways/Public Works	0	549,561	0	0	549,561
Restricted for Debt Service	0	0	2,607,520	315,111	2,922,631
Committed:					
Committed for General Government	0	0	0	84,747	84,747
Committed for Administration of Justice	67,207	0	0	0	67,207
Committed for Social, Cultural, and Recreational Services	0	0	0	1,397	1,397
Unassigned	724,523	0	0	0	724,523
Total Fund Balances	$ 887,871	$ 549,561	$ 2,607,520	$ 491,073	$ 4,536,025
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 4,357,808	$ 906,409	$ 3,099,623	$ 1,151,030	$ 9,514,870

The notes to the financial statements are an integral part of this statement.

Exhibit C-2

Smith County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Position
June 30, 2014

Amounts reported for governmental activities in the statement of net position (Exhibit A) are different because:

Total fund balances - balance sheet - governmental funds (Exhibit C-1)			$ 4,536,025
(1)	Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
	Add: land	$ 974,935	
	Add: intangible assets - indefinite life	1,009,865	
	Add: buildings and improvements net of accumulated depreciation	14,250,921	
	Add: infrastructure net of accumulated depreciation	19,036,766	
	Add: other capital assets net of accumulated depreciation	2,300,570	37,573,057
(2)	Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
	Less: bonds payable	$ (11,793,583)	
	Less: notes payable	(1,922,470)	
	Less: other loans payable	(10,464,630)	
	Less: compensated absences payable	(224,398)	
	Less: other postemployment benefits liability	(162,198)	
	Less: accrued interest on bonds, notes, and other loans	(286,211)	(24,853,490)
(3)	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.		496,582
Net position of governmental activities (Exhibit A)			$ 17,752,174

The notes to the financial statements are an integral part of this statement.

Exhibit C-3

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

	Major Funds			Nonmajor Funds	
	General	Highway / Public Works	Education Debt Service	Other Govern-mental Funds	Total Governmental Funds
Revenues					
Local Taxes	$ 4,312,509	$ 277,881	$ 1,876,373	$ 849,851	$ 7,316,614
Licenses and Permits	134,699	0	0	0	134,699
Fines, Forfeitures, and Penalties	29,053	0	0	24,577	53,630
Charges for Current Services	1,083,536	0	0	0	1,083,536
Other Local Revenues	312,427	92,163	0	117,053	521,643
Fees Received from County Officials	852,532	0	0	0	852,532
State of Tennessee	1,369,840	1,763,255	0	411,656	3,544,751
Federal Government	181,808	0	0	19,375	201,183
Other Governments and Citizens Groups	162,410	0	296,000	0	458,410
Total Revenues	$ 8,438,814	$ 2,133,299	$ 2,172,373	$ 1,422,512	$ 14,166,998
Expenditures					
Current:					
General Government	$ 1,203,844	$ 0	$ 0	$ 28,150	$ 1,231,994
Finance	562,424	0	0	0	562,424
Administration of Justice	525,484	0	0	0	525,484
Public Safety	3,792,472	0	0	31,265	3,823,737
Public Health and Welfare	1,651,248	0	0	0	1,651,248
Social, Cultural, and Recreational Services	309,503	0	0	0	309,503
Agriculture and Natural Resources	138,774	0	0	0	138,774
Other Operations	599,947	0	0	22,660	622,607
Highways	0	2,228,100	0	0	2,228,100
Debt Service:					
Principal on Debt	195,109	80,398	1,230,000	1,330,602	2,836,109
Interest on Debt	63,247	2,280	589,000	352,953	1,007,480
Other Debt Service	0	0	23,322	155,896	179,218

(Continued)

Exhibit C-3

Smith County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds (Cont.)

	Major Funds			Nonmajor Funds	
	General	Highway / Public Works	Education Debt Service	Other Govern-mental Funds	Total Governmental Funds
Expenditures (Cont.)					
Capital Projects	$ 0	$ 0	$ 0	$ 2,791	$ 2,791
Total Expenditures	$ 9,042,052	$ 2,310,778	$ 1,842,322	$ 1,924,317	$ 15,119,469
Excess (Deficiency) of Revenues Over Expenditures	$ (603,238)	$ (177,479)	$ 330,051	$ (501,805)	$ (952,471)
Other Financing Sources (Uses)					
Notes Issued	$ 364,036	$ 182,000	$ 0	$ 0	$ 546,036
Insurance Recovery	558	6,558	0	0	7,116
Transfers In	0	0	0	3,335	3,335
Transfers Out	0	0	0	(3,335)	(3,335)
Total Other Financing Sources (Uses)	$ 364,594	$ 188,558	$ 0	$ 0	$ 553,152
Net Change in Fund Balances	$ (238,644)	$ 11,079	$ 330,051	$ (501,805)	$ (399,319)
Fund Balance, July 1, 2013	1,126,515	538,482	2,277,469	992,878	4,935,344
Fund Balance, June 30, 2014	$ 887,871	$ 549,561	$ 2,607,520	$ 491,073	$ 4,536,025

The notes to the financial statements are an integral part of this statement.

Exhibit C-4

Smith County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

	Net change in fund balances - total governmental funds (Exhibit C-3)		$ (399,319)
(1)	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their useful lives and reported as depreciation expense. The difference between capital outlays and depreciation is itemized as follows: follows:		
	Add: capital assets purchased in the current period	$ 649,145	
	Less: current-year depreciation expense	(984,703)	(335,558)
(2)	The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to increase net position.		
	Add: assets donated and capitalized	$ 293,044	
	Less: book value of capital assets disposed	(59,942)	233,102
(3)	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
	Add: deferred delinquent property taxes and other deferred June 30, 2014	$ 496,582	
	Less: deferred delinquent property taxes and other deferred June 30, 2013	(636,295)	(139,713)
(4)	The issuance of long-term debt (e.g., bonds, notes, other loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the effect of these differences in the treatment of long-term debt and related items:		
	Less: note proceeds	$ (546,036)	
	Add: principal payments on bonds	1,292,984	
	Add: principal payments on notes	1,077,225	
	Add: principal payments on other loans	465,900	2,290,073
(5)	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
	Change in accrued interest payable	$ 30,959	
	Change in compensated absences payable	(78,827)	
	Change in other postemployment benefits liability	(13,571)	(61,439)
	Change in net position of governmental activities (Exhibit B)		$ 1,587,146

The notes to the financial statements are an integral part of this statement.

Exhibit C-5

Smith County, Tennessee
Statement of Revenues, Expenditures, and Changes in Fund Balance - Actual and Budget
General Fund
For the Year Ended June 30, 2014

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 4,312,509	$ 4,222,720	$ 4,222,720	$ 89,789
Licenses and Permits	134,699	72,600	102,600	32,099
Fines, Forfeitures, and Penalties	29,053	52,600	52,600	(23,547)
Charges for Current Services	1,083,536	1,349,050	1,353,445	(269,909)
Other Local Revenues	312,427	372,496	399,732	(87,305)
Fees Received from County Officials	852,532	853,000	853,000	(468)
State of Tennessee	1,369,840	717,664	1,363,546	6,294
Federal Government	181,808	20,000	168,697	13,111
Other Governments and Citizens Groups	162,410	74,800	153,738	8,672
Total Revenues	$ 8,438,814	$ 7,734,930	$ 8,670,078	$ (231,264)
Expenditures				
General Government				
County Commission	$ 36,070	$ 34,745	$ 36,335	$ 265
Board of Equalization	2,150	2,150	2,150	0
County Mayor/Executive	180,070	180,730	182,782	2,712
County Attorney	39,982	50,000	40,000	18
Election Commission	172,692	153,110	194,640	21,948
Register of Deeds	151,854	150,837	152,622	768
Planning	10,911	13,750	12,160	1,249
Codes Compliance	118,786	98,300	131,115	12,329
County Buildings	491,329	488,806	494,494	3,165
Finance				
Property Assessor's Office	158,759	163,335	163,335	4,576
Reappraisal Program	16,753	16,753	16,753	0
County Trustee's Office	152,107	155,390	155,390	3,283
County Clerk's Office	234,805	239,596	239,596	4,791
Administration of Justice				
Circuit Court	265,054	279,008	279,008	13,954
General Sessions Judge	116,419	117,603	117,603	1,184
Chancery Court	116,569	117,943	117,943	1,374
Judicial Commissioners	21,997	23,530	23,530	1,533
Other Administration of Justice	5,445	6,000	6,000	555
Public Safety				
Sheriff's Department	2,112,352	2,272,363	2,171,982	59,630
Traffic Control	1,169	1,200	1,200	31
Jail	419,016	417,244	447,735	28,719
Correctional Incentive Program Improvements	685,778	632,890	696,043	10,265
Juvenile Services	36,117	38,976	38,976	2,859
Fire Prevention and Control	160,338	286,719	195,915	35,577
Rescue Squad	30,000	30,000	30,000	0
Other Emergency Management	35,420	39,764	40,385	4,965
Inspection and Regulation	2,584	2,584	2,584	0
County Coroner/Medical Examiner	43,611	30,500	41,381	(2,230)
Other Public Safety	266,087	264,826	266,686	599
Public Health and Welfare				
Local Health Center	28,438	25,576	29,737	1,299
Ambulance/Emergency Medical Services	1,393,683	1,462,080	1,469,844	76,161
Alcohol and Drug Programs	5,084	0	20,595	15,511

