

**PRELIMINARY OFFICIAL STATEMENT**

**\$9,900,000\***

**SEVIER COUNTY, TENNESSEE**  
**General Obligation Bonds, Series 2018B**

OFFERED FOR SALE NOT SOONER THAN

Monday, June 18, 2018 at 11:15 A.M. E.D.T.  
Through the Facilities of *PARITY*<sup>®</sup>  
and at the offices of  
Cumberland Securities Company, Inc.  
Knoxville, Tennessee

**Cumberland Securities Company, Inc.**  
Financial Advisor

June 1, 2018

\*Preliminary, subject to change.



**PRELIMINARY OFFICIAL STATEMENT DATED JUNE 1, 2018**

**NEW ISSUE**  
**BOOK-ENTRY-ONLY**

Rating: Moody's: "Aa2"  
(See "MISCELLANEOUS-Rating")

*In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, as hereafter defined, interest on the 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. 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 Tennessee franchise and excise taxes. (See "LEGAL MATTERS -Tax Matters" herein.)*

**\$9,900,000\***  
**SEVIER COUNTY, TENNESSEE**  
**General Obligation Bonds, Series 2018B**

Dated: Date of Delivery (assume June 29, 2018)

Due: June 1 (as indicated below)

The \$9,900,000\* General Obligation Bonds, Series 2018B (the "Bonds") shall be issued by the Sevier County, Tennessee (the "County") 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, 2018 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 designated corporate trust office of the Registration Agent.

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of, premium, if any, and interest on the Bonds, the full faith and credit of the County are irrevocably pledged. To the extent permitted by applicable law, the Bonds shall be additionally payable from and secured by funds the County receives pursuant to Section 67-6-712(a)(2) Tennessee Code Annotated, as amended (the "Sales Tax Funds").

Bonds maturing June 1, 2026 and thereafter are subject to optional redemption prior to maturity on or after June 1, 2025.

<u>Due</u>	<u>Interest</u>				<u>Due</u>	<u>Interest</u>			
<u>(June 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIPs**</u>	<u>(June 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIPs**</u>
2022	\$ 455,000				2031	\$ 590,000			
2023	465,000				2032	610,000			
2024	475,000				2033	635,000			
2025	485,000				2034	655,000			
2026	495,000				2035	680,000			
2027	515,000				2036	700,000			
2028	535,000				2037	730,000			
2029	550,000				2038	750,000			
2030	575,000								

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire PRELIMINARY 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 Owings, Wilson & Coleman, Knoxville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the County by David W. Webb, Esq., counsel to the County. 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 June \_\_, 2018.

**Cumberland Securities Company, Inc.**  
*Financial Advisor*

June \_\_, 2018

\*Preliminary, subject to change.

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

This Preliminary 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 Preliminary Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Issuer, the Bonds, the Resolution, the Disclosure Certificate (as defined herein), 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 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 Preliminary 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 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 or the Underwriter. Except where otherwise indicated, all information contained in this Preliminary 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 Underwriter. The information contained herein is subject to change without notice, and neither the delivery of this Preliminary 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 S&P CUSIP Service Bureau, a division of the McGraw-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.

## SEVIER COUNTY, TENNESSEE

### OFFICIALS

Larry Waters	<i>County Mayor</i>
Bryan McCarter	<i>Finance Director</i>
Karen Cotter	<i>County Clerk</i>
David W. Webb	<i>County Attorney</i>

### BOARD OF COUNTY COMMISSIONERS

Ronnie W. Allen	Phil King
Fred A. Atchley	Michael Maddron
Gene Byrd	David Norton
Mike Chambers	Ray Ogle
Ben Clabo	Frank Parton
Gary Cole	Harold Pitner
Rod Cowan	Carroll Rauhuff
Mary Davis	Tommy Watts
Bryan Delius	Ronnie Whaley
Chuck Godfrey	Keith Whaley
Greg Haggard	Randy Williams
Mike Hillard	Kent Woods
Warren Hurst	

### BOND REGISTRATION AND PAYING AGENT

Regions Bank  
Nashville, Tennessee

### BOND COUNSEL

Owings, Wilson & Coleman  
Knoxville, Tennessee

### FINANCIAL ADVISOR

Cumberland Securities Company, Inc.  
Knoxville, Tennessee



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## 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 *Preliminary Official Statement*. This Summary Statement shall not be reproduced, distributed or otherwise used except in conjunction with the remainder of this *Preliminary Official Statement*.