(Continued)

Exhibit C-5

Smith County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
General Fund (Cont.)

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)				
Public Health and Welfare (Cont.)				
Other Local Health Services	$ 70,569	$ 70,030	$ 71,320	$ 751
Appropriation to State	13,772	13,772	13,772	0
General Welfare Assistance	51,113	50,000	52,042	929
Other Local Welfare Services	10,000	10,000	10,000	0
Waste Pickup	29,365	34,238	34,238	4,873
Other Public Health and Welfare	49,224	25,900	68,100	18,876
Social, Cultural, and Recreational Services				
Senior Citizens Assistance	55,024	59,657	59,657	4,633
Libraries	113,059	117,943	121,729	8,670
Parks and Fair Boards	129,455	142,700	141,194	11,739
Other Social, Cultural, and Recreational	11,965	12,000	12,204	239
Agriculture and Natural Resources				
Agricultural Extension Service	59,073	62,646	62,646	3,573
Soil Conservation	11,000	11,000	11,000	0
Other Agriculture and Natural Resources	68,701	67,000	74,000	5,299
Other Operations				
Tourism	300	300	300	0
Industrial Development	4,876	14,497	14,497	9,621
Housing and Urban Development	42,207	0	42,207	0
Other Economic and Community Development	32,867	32,867	32,867	0
Veterans' Services	18,910	14,540	19,640	730
Other Charges	280,957	266,131	281,209	252
Employee Benefits	52,828	53,080	53,080	252
Miscellaneous	167,002	184,788	177,836	10,834
Principal on Debt				
General Government	195,109	0	202,288	7,179
Interest on Debt				
General Government	63,247	0	65,125	1,878
Total Expenditures	$ 9,042,052	$ 9,039,397	$ 9,439,470	$ 397,418
Excess (Deficiency) of Revenues Over Expenditures	$ (603,238)	$ (1,304,467)	$ (769,392)	$ 166,154
Other Financing Sources (Uses)				
Notes Issued	$ 364,036	$ 414,000	$ 414,000	$ (49,964)
Insurance Recovery	558	0	7,608	(7,050)
Transfers In	0	641,625	0	0
Total Other Financing Sources	$ 364,594	$ 1,055,625	$ 421,608	$ (57,014)
Net Change in Fund Balance	$ (238,644)	$ (248,842)	$ (347,784)	$ 109,140
Fund Balance, July 1, 2013	1,126,515	1,123,675	1,123,675	2,840
Fund Balance, June 30, 2014	$ 887,871	$ 874,833	$ 775,891	$ 111,980

The notes to the financial statements are an integral part of this statement.

Exhibit C-6

Smith County, Tennessee
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Actual and Budget
Highway/Public Works Fund
For the Year Ended June 30, 2014

	Actual	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues				
Local Taxes	$ 277,881	$ 286,860	$ 286,860	$ (8,979)
Other Local Revenues	92,163	30,150	85,620	6,543
State of Tennessee	1,763,255	2,229,501	2,229,501	(466,246)
Total Revenues	$ 2,133,299	$ 2,546,511	$ 2,601,981	$ (468,682)
Expenditures				
Highways				
Administration	$ 172,347	$ 181,684	$ 182,302	$ 9,955
Highway and Bridge Maintenance	895,675	1,069,091	1,097,766	202,091
Operation and Maintenance of Equipment	294,823	300,500	335,258	40,435
Other Charges	80,070	84,748	83,025	2,955
Employee Benefits	340,802	399,000	395,000	54,198
Capital Outlay	444,383	801,506	805,206	360,823
Principal on Debt				
Highways and Streets	80,398	81,910	81,910	1,512
Interest on Debt				
Highways and Streets	2,280	2,325	2,325	45
Total Expenditures	$ 2,310,778	$ 2,920,764	$ 2,982,792	$ 672,014
Excess (Deficiency) of Revenues Over Expenditures	$ (177,479)	$ (374,253)	$ (380,811)	$ 203,332
Other Financing Sources (Uses)				
Notes Issued	$ 182,000	$ 0	$ 0	$ 182,000
Insurance Recovery	6,558	0	6,558	0
Total Other Financing Sources	$ 188,558	$ 0	$ 6,558	$ 182,000
Net Change in Fund Balance	$ 11,079	$ (374,253)	$ (374,253)	$ 385,332
Fund Balance, July 1, 2013	538,482	511,372	511,372	27,110
Fund Balance, June 30, 2014	$ 549,561	$ 137,119	$ 137,119	$ 412,442

The notes to the financial statements are an integral part of this statement.

Exhibit D-1

Smith County, Tennessee
Statement of Net Position
Proprietary Fund
June 30, 2014

	Business-type Activities - Major Enterprise Fund Solid Waste Disposal Fund
ASSETS	
Current Assets:	
Equity in Pooled Cash and Investments	$ 1,186,545
Accounts Receivable	197,513
Due from Other Governments	1,829
Total Current Assets	$ 1,385,887
Noncurrent Assets:	
Capital Assets:	
Assets Not Depreciated:	
Land	$ 2,052,484
Construction in Progress	1,329,286
Assets Net of Accumulated Depreciation:	
Landfill Facilities and Development	2,741,365
Buildings and Improvements	50,132
Machinery and Equipment	611,323
Total Noncurrent Assets	$ 6,784,590
Total Assets	$ 8,170,477
LIABILITIES	
Current Liabilities:	
Accounts Payable	$ 28,507
Payroll Deductions Payable	4,647
Due to Other Funds	14
Capital Outlay Notes Payable	550,237
Other Loans Payable	28,954
Accrued Liability for Landfill Closure/Postclosure Care Costs	12,144
Total Current Liabilities	$ 624,503
Noncurrent Liabilities:	
Accrued Liability for Landfill Closure/Postclosure Care Costs	$ 2,853,289
Capital Outlay Notes Payable	3,252,639
Other Loans Payable	1,799,682
Total Noncurrent Liabilities	$ 7,905,610
Total Liabilities	$ 8,530,113
NET POSITION	
Net Investment in Capital Assets	$ 1,153,078
Unrestricted (Deficit)	(1,512,714)
Total Net Position (Deficit)	$ (359,636)

The notes to the financial statements are an integral part of this statement.

Exhibit D-2

Smith County, Tennessee
Statement of Revenues, Expenses, and
Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2014

	Business-type Activities - Major Enterprise Fund
	Solid Waste Disposal Fund
Operating Revenues	
Licenses and Permits	$ 1,200
Charges for Current Services	1,775,124
Other Local Revenues	27,826
Other Governments and Citizens Groups	86,460
Total Operating Revenues	$ 1,890,610
Operating Expenses	
Waste Pickup	$ 116,253
Convenience Centers	181,371
Other Waste Collection	12,977
Landfill Operations and Maintenance	1,111,465
Employee Benefits	917
Miscellaneous	25
Depreciation Expense	209,885
Total Operating Expenses	$ 1,632,893
Operating Income (Loss)	$ 257,717
Nonoperating Revenues (Expenses)	
Gain on Disposal of Property	$ 2,150
Grants Received	5,199
Interest on Notes	(84,961)
Interest on Other Loans	(78,568)
Total Nonoperating Revenues (Expenses)	$ (156,180)
Change in Net Position	$ 101,537
Net Position, July 1, 2013	(461,173)
Net Position, June 30, 2014	$ (359,636)

The notes to the financial statements are an integral part of this statement.

Exhibit D-3

Smith County, Tennessee
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2014

	Business-type Activities - Major Enterprise Fund Solid Waste Disposal Fund
Cash Flows from Operating Activities	
Receipts from Customers and Users	$ 1,869,169
Payments to Suppliers	(429,132)
Payments to Employees	(604,191)
Other Payments	(132,524)
Net Cash Provided By (Used In) Operating Activities	$ 703,322
Cash Flows from Noncapital Financing Activities	
Grants Received	$ 5,086
Net Cash Provided By (Used In) Noncapital Financing Activities	$ 5,086
Cash Flows from Capital and Related Financing Activities	
Sale of Capital Assets	$ 4,400
Proceeds from Issuance of Capital Debt	2,621,270
Acquisition and Construction of Capital Assets	(1,669,566)
Principal Paid on Capital Outlay Note	(267,080)
Principal Paid on Other Loan	(27,752)
Interest Paid on Capital Outlay Note	(84,961)
Interest Paid on Other Loan	(78,568)
Net Cash Provided By (Used In) Capital and Related Financing Activities	$ 497,743
Net Increase (Decrease) in Cash	$ 1,206,151
Cash, July 1, 2013	(19,606)
Cash, June 30, 2014	$ 1,186,545

(Continued)

Exhibit D-3

Smith County, Tennessee
Statement of Cash Flows
Proprietary Fund (Cont.)

	Business-type Activities - Major Enterprise Fund Solid Waste Disposal Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities	
Operating Income (Loss)	$ 257,717
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities:	
Depreciation Expense	209,885
(Increase) Decrease in Accounts Receivable, Net	(21,441)
(Increase) Decrease in Closure/Postclosure Payable	228,864
(Increase) Decrease in Accounts Payable	26,947
Increase (Decrease) in Payroll Deductions Payable	1,336
Increase (Decrease) in Due to Other Funds	14
Net Cash Provided By (Used In) Operating Activities	$ 703,322

The notes to the financial statements are an integral part of this statement.

Exhibit E

Smith County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2014

	Agency Funds
ASSETS	
Cash	$ 1,077,220
Due from Other Governments	217,291
Total Assets	$ 1,294,511
LIABILITIES	
Due to Other Taxing Units	$ 217,291
Due to Litigants, Heirs, and Others	1,077,220
Total Liabilities	$ 1,294,511

The notes to the financial statements are an integral part of this statement.

SMITH COUNTY, TENNESSEE
Index of Notes to the Financial Statements

SMITH COUNTY, TENNESSEE
Index of Notes to the Financial Statements (Cont.)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Smith County's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of Smith County:

A. Reporting Entity

Smith County is a public municipal corporation governed by an elected 24-member board. As required by GAAP, these financial statements present Smith County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

Discretely Presented Component Units – The following entities meet the criteria for discretely presented component units of the county. They are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the county.

The Smith County School Department operates the public school system in the county, and the voters of Smith County elect its board. The School Department is fiscally dependent on the county because it may not issue debt, and its budget and property tax levy are subject to the County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

The Smith County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Smith County, and the Smith County Commission appoints its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Smith County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the School Department are included in this report as listed in the table of contents. Complete financial statements of the Smith County Emergency Communications District can be obtained from its administrative office at the following address:

Administrative Office:

Smith County Emergency Communications District
515 Jefferson Avenue, East
Carthage, TN 37030

Related Organization – The Industrial Development Board of Smith County is a related organization of Smith County. The county mayor nominates and the Smith County Commission confirms the board members, but the county's accountability for the organization does not extend beyond making the appointments.

B. Government-wide and Fund 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. However, when applicable, interfund services provided and used between functions are not eliminated in the process of consolidation in the Statement of Activities. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Smith County School Department component unit only reports governmental activities in the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Smith County issues all debt for the discretely presented Smith County School Department. There were no debt issues contributed by the county to the School Department during the year ended June 30, 2014.

Separate financial statements are provided for governmental funds, the proprietary fund (enterprise fund), and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary funds financial statements, except for agency funds, which have no measurement focus. 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.

Fund financial statements of Smith County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflow of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Smith County reports one proprietary fund, an enterprise fund.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. The fiduciary funds in total are reported in a single column.

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 become 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 county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Smith County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period.

Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Proprietary fund and fiduciary funds financial statements are reported using the economic resources measurement focus (except for agency funds, which have no measurement focus) and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Smith County reports the following major governmental funds:

> **General Fund** – This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> **Highway/Public Works Fund** – This special revenue fund accounts for transactions of the county's Highway Department. Local and state gasoline/fuel taxes are the foundational revenues of this fund.
>
> **Education Debt Service Fund** – This fund accounts for the resources accumulated and payments made on behalf of the School Department for principal and interest on long-term general obligation debt.

Smith County reports the following major enterprise fund:

> **Solid Waste Disposal Fund** – This fund accounts for transactions of the county-owned landfill.

Additionally, Smith County reports the following fund types:

> **Capital Projects Funds** – These funds are used to account for financial resources to be used in the acquisition or construction of major capital facilities.
>
> **Permanent Fund** – The Library Endowment Fund is used to account for resources that are being held in trust for library operations. Earnings on invested resources may be used to fund library operations, but the principal is required to be maintained intact.
>
> **Agency Funds** – These funds account for amounts collected in an agency capacity by the constitutional officers and local sales taxes received by the state to be forwarded to the various cities in Smith County. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do,

however, use the accrual basis of accounting to recognize receivables and payables.

The discretely presented Smith County School Department reports the following major governmental fund:

General Purpose School Fund – This fund is the primary operating fund of the School Department. It is used to account for general operations of the School Department.

Additionally, the Smith County School Department reports the following fund type:

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

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The county has one proprietary fund used to account for the operations of the landfill. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the county's enterprise fund are tipping fees.

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

1. Deposits and Investments

For purposes of the Statement of Cash Flows, cash includes cash on deposit with the county trustee.

State statutes authorize the government to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer's Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the county's own legally issued bonds or notes.

The county trustee maintains a cash and internal investment pool that is used by all funds and the discretely presented Smith County School Department. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Fund. Smith County and the School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit are reported at cost. Investments in the State Treasurer's Investment Pool are reported at fair value. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the pool qualifies as a 2a7-like pool and is reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. No investments required to be reported at fair value were held at the balance sheet date.

2. **Receivables and Payables**

Activity between funds for unremitted current collections outstanding at the end of the fiscal year is referred to as due to/from other funds.

All ambulance and property taxes receivable are shown with an allowance for uncollectibles. Ambulance receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to two percent of total taxes levied.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred inflow of resources as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred inflow of resources to reflect amounts not available as of June 30. Property taxes collected within

30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

Most payables are disaggregated on the face of the financial statements.

3. **Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as an expenditure when consumed rather than when purchased. Prepaid amounts at June 30, 2014, were considered immaterial and are included in unassigned fund balance in governmental funds.

4. **Capital Assets**

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the governmental and business-type columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of $10,000 ($25,000 for the School Department) or more and an estimated useful life exceeding one year (five years for the School Department). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the enterprise fund is included as part of the capitalized value of the assets constructed.