Issuer .....	Sevier County, Tennessee (the “County” or “Issuer”). See APPENDIX B contained herein.
The Bonds.....	\$9,900,000* General Obligation Bonds, Series 2018B (the “Bonds”) of the County, dated the date of issuance (assume June 29, 2018). The Bonds mature each June 1 beginning June 1, 2022 through June 1, 2038, inclusive. See the section entitled “SECURITIES OFFERED” herein for additional information.
Security .....	The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the territorial limits of the County. For the prompt payment of principal and interest on the Bonds, the full faith and credit of the Issuer are irrevocably pledged.
Purpose .....	The Bonds are being issued for the purpose of (i) the acquisition of land for and the construction, improvement, renovation and equipping of schools; jails, courts, roads, streets, sidewalks and other public buildings and facilities; (ii) the acquisition of all property, real and personal, appurtenant thereto or connected thereto; (iii) technological improvements; (iv) athletic facilities construction and improvements; (v) payment of legal, fiscal, administrative, architectural and engineering costs incident to all of the foregoing (collectively, the “Projects”); and (vi) payment of costs incident to the issuance of the bonds authorized herein.
Optional Redemption .....	The Bonds are subject to optional redemption prior to maturity on or after June 1, 2023, at the redemption price of par plus accrued interest. See section entitled “SECURITIES OFFERED - Optional Redemption”.
Tax Matters.....	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, interest on the 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. 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 Tennessee franchise and excise taxes. (See “LEGAL MATTERS -Tax Matters” herein.).
Bank Qualification .....	The 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.....	Moody’s: “Aa2”. See the section entitled “MISCELLANEOUS - Rating” for more information.
Registration and Paying Agent .....	Regions Bank, Nashville, Tennessee (the “Registration Agent”).
Bond Counsel .....	Owings, Wilson & Coleman, Knoxville, Tennessee.
Financial Advisor .....	Cumberland Securities Company, Inc., Knoxville, Tennessee. See the section entitled “MISCELLANEOUS - Financial Advisor; Related Parties; Others”, herein.

\*Preliminary, subject to change.

Underwriter.....

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”.

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 the section entitled 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 promulgated under the Securities Exchange Act of 1934 as amended, the County will provide the Municipal Securities Rulemaking Board (“MSRB”) through the operation of the Electronic Municipal Market Access system (“EMMA”) and the State Information Depository (“SID”) established in Tennessee, if any, annual financial statements and other pertinent credit information, including the Comprehensive Annual Financial Reports. For additional information, see the section entitled “MISCELLANEOUS - Continuing Disclosure” for additional information.

Other Information.....The information in the *Preliminary Official Statement* is deemed “final” within the meaning of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 as of the date which appears on the cover hereof for the omission of certain pricing and other information. For more information concerning the County, or the PRELIMINARY OFFICIAL STATEMENT, contact Larry Waters, 125 Court Avenue, Sevierville, Tennessee 37862, (865) 453-6136; or the County's Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663. Additional information regarding BiDCOMP™/PARITY® may be obtained from PARITY®, 1359 Broadway - 2<sup>nd</sup> Floor, New York, NY 10018, Telephone: (800) 850.7422.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Beginning Fund Balance	\$16,781,326	\$17,110,470	\$19,195,426	\$20,483,149	\$22,063,871
Revenues	40,636,668	41,879,890	42,239,441	46,514,261	47,343,173
Expenditures	40,255,544	38,938,783	40,384,243	44,845,299	44,195,078
Other Financing Sources:					
Insurance Recovery	79,020	16,565	32,525	725	10,513
Transfers In	-	-	-	-	-
Transfers Out	(131,000)	(872,807)	(600,000)	(88,965)	(50,000)
Net Change in Fund Balances	329,144	2,084,956	1,287,723	1,580,722	3,108,608
<b>Ending Fund Balance</b>	<b><u>\$17,110,470</u></b>	<b><u>\$19,195,426</u></b>	<b><u>\$20,483,149</u></b>	<b><u>\$22,063,871</u></b>	<b><u>\$25,172,479</u></b>

Source: Comprehensive Annual Financial Reports of the Sevier County, Tennessee.

## SUMMARY NOTICE OF SALE

**\$9,900,000\***

### **SEVIER COUNTY, TENNESSEE General Obligation Bonds, Series 2018B**

NOTICE IS HEREBY GIVEN that the Mayor of the Sevier County, Tennessee (the “County”) will receive electronic or written sealed bids until **11:15 a.m. E.D.T. on Monday, June 18, 2018** for the purchase of all, but not less than all, of the County's \$9,900,000\* General Obligation Bonds, Series 2018B (the “Bonds”). Electronic bids must be submitted through **PARITY**<sup>®</sup> as described in the “Detailed Notice of Sale”. In case of written bids, bids will be received by the County’s Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the County reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth in the Detailed Notice of Sale, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY**<sup>®</sup> System not later than 10:15 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY**<sup>®</sup> System.

Electronic bids must be submitted through **PARITY**<sup>®</sup> via the BiDComp Competitive Bidding Service as described in the Detailed Notice of Sale and no other provider of electronic bidding services will be accepted. For the purposes of the bidding process, both written and electronic, the time maintained by **PARITY**<sup>®</sup> shall constitute the official time with respect to all bids. To the extent any instructions or directions set forth in **PARITY**<sup>®</sup> conflict with the terms of the Detailed Notice of Sale and this Summary Notice of Sale, the Detailed Notice of Sale and this Summary Notice of Sale shall prevail.

The Bonds will be issued in book-entry-only form (except as otherwise described in the Detailed Notice of Sale) and dated the date of issuance (assume June 29, 2018). The Bonds will mature on June 1 in the years 2022 through 2038, inclusive, with term bonds optional, with interest payable on June 1 and December 1 of each year, commencing December 1, 2018 and will be subject to optional redemption prior to maturity on or after June 1, 2025 at par plus accrued interest, if any. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or more than one hundred and twenty-five percent (125%) of par for the Bonds. The approving opinion for the Bonds will be furnished at the expense of the County by Owings, Wilson & Coleman, Bond Counsel, Knoxville, Tennessee. No rate or rates bid for the Bonds shall exceed five percent (5.00%) per annum. Unless bids are rejected, the Bonds will be awarded by the Mayor of the County on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

**In the event that the competitive sale requirements are not satisfied, the County will reject all bids and cancel the sale.**

Unless bids are rejected, the Bonds will be awarded by the Mayor of the County on the sale date to the bidder whose bid results in the lowest true interest rate on the Bonds.

Additional information, including the PRELIMINARY OFFICIAL STATEMENT in near final form and the Detailed Notice of Sale, may be obtained through [www.prospectushub.com](http://www.prospectushub.com) or from the County’s Financial Advisor, Cumberland Securities Company, Inc., Telephone: (865) 988-2663. Further information

\*Preliminary, subject to change.

regarding **PARITY**<sup>®</sup> may be obtained from i-Deal LLC, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018, Telephone: 212-849-5000.

SEVIER COUNTY, TENNESSEE  
By: Larry Waters, County Mayor

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## DETAILED NOTICE OF SALE

**\$9,900,000\***

### SEVIER COUNTY, TENNESSEE

#### General Obligation Bonds, Series 2018B

NOTICE IS HEREBY GIVEN that the Mayor of the Sevier County, Tennessee (the "County") will receive electronic or written sealed bids until **11:15 a.m. E.D.T.** on **Monday, June 18, 2018** for the purchase of all, but not less than all, of the County's \$9,900,000\* General Obligation Bonds, Series 2018B (the "Bonds"). Electronic bids must be submitted through **PARITY**<sup>®</sup> as described in this "Detailed Notice of Sale." In case of written bids, bids will be received by the County's Financial Advisor, Cumberland Securities Company, Inc., via facsimile at 865-988-1863. Prior to accepting bids, the County reserves the right to adjust the principal amount and maturity amounts of the Bonds being offered as set forth herein, to postpone the sale to a later date, or to cancel the sale based upon market conditions via Bloomberg News Service and/or the **PARITY**<sup>®</sup> System not later than 10:15 a.m., Eastern Daylight Time, on the day of the bid opening. Such notice will specify the revised principal amounts, if any, and any later date selected for the sale, which may be postponed or cancelled in the same manner. If the sale is postponed, a later public sale may be held at the hour and place and on such date as communicated upon at least forty-eight hours notice via Bloomberg News Service and/or the **PARITY**<sup>®</sup> System.