Property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Landfill Facilities and Development	25
Buildings and Improvements	7 - 40
Other Capital Assets	5 - 20
Infrastructure	20 - 75

Property, plant, equipment, and infrastructure of the discretely presented School Department are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	20 - 40
Other Capital Assets	5 - 15
Infrastructure	20 - 40

5. 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. The government only has one item that qualifies for reporting in this category. This item is the decrease in fair value of the county's interest rate collar reported in the government-wide Statement of Net Position. The valuation amount of the interest rate collar was negative at June 30, 2014, due to the fluctuation in interest rates. Negative amounts of derivative instruments are reflected as deferred outflows of resources.

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 that time. The government has items that qualify for reporting in this category. Accordingly, the items are reported in the government-wide Statement of Net Position and the governmental funds balance sheet. These revenues are from the following sources: current and delinquent property taxes and various receivables for revenues, which do not meet the availability criteria in governmental

funds. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. **Compensated Absences**

Primary Government

It is the county's policy (with the exception of the Highway Department and the Office of County Clerk) not to allow employees to accumulate unused vacation days beyond year-end. The Highway Department and county clerk permit employees to accumulate earned but unused vacation benefits beyond year-end. All county offices allow the accumulation of unused sick days beyond year-end. There is no liability for unpaid accumulated sick leave (with the exception of the Highway Department and the Office of County Clerk) since Smith County does not provide for payment when employees separate from service with the government. Vacation and sick pay for the Highway Department and the Office of County Clerk is accrued when incurred in the government-wide financial statements for the county. A liability for vacation and sick pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

Discretely Presented Smith County School Department

The general policy of the School Department does not allow for the accumulation of vacation days beyond year-end for professional personnel. However, the School Department's policy does permit non-certified personnel to accumulate earned but unused vacation benefits beyond year-end. All professional personnel (teachers) and non-certified employees of the School Department are allowed to accumulate unlimited sick leave days. The granting of sick leave has no guaranteed payment attached, and therefore, is not required to be accrued or recorded. All non-certified employees' vacation pay is accrued when incurred in the government-wide financial statements for the School Department. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

7. **Long-term Obligations**

In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Position. Debt premiums and discounts are deferred and amortized over the life of the new debt using the straight-line method. Debt issuance costs are expensed in the period incurred. In refunding transactions, the difference between the reacquisition price and the

net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the refunded debt or the life of the new debt issued, whichever is shorter.

In the fund financial statements, governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences, other postemployment benefits, and landfill closure/postclosure care costs are recognized to the extent that the liabilities have matured (come due for payment) each period.

8. Net Position and Fund Balance

In the government-wide financial statements and the proprietary fund in the fund financial statements, equity is classified as net position and displayed in three components:

a. Net investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

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

As of June 30, 2014, Smith County had $10,550,000 in outstanding debt for capital purposes for the discretely presented Smith County School Department. This debt is a liability of Smith County, but the capital assets acquired are reported in the financial statements of the School Department. Therefore, Smith County has incurred a liability

significantly decreasing its unrestricted net position with no corresponding increase in the county's capital assets.

It is the county's policy that restricted amounts would be reduced first followed by unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. Also, it is the county's policy that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

Nonspendable Fund Balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the County Commission, the county's highest level of decision-making authority and the Board of Education, the School Department's highest level of decision-making authority, and shall remain binding unless removed in the same manner.

Assigned Fund Balance – includes amounts that are constrained by the county's intent to be used for specific purposes, but are neither restricted nor committed (excluding stabilization arrangements). The County Commission has by resolution authorized the county's Budget/Finance Committee to make assignments for the general government. The Board of Education makes assignments for the School Department.

Unassigned Fund Balance – the residual classification of the General and General Purpose School funds. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned

to specific purposes within the General and General Purpose School funds.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide Statement of Net Position

Primary Government

Exhibit C-2 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds with the government-wide Statement of Net Position.

Discretely Presented Smith County School Department

Exhibit J-3 includes explanations of the nature of individual elements of items required to reconcile the balance sheet of governmental funds with the government-wide Statement of Net Position.

B. Explanation of certain differences between the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the government-wide Statement of Activities

Primary Government

Exhibit C-4 includes explanations of the nature of individual elements of items required to reconcile the net change in fund balances – total governmental funds with the change in net position of governmental activities reported in the government-wide Statement of Activities.

Discretely Presented Smith County School Department

Exhibit J-5 includes explanations of the nature of individual elements of items required to reconcile the net change in fund balances – total governmental funds with the change in net position of governmental activities reported in the government-wide Statement of Activities.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all governmental funds except the Constitutional Officers - Fees fund (special revenue fund), which is not budgeted, and the capital projects funds, which adopt project length budgets. All annual appropriations lapse at fiscal year end.

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the County Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor/Executive, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with GAAP, except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and GAAP basis is presented on the face of each budgetary schedule.

At June 30, 2014, the Smith County School Department reported the following significant encumbrance:

Fund	Description	Amount
School Department:		
Major Fund:		
General Purpose School	Textbooks	$ 214,246

B. Net Position Deficit

The Solid Waste Disposal Fund had a deficit of $1,512,714 in unrestricted net position at June 30, 2014. This deficit resulted from the recognition of a liability of $2,865,433 in the financial statements for costs associated with closing the county's landfill and monitoring the landfill for 30 years after its closure. Generally accepted accounting principles and state statutes require that such costs be reflected in the financial statements.

C. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations in the following funds' major appropriation categories (the legal level of control):

Fund/Major Appropriation Category	Amount Overspent
General:	
County Coroner/Medical Examiner	$ 2,230
General Debt Service:	
Interest on Debt	19,943
Other Debt Service	201

Expenditures that exceed appropriations are a violation of state statutes. These expenditures in excess of appropriations were funded by available fund balances.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Smith County and the Smith County School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net position as Equity in Pooled Cash and Investments. Cash reflected on the balance sheets or statements of net position represents nonpooled amounts held separately by individual funds.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Participating banks determine the aggregate balance of their public fund accounts for the State of Tennessee and its political subdivisions. The amount of collateral required to secure these public deposits must equal at least 105 percent of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for the purposes of credit risk disclosure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured

amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposits at state and federal chartered banks and savings and loan associations; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state Comptroller's Office and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the fair value of the securities on the day of purchase.

The county had no pooled and nonpooled investments as of June 30, 2014.

B. Note Receivable

The General Debt Service Fund had a long-term note receivable of $30,000 on June 30, 2014, from an interest-free note issued to the Industrial Development Board of Smith County. This receivable is included in the restricted fund balance account.

C. Derivative Instrument

At June 30, 2014, Smith County had the following derivative instrument outstanding:

Instrument	Type	Objective	Original Notional Amount	Effective Date	Maturity Date	Terms
$10M collar	Interest rate collar	Maintain rate of interest between set cap and floor	$ 10.000.000	5-30-08	6-1-30	Cap - 5 % Floor - 2.9

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

	Changes in Fair Value		Fair Value at June 30, 2014		6-30-14 Notional
Type	Classification	Amount	Classification	Amount	Amount
Governmental Activities:					
Cash Flow Hedges:					
Interest Rate Collar:					
$10M collar	Deferred Outflow	$ (42,207)	Debt	$ (847,789)	$ 8,697,000

Derivative Collar Agreement Detail

Smith County entered into an interest rate collar in connection with a certain loan agreement between the Public Building Authority of the County of Montgomery, Tennessee, and the county, dated May 30, 2008, of $10,000,000 (the loan), which bears interest at a variable rate.

Objective of the interest rate collar. To protect against the potential of rising interest rates, the county entered into an interest rate collar in connection with the loan. The intent of the collar was to protect the county in the event the variable rate of interest on the loan agreement should rise above a certain percent. The interest rate collar has a floor of 2.9 percent and a ceiling of five percent.

Terms. Under the interest rate collar, the county pays the counterparty the floor rate when the variable rate of interest is below that amount. The counterparty would pay the county in the event the variable rate of interest rose above five percent. The interest rate collar has the same notional amount as the loan. At no time will the notional amount on the interest rate collar exceed the outstanding principal amount of the loan. The loan and the related interest rate collar mature June 1, 2030.

Fair Value. As of June 30, 2014, the interest rate collar has a negative fair value of $847,789. Because the rates on the county's loan adjust to changing interest rates, the loan does not have a corresponding fair value increase.

Credit Risk. As of June 30, 2014, the county was not exposed to credit risk because the interest rate collar had a negative fair value. However, if interest rates change and the fair value of the collar becomes positive, the county would be exposed to credit risk in the amount of the derivative's fair value. The interest rate counterparty, Bank of America, N.A., as of June 30, 2104, was rated as follows:

Moody's		Standard and Poor's		Fitch	
S/T	L/T	S/T	L/T	S/T	L/T
A2	P-1	A	A-1	A	F-1

Basis Risk. As noted above, the interest rate collar exposes the county to basis risk should the rate on the bonds increase to above five percent.

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 county or the counterparty may terminate the interest rate collar if the other party fails to perform under the terms of the contract. If the interest rate collar is terminated, the loan would bear interest at the same rate as the bonds from which the loan was made. Also, if at the time of termination, the interest rate collar has a negative fair value, the county would be liable to the counterparty for a payment equal to the interest rate collar's fair value. Likewise, if the interest rate collar has a positive fair value at termination, the counterparty would be liable to the county for a payment equal to the interest rate collar's fair value.

Interest Rate Collar Payments. If the variable interest rate on the loan agreement is below the floor rate of 2.9 percent, the county pays the counterparty the floor rate. The county also pays the trustee the actual rate payable on the Loan Agreement.

D. Capital Assets

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

Primary Government

Governmental Activities:

	Balance 7-1-13	Increases	Decreases	Balance 6-30-14
Capital Assets Not Depreciated:				
Land	$ 974.935	$ 0	$ 0	$ 974.935
Intangible Assets - Indefinite Life	1.009.865	0	0	1.009.865
Total Capital Assets Not Depreciated	$ 1.984.800	$ 0	$ 0	$ 1.984.800
Capital Assets Depreciated:				
Buildings and Improvements	$ 16.465.156	$ 0	$ 0	$ 16.465.156
Infrastructure	25.671.991	166.267	0	25.838.258
Other Capital Assets	4.633.479	775.922	(428.562)	4.980.839
Total Capital Assets Depreciated	$ 46.770.626	$ 942.189	$ (428.562)	$ 47.284.253

Governmental Activities (Cont.):

	Balance 7-1-13	Increases	Decreases	Balance 6-30-14
Less Accumulated Depreciation For:				
Buildings and Improvements	$ 1.846.100	$ 368.135	$ 0	$ 2.214.235
Infrastructure	6.644.368	157.124	0	6.801.492
Other Capital Assets	2.589.445	459.444	(368.620)	2.680.269
Total Accumulated Depreciation	$ 11.079.913	$ 984.703	$ (368.620)	$ 11.695.996
Total Capital Assets Depreciated. Net	$ 35.690.713	$ (42.514)	$ (59.942)	$ 35.588.257
Governmental Activities Capital Assets. Net	$ 37.675.513	$ (42.514)	$ (59.942)	$ 37.573.057

Business-type Activities:

	Balance 7-1-13	Increases	Decreases	Balance 6-30-14
Capital Assets Not Depreciated:				
Land	$ 2.052.484	$ 0	$ 0	$ 2.052.484
Construction in Progress	0	1.329.286	0	1.329.286
Total Capital Assets Not Depreciated	$ 2.052.484	$ 1.329.286	$ 0	$ 3.381.770
Capital Assets Depreciated:				
Landfill Facilities and Development	$ 3.694.767	$ 0	$ 0	$ 3.694.767
Buildings and Improvements	74.039	0	0	74.039
Other Capital Assets	1.046.944	340.280	(45.000)	1.342.224
Total Capital Assets Depreciated	$ 4.815.750	$ 340.280	$ (45.000)	$ 5.111.030
Less Accumulated Depreciation For:				
Landfill Facilities and Development	$ 817.176	$ 136.226	$ 0	$ 953.402
Buildings and Improvements	22.288	1.619	0	23.907
Other Capital Assets	701.611	72.040	(42.750)	730.901
Total Accumulated Depreciation	$ 1.541.075	$ 209.885	$ (42.750)	$ 1.708.210
Total Capital Assets Depreciatied. Net	$ 3.274.675	$ 130.395	$ (2.250)	$ 3.402.820
Business-type Activities Capital Assets. Net	$ 5.327.159	$ 1.459.681	$ (2.250)	$ 6.784.590

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	$ 45,691
Public Safety	515,055
Public Health and Welfare	139,459
Social, Cultural, and Recreational Services	61,737
Highways/Public Works	222,761
Total Depreciation Expense - Governmental Activities	$ 984,703

Business-type Activities:

Solid Waste Disposal	$ 209,885

Discretely Presented Smith County School Department

Governmental Activities:

	Balance 7-1-13	Increases	Decreases	Balance 6-30-14
Capital Assets Not Depreciated:				
Land	$ 1,226,738	$ 3,500	$ 0	$ 1,230,238
Total Capital Assets Not Depreciated	$ 1,226,738	$ 3,500	$ 0	$ 1,230,238
Capital Assets Depreciated:				
Buildings and Improvements	$ 39,052,541	$ 0	$ 0	$ 39,052,541
Infrastructure	129,000	0	0	129,000
Other Capital Assets	2,840,637	241,500	(200,628)	2,881,509
Total Capital Assets Depreciated	$ 42,022,178	$ 241,500	$ (200,628)	$ 42,063,050
Less Accumulated Depreciated For:				
Buildings and Improvements	$ 11,305,844	$ 868,446	$ 0	$ 12,174,290
Infrastructure	32,519	3,225	0	35,744
Other Capital Assets	1,368,137	170,823	(190,306)	1,348,654
Total Accumulated Depreciation	$ 12,706,500	$ 1,042,494	$ (190,306)	$ 13,558,688
Total Capital Assets Depreciated, Net	$ 29,315,678	$ (800,994)	$ (10,322)	$ 28,504,362
Governmental Activities Capital Assets, Net	$ 30,542,416	$ (797,494)	$ (10,322)	$ 29,734,600

Depreciation expense was charged to functions of the discretely presented Smith County School Department as follows:

Governmental Activities:

Instruction	$ 853,885
Support Services	188,609
Total Depreciation Expense - Governmental Activities	$ 1,042,494

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2014, was as follows:

Due to/from Other Funds:

Receivable Fund	Payable Fund	Amount
Primary Government:		
General	Nonmajor governmental	$ 144.132
"	Solid Waste Disposal	14
Discretely Presented School Department:		
General Purpose School	Nonmajor governmental	1.061
Nonmajor governmental	General Purpose School	58

These balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Due to/from Primary Government and Component Unit:

Receivable Fund	Payable Fund	Amount
	Component Unit:	
Primary Government	School Department	
Education Debt Service	General Purpose School	$ 296,000

The Due to Primary Government represents an annual amount that the School Department has agreed to contribute to the county for the retirement of debt. This amount is set in the annual budget and is not contributed for any specific debt, but is to be applied to any school debt being retired from the Education Debt Service Fund. The School Department had not made its

contribution as of June 30, 2014; therefore this obligation is reflected in the governmental activities on the Statement of Net Position.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2014, consisted of the following amounts:

Primary Government

Transfer Out	Transfer In Nonmajor Governmental Fund
Nonmajor governmental fund	$ 3,335

Discretely Presented Smith County School Department

Transfer Out	Transfer In General Purpose School Fund
Nonmajor governmental fund	$ 12,692

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term Obligations

Primary Government

General Obligation Bonds, Notes, and Other Loans

The county issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

General obligation bonds, capital outlay notes, and other loans are direct obligations and pledge the full faith and credit of the government. General obligation bonds, capital outlay notes, and other loans outstanding were

issued for original terms of up to 39 years for bonds, up to 12 years for notes, and up to 22 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, notes, and other loans included in long-term debt as of June 30, 2014, will be retired from the General, Courthouse and Jail Maintenance, Highway/Public Works, General Debt Service, and Education Debt Service funds.