Description of the Bonds. The Bonds will be issued in fully registered book-entry-only form (except as otherwise described herein) without coupons, be dated the date of issuance, bear interest payable each June 1 and December 1, commencing December 1, 2018, be issued, or reissued upon transfer, in \$5,000 denominations or multiples thereof, as shall be requested by the purchaser or registered owner thereof, as applicable, and will mature (subject to the right of redemption as hereinafter set forth) and be payable as follows:

<u>Year</u> <u>(June 1)</u>	<u>Amount*</u>	<u>Year</u> <u>(June 1)</u>	<u>Amount*</u>
2022	\$ 455,000	2031	\$ 590,000
2023	465,000	2032	610,000
2024	475,000	2033	635,000
2025	485,000	2034	655,000
2026	495,000	2035	680,000
2027	515,000	2036	700,000
2028	535,000	2037	730,000
2029	550,000	2038	750,000
2030	575,000		

Bank Qualification. The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265 of the Internal Revenue Code of 1986, as amended.

Registration and Depository Participation. The Bonds, when issued, will be registered in the name of Cede & Co., DTC's partnership nominee. When the Bonds are issued, ownership interests will be available to purchasers only through a book-entry-only 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. The Book-Entry-Only System will evidence beneficial ownership interests of the Bonds in the principal amount of \$5,000 for the Bonds and any integral multiple of \$5,000, with transfers of beneficial ownership interest effected on the records of DTC participants and, if

\*Preliminary, subject to change.

necessary, in turn by DTC pursuant to rules and procedures established by DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., nominee of DTC. The Bonds will be payable, at maturity or upon earlier redemption to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments (as applicable) to beneficial owners of the Bonds by Participants of DTC, will be the responsibility of such participants and of the nominees of beneficial owners. The County will not be responsible or liable for such transfer of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. Notwithstanding the foregoing, if the winning bidder certifies that it intends to hold the Bonds for its own account and has no present intent to re-offer the Bonds, the use of the Book-entry system is not required.

In the event that the Book-Entry-Only System for the Bonds is discontinued and a successor securities depository is not appointed by the County, Bond Certificates in fully registered form will be delivered to, and registered in the names of, the DTC Participants or such other persons as such DTC participants may specify (which may be the indirect participants or beneficial owners), in authorized denominations of \$5,000 for the Bonds or integral multiples thereof. The ownership of Bonds so delivered shall be registered in registration books to be kept by the Registration Agent (named herein) at its principal corporate trust office, and the County and the Registration Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution authorizing the Bonds.

Security Pledged. The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of, premium, if any, and interest on the Bonds, the full faith and credit of the County are irrevocably pledged. To the extent permitted by applicable law, the Bonds shall be additionally payable from and secured by funds the County receives pursuant to Section 67-6- 712(a)(2), Tennessee Code Annotated, as amended (the "Sales Tax Funds").

Purpose. The Bonds are being issued for the purpose of providing funds to finance: (i) the acquisition of land for and the construction, improvement, renovation and equipping of schools; jails, courts, roads, streets, sidewalks and other public buildings and facilities; (ii) the acquisition of all property, real and personal, appurtenant thereto or connected thereto; (iii) technological improvements; (iv) athletic facilities construction and improvements; (v) payment of legal, fiscal, administrative, architectural and engineering costs incident to all of the foregoing (collectively, the "Projects"); and (vi) payment of costs incident to the issuance of the bonds authorized herein.

Optional Redemption. The Bonds maturing on June 1, 2026, and thereafter, will be subject to optional redemption prior to maturity at the option of the County at any time on and after June 1, 2025 at the redemption price of par plus accrued interest as provided herein.

Term Bond Option; Mandatory Redemption. Bidders shall have the option to designate certain consecutive serial maturities of the Bonds as one or more term bonds ("Term Bonds") bearing a single interest rate. If the successful bidder for the Bonds designates certain consecutive serial maturities of such Bonds to be combined as one or more Term Bonds as allowed herein, then each Term Bond shall be subject to mandatory sinking fund redemption by the County at a redemption price equal to one hundred percent (100%) of the principal amount thereof, together with accrued interest to the date fixed for redemption at the rate stated in the Term Bonds to be redeemed. Each such mandatory sinking fund redemption shall be made on the date on which a consecutive maturity included as part of a Term Bond is payable in accordance with the proposal of the successful bidder for the Bonds and in the amount of the maturing principal installment for the Bonds listed herein for such principal payment date. Term Bonds to be redeemed within a single maturity shall be selected in the manner provided above for optional redemption of Bonds within a single maturity.

**Bidding Instructions.** The County will receive electronic or written bids for the purchase of all, but not less than all, of the Bonds. Bidders for the Bonds are requested to name the interest rate or rates the Bonds are to bear in multiples of one-eighth of one percent and/or one-hundredth of one percent (.01%) or one (1) basis point, but no rate specified shall be in excess of five percent (5.00%) per annum. There will be no limitation on the number of rates of interest that may be specified in a single bid for the Bonds but a single rate shall apply to each single maturity of the Bonds. Bidders must bid not less than ninety-nine and one-quarter percent (99.25%) of par or more than one hundred and twenty-five percent (125%) of par.

Electronic bids must be submitted through **PARITY**<sup>®</sup> via BiDCOMP Competitive Bidding System and no other provider of electronic bidding services will be accepted. Subscription to the i-Deal LLC Dalcomp Division's BiDCOMP Competitive Bidding System is required in order to submit an electronic bid. The County will not confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe. For the purposes of the bidding process, the time as maintained by **PARITY**<sup>®</sup> shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in **PARITY**<sup>®</sup> conflict with the terms of the Detailed Notice of Sale, this Detailed Notice of Sale shall prevail. An electronic bid made through the facilities of **PARITY**<sup>®</sup> shall be deemed an offer to purchase in response to this Detailed Notice of Sale and shall be binding upon the bidder as if made by a signed, written bid delivered to the County. The County shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by **PARITY**<sup>®</sup>. The use of **PARITY**<sup>®</sup> facilities are at the sole risk of the prospective bidders.

For further information regarding **PARITY**<sup>®</sup>, potential bidders may contact i-Deal LLC at 1359 Broadway, 2<sup>nd</sup> Floor, New York, NY 10018, Telephone: 212-849-5000.

In the event of a system malfunction in the electronic bidding process only, bidders may submit bid prior to the established date and time by FACSIMILE transmission sent to the County's Financial Advisor, Cumberland Securities Company, Inc. at 865-988-1863. Any facsimile submission is made at the sole risk of the prospective bidder. The County and the Financial Advisor shall not be responsible for confirming receipt of any facsimile bid or for any malfunction relating to the transmission and receipt of such bids.

Separate written bids should be by facsimile to the County's Financial Advisor, at 865-988-1863. Written bids must be submitted on the Bid Forms included with the PRELIMINARY OFFICIAL STATEMENT.

The County reserves the right to reject all bids for the Bonds and to waive any informalities in the bids accepted. Acceptance or rejection of "Bids for Bonds" for the Bonds will not obligate the County to accept or reject "Bids for Bonds".

Unless all bids for the Bonds are rejected, the Bonds will be awarded by the Mayor of the County to the bidder whose bid complies with this notice and results in the lowest true interest rate on the Bonds to be calculated as that rate that, when used in computing the present worth of all payments of principal and interest on the Bonds (compounded semi-annually from the date of the Bonds), produces an amount equal to the purchase price of the Bonds exclusive of accrued interest. For purposes of calculating the true interest cost, the principal amount of Term Bonds scheduled for mandatory sinking fund redemption as part of the Term Bond shall be treated as a serial maturity in such year. In the event that two or more bidders offer to purchase the Bonds at the same lowest true interest rate, the Mayor shall determine in his sole discretion which of the bidders shall be awarded the Bonds.

After receipt of the bids, the County reserves the right to make adjustments and/or revisions to the Bonds, as described below.