General obligation bonds, capital outlay notes, and other loans outstanding as of June 30, 2014, for governmental activities are as follows:

Type	Interest Rate	Final Maturity	Original Amount of Issue	Balance 6-30-14
General Obligation Bonds	4.25 to 4.63 %	10-16-42	$ 1,597,200	$ 1,243,583
General Obligation Bonds - Refunding	5	4-1-21	12,800,000	10,550,000
Capital Outlay Notes	1.97 to 3.85	3-7-20	3,311,243	1,922,470
Other Loans	variable	5-25-30	12,628,599	10,464,630

In prior years, Smith County entered into loan agreements with the Montgomery County Public Building Authority. Under these loan agreements, the authority loaned $1,250,000 to Smith County for the construction of a senior/career center and an agriculture center, and $1,378,599 for the construction of a head start facility and a jail facility. These loans are repayable at interest rates that are tax-exempt variable rates determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with these loans. At June 30, 2014, the variable interest rate for each of these loans was .28 percent. Other fees based on the outstanding loan principal at June 30, 2014, totaled approximately 1.2 percent (letter of credit), .08 percent (remarketing), and a trustee fee of $85 per month.

Also, in a prior year, Smith County entered into a loan agreement with the Montgomery County Public Building Authority. Under this loan agreement, the authority loaned $10,000,000 to Smith County for the construction of a jail facility. This type of loan would normally be repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. However, the county entered into an interest rate collar agreement for this loan that sets an interest rate floor of 2.9 percent and a ceiling of five percent; therefore, the interest rate paid by the county will always fall in this range regardless of the variable rate determined by the market. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with this loan. At June 30, 2014, the interest rate was .28 percent; however, because of the floor set by the collar agreement, the county's interest rate was 2.9 percent and all calculations in this report will

be based on that rate. Other fees based on the outstanding loan principal at June 30, 2014, totaled approximately 1.2 percent (letter of credit), .08 percent (remarketing), and a trustee fee of $85 per month.

The annual requirements to amortize all general obligation bonds, notes, and other loans outstanding as of June 30, 2014, including interest payments and other loan fees, are presented in the following tables:

Year Ending June 30	Notes		
	Principal	Interest	Total
2015	$ 690,382	$ 53,370	$ 743,752
2016	590,049	34,157	624,206
2017	331,744	20,302	352,046
2018	139,734	11,592	151,326
2019	136,398	8,680	145,078
2020	34,163	1,071	35,234
Total	$ 1,922,470	$ 129,172	$ 2,051,642

Year Ending June 30	Other Loans			
	Principal	Interest	Other Fees	Total
2015	$ 487,690	$ 257,162	$ 137,007	$ 881,859
2016	510,630	246,156	130,765	887,551
2017	533,710	234,612	124,228	892,550
2018	559,940	222,507	117,397	899,844
2019	585,340	209,778	110,230	905,348
2020-2024	3,369,920	834,917	431,390	4,636,227
2025-2029	3,653,400	409,836	197,654	4,260,890
2030	764,000	22,156	10,799	796,955
Total	$ 10,464,630	$ 2,437,124	$ 1,259,470	$ 14,161,224

Year Ending June 30	Bonds		
	Principal	Interest	Total
2015	$ 1,360,191	$ 587,932	$ 1,948,123
2016	1,427,678	520,195	1,947,873
2017	1,500,275	449,098	1,949,373
2018	1,562,989	374,384	1,937,373
2019	1,635,825	296,548	1,932,373
2020-2024	3,741,357	456,010	4,197,367
2025-2029	445,970	109,027	554,997
2030-2034	58,900	38,714	97,614
2035-2039	47,153	18,651	65,804
2040-2042	13,245	2,160	15,405
Total	$ 11,793,583	$ 2,852,719	$ 14,646,302

There is $315,111 available in the General Debt Service Fund and $2,607,520 available in the Education Debt Service Fund to service long-term debt. Debt per capita, including bonds, notes, and other loans totaled $1,555, based on the 2010 federal census.

Changes in Long-term Obligations

Long-term obligations activity for the year ended June 30, 2014, was as follows:

Governmental Activities:

	Notes	Other Loans	Bonds
Balance, July 1, 2013	$ 2,453,659	$ 10,930,530	$ 13,086,567
Additions	546,036	0	0
Reductions	(1,077,225)	(465,900)	(1,292,984)
Balance, June 30, 2014	$ 1,922,470	$ 10,464,630	$ 11,793,583
Balance Due Within One Year	$ 690,382	$ 487,690	$ 1,360,191

	Compensated Absences	Other Postemployment Benefits
Balance, July 1, 2013	$ 145,571	$ 148,627
Additions	160,921	15,153
Reductions	(82,094)	(1,582)
Balance, June 30, 2014	$ 224,398	$ 162,198
Balance Due Within One Year	$ 79,023	$ 0

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2014	$ 24,567,279
Less: Due Within One Year	(2,617,286)
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	$ 21,949,993

Compensated absences and other postemployment benefits will be paid from the employing funds, primarily the General Fund.

Defeasance of Prior Debt

In prior years, Smith County defeased certain outstanding general obligation bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. The trustee is empowered and required to pay all principal and interest on the defeased bonds as originally scheduled. Accordingly, the trust accounts and the defeased bonds are not included in the county's financial statements. At June 30, 2014, the following outstanding bonds are considered defeased:

	Amount
2000 School Bonds	$ 5,170,000
2001 School Bonds	5,550,000

Solid Waste Disposal Fund (enterprise fund)

Notes and Other Loans

Capital outlay notes and other loans outstanding were issued for original terms of up to nine years for notes and up to 40 years for other loans. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All notes and other loans included in long-term debt as of June 30, 2014, will be retired from the Solid Waste Disposal Fund.

Capital outlay notes and other loans outstanding as of June 30, 2014, for business-type activities are as follows:

Type	Interest Rate	Final Maturity	Original Amount of Issue	Balance 6-30-14
Capital Outlay Notes	2.19 to 4.21 %	7-19-22	$ 4,658,991	$ 3,802,876
Other Loans	4.25	12-6-45	2,000,000	1,828,636

In prior years, Smith County entered into a loan agreement with the United States Department of Agriculture (USDA). Under this loan agreement, the USDA loaned $2,000,000 to Smith County for the construction of a recycling facility at the landfill. This loan is repayable in monthly installments at an interest rate of 4.25 percent.

The annual requirements to amortize all notes and other loans outstanding as of June 30, 2014, including interest payments, are presented in the following tables:

Year Ending June 30	Notes Principal	Notes Interest	Notes Total
2015	$ 550,237	$ 116,258	$ 666,495
2016	550,237	98,487	648,724
2017	826,763	80,859	907,622
2018	352,950	56,331	409,281
2019	352,950	45,157	398,107
2020-2023	1,169,739	75,016	1,244,755
Total	$ 3,802,876	$ 472,108	$ 4,274,984

Year Ending June 30	Other Loans Principal	Other Loans Interest	Other Loans Total
2015	$ 28,954	$ 77,366	$ 106,320
2016	30,209	76,111	106,320
2017	31,518	74,802	106,320
2018	32,884	73,436	106,320
2019	34,309	72,011	106,320
2020-2024	195,181	336,419	531,600
2025-2029	241,303	290,297	531,600
2030-2034	298,321	233,279	531,600
2035-2039	368,817	162,783	531,600
2040-2044	455,969	75,631	531,600
2045-2046	111,171	2,993	114,164
Total	$ 1,828,636	$ 1,475,128	$ 3,303,764

Changes in Long-term Obligations

Long-term obligations activity for the Solid Waste Disposal Fund (enterprise fund) for the year ended June 30, 2014, was as follows:

Business-type Activities:

	Notes	Other Loans	Closure/ Postclosure Care Costs
Balance, July 1, 2013	$ 1,448,686	$ 1,856,388	$ 2,636,569
Additions	2,621,270	0	228,864
Reductions	(267,080)	(27,752)	0
Balance, June 30, 2014	$ 3,802,876	$ 1,828,636	$ 2,865,433
Balance Due Within One Year	$ 550,237	$ 28,954	$ 12,144

Analysis of Noncurrent Libilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2014	$ 8,496,945
Less: Due Within One Year	(591,335)
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	$ 7,905,610

Discretely Presented Smith County School Department

Changes in Long-term Obligations

Long-term obligations activity for the discretely presented Smith County School Department for the year ended June 30, 2014, was as follows:

Governmental Activities:

	Compensated Absences	Other Postemployment Benefits
Balance, July 1, 2013	$ 58,215	$ 577,023
Additions	43,188	184,595
Reductions	(40,305)	(197,300)
Balance, June 30, 2014	$ 61,098	$ 564,318
Balance Due Within One Year	$ 24,439	$ 0

Analysis of Noncurrent Libilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2014	$ 625,416
Less: Due Within One Year	(24,439)
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	$ 600,977

Compensated absences and other postemployment benefits will be paid from the employing funds, primarily the General Purpose School Fund.

G. Pledges of Receivables and Future Revenues

Wheel Tax Revenues Pledged

In 2008, Smith County voters approved an additional $15 increase in the local wheel tax that was allocated 100 percent for the repayment of county indebtedness related to the jail construction. The tax will terminate 20 years from the date of debt issuance or as soon as indebtedness is paid off. The

other loans issued by Smith County in 2007 and 2008 to provide financing for jail construction totaled $10,674,186 and are payable through 2030.

Debt obligation schedules include annual principal, interest, and various other loan fee payments over the life of the debt issued. For the current year, principal, interest, and other loan fees paid by the Courthouse and Jail Maintenance Fund for the jail building programs totaled $782,391.

H. On-Behalf Payments - Discretely Presented Smith County School Department

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Smith County School Department. These payments are made by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the state's Comprehensive Annual Financial Report. Payments by the state to the Local Education Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2014, were $92,079 and $17,858, respectively. The School Department has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

I. Short-term Debt

Smith County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the General Fund. These notes were necessary because funds were not available to meet obligations coming due before current tax collections. Short-term debt activity for the year ended June 30, 2014, was as follows:

	Balance 7-1-13	Issued	Paid	Balance 6-30-14
Tax Anticipation Notes	$ 0	$ 600,000	$ (600,000)	$ 0

V. OTHER INFORMATION

A. Risk Management

Primary Government

Smith County government's risks of loss relating to general liability, property, casualty, and workers' compensation are covered by participation in the Local Government Property and Casualty Fund (LGPCF) and the Local Government Workers' Compensation Fund, which are public entity risk pools established by the Tennessee County Services Association. The county pays annual premiums to the pools for the risk coverage noted above. The creation of these pools provides for them to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies for claims exceeding $100,000 for each insured event.

The county provides health insurance coverage to its employees through the Local Government Group Insurance Fund (LGGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that was established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, *Tennessee Code Annotated* (*TCA*), all local governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by the fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

Discretely Presented Smith County School Department

It is the policy of the School Department to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property, and casualty and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The School Department participates in the Local Education Group Insurance Fund (LEGIF), a public entity risk pool established to provide a program of health insurance coverage for employees of local education agencies. In accordance with Section 8-27-301, *TCA,* all local education agencies are eligible to participate. The LEGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. Section 8-27-303, *TCA,* provides for the LEGIF to be self-sustaining through member premiums.

B. Accounting Changes

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* became effective for the year ended June 30, 2014.

GASB Statement No. 67 replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts or equivalent arrangements.

GASB Statement No. 70 relates to accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

C. Subsequent Events

On June 30, 2014, Roger Lewis left the Office of Director of Schools and was succeeded by Barry Smith effective July 1, 2014.

On August 31, 2014, Angie Hunter left the Office of Circuit and General Sessions Courts Clerk and was succeeded by Tommy Turner.

On October 6, 2014, the county's Education Debt Service Fund issued a $600,000 tax anticipation note to the General Fund for temporary operating funds.

D. Contingent Liabilities

The county is involved in several pending lawsuits. Attorneys for the county estimate that the potential claims against the county not covered by insurance resulting from such litigation would not materially affect the county's financial statements.

E. Change in Administration

Circuit and General Sessions Courts Clerk, Myra Hardcastle, resigned October 27, 2013, and was succeeded by Angie Hunter effective November 11, 2013.

F. Landfill Closure/Postclosure Care Costs

Smith County has active permits on file with the state Department of Environment and Conservation for a sanitary landfill and a demolition landfill. The county has provided financial assurances for estimated closure and postclosure liabilities as required by the State of Tennessee. These financial assurances are on file with the Department of Environment and Conservation.

State and federal laws and regulations require Smith County to place a final cover on its operating sanitary landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the county reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $2,865,433 reported as landfill closure and postclosure care liability at June 30, 2014, represents the cumulative amount reported to date based on 97 percent use of the estimated capacity of the operating landfill ($2,686,282) and for a landfill closed in 1999 ($179,151). These amounts are based on what it would cost to perform all closure and postclosure care in 2014. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

G. Joint Venture

The Fifteenth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Fifteenth Judicial District, Smith, Jackson, Macon, and Trousdale

counties, and the police chiefs of the cities of Carthage and Lafayette. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a board of directors including the district attorney general, sheriffs, and police chiefs of the participating law enforcement agencies within the judicial district. Smith County made no contributions to the DTF for the year ended June 30, 2014, and does not have any equity interest in this joint venture. Complete financial statements for the DTF can be obtained from its administrative office at the following address:

Administrative Office:

District Attorney General
Fifteenth Judicial District
203 Greentop Street
Hartsville, TN 37074

H. Jointly Governed Organization

The Nashville and Eastern Railroad Authority was created according to an act of the Tennessee Legislature in 1983 to purchase the property, track, and roadbed along approximately 130 miles in Davidson, Wilson, Smith, and Putnam counties from Seaboard System Railroad, Inc. The business of the authority is conducted by a board of directors whose members are appointed by the governing bodies of the cities and counties of service. The authority's primary source of revenue is rehabilitation contracts with the Tennessee Department of Transportation. The counties do not have any ongoing financial interest or responsibility for the entity. Complete financial statements for the authority can be obtained at the following address:

Nashville and Eastern Railroad Authority
206 South Maple Street
Lebanon, TN 37087

I. Retirement Commitments

1. Tennessee Consolidated Retirement System (TCRS)

Plan Description

Employees of Smith County 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, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Smith County 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 the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at http://www.tn.gov/treasury/tcrs/PS/.

Funding Policy

Smith County requires employees to contribute five percent of their earnable compensation to the plan. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2014, was 6.99 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the county is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2014, Smith County's annual pension cost of $536,853 to TCRS was equal to the county'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 three percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected postretirement increases of

2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The county'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 three years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-14	$536,853	100%	$0
6-30-13	532,002	100	0
6-30-12	519,255	100	0

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 95.57 percent funded. The actuarial accrued liability for benefits was $16.36 million, and the actuarial value of assets was $15.64 million, resulting in an unfunded actuarial accrued liability (UAAL) of $.73 million. The covered payroll (annual payroll of active employees covered by the plan) was $6.96 million, and the ratio of the UAAL to the covered payroll was 10.43 percent.

The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

SCHOOL TEACHERS

Plan Description

The Smith County School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing 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 to plan members and their beneficiaries. 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 who are at least 55 years of age or have 25 years of service. 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 plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/Schools.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2014, was 8.88 percent of annual covered payroll. The employer contribution requirement for the School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2014, 2013, and 2012, were $1,033,868, $1,025,559, and $1,046,811, respectively, equal to the required contributions for each year.

2. Deferred Compensation

The Smith County School Department offers its employees a deferred compensation plan established pursuant to IRC Section 403(b). All costs of administering and funding the program are the responsibility of the plan participants. The Section 403(b) plan assets remain the property of the contributing employees and are not presented in the accompanying financial statements. IRC Section 403(b) establishes participation, contribution, and withdrawal provisions for the plans.

J. Other Postemployment Benefits (OPEB)

Plan Description

Smith County and the School Department participate in the state-administered Local Government Group Insurance Plan and the Local Education Group Insurance Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-302, *Tennessee Code Annotated* (*TCA*), for local education employees and Section 8-27-207, *TCA,* for local governments. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare Supplement Plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at http://tn.gov/finance/act/cafr.html.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop a contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state does not provide a subsidy for local government participants; however, the state does provide a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. During the year, Smith County and the School Department contributed $1,582 and $197,300, respectively, to other postemployment benefits.

Annual OPEB Cost and Net OPEB Obligation

	Primary Government	School Department
	Local Government Group Plan	Local Education Group Plan
ARC	$ 15,000	$ 184,000
Interest on the NOPEBO	5,945	23,081
Adjustment to the ARC	(5,792)	(22,486)
Annual OPEB cost	$ 15,153	$ 184,595
Amount of contribution	(1,582)	(197,300)
Increase/decrease in NOPEBO	$ 13,571	$ (12,705)
Net OPEB obligation, 7-1-13	148,627	577,023
Net OPEB obligation, 6-30-14	$ 162,198	$ 564,318

Fiscal Year Ended	Plans	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
PRIMARY GOVERNMENT				
6-30-12	Local Government Group	$ 36,797	10 %	$ 115,582
6-30-13	"	37,275	10	148,627
6-30-14	"	15,153	10	162,198
DISCRETELY PRESENTED SMITH COUNTY SCHOOL DEPARTMENT				
6-30-12	Local Education Group	312,284	53	436,576
6-30-13	"	314,927	55	577,023
6-30-14	"	184,595	107	564,318

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2013, was as follows:

	Primary Government Local Government Group Plan	School Department Local Education Group Plan
Actuarial valuation date	7-1-13	7-1-13
Actuarial accrued liability (AAL)	$ 90,000	$ 1,889,000
Actuarial value of plan assets	$ 0	$ 0
Unfunded actuarial accrued liability (UAAL)	$ 90,000	$ 1,889,000
Actuarial value of assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	$ 4,059,905	$ 14,109,469
UAAL as a % of covered payroll	2%	13%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, 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

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July 1, 2013, actuarial valuation for the Local Government Plan and the Local Education Plan, the projected unit credit actuarial cost method was used, and the actuarial assumptions included a four percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent for fiscal year 2014. The trend rate will decrease to seven percent in fiscal year 2015 and then be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. Both rates include a 2.5 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007.

K. Purchasing Laws

Office of County Mayor

Purchasing procedures for the Office of County Mayor are governed by the County Purchasing Law of 1983, Sections 5-14-201 through 5-14-206, *Tennessee Code Annotated* (*TCA*), which provide for all purchases exceeding $10,000 (except for emergency purchases) to be made after public advertisement and solicitation of competitive bids.

Office of Road Commissioner

Purchasing procedures for the Highway Department are governed by the Uniform Road Law, Section 54-7-113, *TCA*, which provides for purchases of $10,000 or more to be made after public advertisement and solicitation of competitive bids.

Office of Director of Schools

Purchasing procedures for the School Department are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, *TCA*, which provides for the county Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also requires competitive bids to be solicited through newspaper advertisement on all purchases exceeding $10,000.

VI. OTHER NOTES – DISCRETELY PRESENTED SMITH COUNTY EMERGENCY COMMUNICATIONS DISTRICT

A. Summary of Significant Accounting Policies

1. Reporting Entity

The Smith County E-911 Emergency Communications District was established to provide an enhanced level of 911 service to Smith County citizens by acquiring certain types of equipment that enable emergency service providers to respond more rapidly and effectively due to increased speed in the transmittal of critical information and improved reliability of addresses and information. It is a component unit of Smith County. The Smith County E-911 Emergency Communications District is run by a board of directors appointed by Smith County. The district must file a budget with Smith County each year. Any bond issued by the district is subject to approval by Smith County.

2. Basis of Accounting

The district uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred.

3. **Depreciation**

Depreciation is computed at rates designed to amortize the cost of the individual assets over their useful lives. Depreciation begins when the capital assets are placed in service. Depreciation is summarized as follows:

	Method	Estimated Useful Life in Years	2014 Depreciation
Land Improvements	S/L	10 - 15	$ 1,319
Buildings and Improvements	S/L	10 - 40	8,548
Communications Equipment	S/L	5 - 12	55,212
Furniture and Fixtures	S/L	5 - 10	2,251
Office Equipment	S/L	5 - 15	1,789
Vehicles	S/L	5 - 10	5,639
Total Depreciation			$ 74,758

4. **Major Source of Revenue**

The major source of operating revenue is emergency telephone and wireless surcharges. Nonoperating revenue consists of interest income, a contract with Upper Cumberland Electric Membership Corporation to answer after-hours phone calls, and insurance reimbursements.

B. **Cash and Cash Investments**

The following is a schedule of bank accounts at June 30, 2014:

	Balance 6-30-14
Checking - Citizens Bank	$ 295,103
Money Market - Citizens Bank	142,778
Certificate of Deposit - Citizens Bank	30,000
Total Cash	$ 467,881

At June 30, 2014, the carrying amount of the district's cash deposits was $467,881. The district's deposit accounts are covered up to $250,000 by the Federal Deposit Insurance Corporation. Any amounts over $250,000 are covered under the State of Tennessee Government Collateralization Pool of which Citizens Bank is a member. The district is authorized to deposit and invest funds according to the provisions of Section 5-8-301, *Tennessee Code Annotated.*

C. Bonding

The district has a bond covering certain members of the board at June 30, 2014. The district also has a general liability policy, which covers building and contents. There have been no losses or settlements that have exceeded coverage during the past three years.

D. Capital Assets

The following is a schedule of capital assets at June 30, 2014:

Assets	Cost	Accumulated Depreciation	Net
Non-Depreciable			
Land	$ 30,000	$ 0	$ 30,000
Depreciable			
Land Improvements	$ 13,190	$ 5,018	$ 8,172
Buildings and Improvements	175,745	29,713	146,032
Communication Equipment	574,882	423,005	151,877
Furniture and Fixtures	12,293	11,236	1,057
Office Equipment	40,583	40,155	428
Vehicle	57,007	45,260	11,747
Total Depreciable	$ 873,700	$ 554,387	$ 319,313
Total Assets	$ 903,700	$ 554,387	$ 349,313

Assets	Balance 7-1-13	Additions/ Reductions	Balance 6-30-14
Non-Depreciable			
Land	$ 30,000	$ 0	$ 30,000
Depreciable			
Land Improvements	$ 13,190	$ 0	$ 13,190
Buildings/Improvements	175,745	0	175,745
Communication Equipment	561,485	13,397	574,882
Furniture and Fixtures	12,293	0	12,293
Office Equipment	40,583	0	40,583
Vehicle	57,007	0	57,007
Total Depreciable	$ 860,303	$ 13,397	$ 873,700
Total Assets	$ 890,303	$ 13,397	$ 903,700

E. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with original maturities of three months or less with local financial institutions.

F. Accounts Receivable/Due from State Emergency Communications Board

The amounts due to the district from the subscriber services and wireless charges include the following:

Miscellaneous Telephone Companies	$ 13.281
State Emergency Communications Board	8,168
Total	$ 21.449

G. Net Investment in Capital Assets

Total Noncurrent Assets	$ 349,313
Invested in Capital Assets	$ 349,313

H. Budgetary Information

As stated in Note VI.A.1., the district must file a budget with Smith County each year, which must be adopted by the Board of Directors. The budget is prepared on the accrual basis of accounting. Compliance with the legally adopted budget is required at the line-item level.

I. Subsequent Events

The district has evaluated subsequent events through the date in the district's financial statements.

Copies of the complete financial statements of the County for the current Fiscal Year are available at http://www.comptroller1.state.tn.us/la/CountySelect.asp