Adjustment and/or Revision. While it is the County's intention to sell and issue the approximate par amounts of the Bonds as offered herein, there is no guarantee that adjustment and/or revision may not be necessary in order to properly size the Bonds. Accordingly, the Mayor reserves the right, in his sole discretion, to adjust down the original par amount of the Bonds by up to \$1,150,000. The principal factor to be considered in making any adjustments is the amount of premium bid for particular maturities. Among other factors the Mayor may (but shall be under no obligation to) consider in sizing the par amounts and individual maturities of the Bonds is the size of individual maturities or sinking fund installments and/or other preferences of the County. Additionally, the Mayor reserves the right to change the dated date of the Bonds. The maximum adjustment will only be made if the maximum bid (including premium) is received.

In the event of any such adjustment and/or revision with respect to the Bonds, no rebidding will be permitted, and the portion of such premium or discount (as may have been bid for the Bonds) shall be adjusted in the same proportion as the amount of such revision in par amount of the Bonds bears to the original par amount of such Bonds offered for sale.

The successful bidder for the Bonds will be tentatively notified by not later than 5:00 p.m. (Eastern Daylight Time), on the sale date of the exact revisions and/or adjustments required, if any.

Good Faith Deposit. No good faith check will be required to accompany any bid submitted. The successful bidder shall be required to deliver to the County's Financial Advisor (wire transfer or certified check) the amount of up to two percent (2%) of the aggregate principal amount of the Bonds offered for sale which will secure the faithful performance of the terms of the bid. A certified check or wire transfer must be received by the County's Financial Advisor no later than the close of business on the day following the competitive sale. A wire transfer may be sent to First Tennessee Bank, ABA Number: 084-000-026 First Tenn Mem, FAO Cumberland Securities Company, Inc., Account No. 183302631, for further credit to Good Faith Trust Account.

The good faith deposit shall be applied (without interest) to the purchase price of the Bonds. If the successful bidder should fail to accept or pay for the Bonds when tendered for delivery and payment, the good faith deposit will be retained by the County as liquidated damages.

In the event of the failure of the County to deliver the Bonds to the purchaser in accordance with the terms of this Notice within forty-five (45) days after the date of the sale, the good-faith deposit will be promptly returned to the purchaser unless the purchaser directs otherwise.

#### Establishment of Issue Price

*General.* The winning bidder shall assist the County in establishing the issue price of the Bonds as more fully described herein. All actions to be taken by the County under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the County by the County's financial advisor identified herein and any notice or report to be provided to the County may be provided to the County's financial advisor.

*Anticipated Compliance with Competitive Sale Requirements.* The County anticipates that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

- the County shall disseminate this Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- all bidders shall have an equal opportunity to bid;



- the County expects to receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- the County anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Notice of Sale.

Any bid submitted pursuant to this Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

In the event that the competitive sale requirements are not satisfied, the County will reject all bids and cancel the sale.

*Issue Price Certificate.* The winning bidder will be required to provide the County, at closing, with an issue price certificate consistent with the foregoing. A form of the issue price certificate is attached to this Detailed Notice of Sale as Exhibit A.

Reoffering Prices; Other Information. The successful bidder must furnish the following information to the County to complete the *Official Statement* in final form within two (2) hours after receipt and award of the bid for the Bonds:

1. The offering prices or yields for the Bonds (expressed as a price or yield per maturity, exclusive of any accrued interest, if applicable);
2. Selling compensation (aggregate total anticipated compensation to the underwriter expressed in dollars, based on the expectation that all Bonds are sold at the prices or yields as provided above);
3. The identity of the underwriters if the successful bidder is part of a group or syndicate; and
4. Any other material information necessary to complete the *Official Statement* in final form but not known to the County.

As a condition to the delivery of the Bonds, the successful bidder will be required to deliver a certificate to the County as is described above relating to reoffering price.

Legal Opinion. The approving opinion of Owings, Wilson & Coleman, Knoxville, Tennessee, Bond Counsel along with other certificates including, but not limited to, a tax certificate and a continuing disclosure certificate dated as of the date of delivery of the Bonds will be furnished to the purchaser at the expense of the County. As set forth in the *Preliminary Official Statement*, Bond Counsel's opinion with respect to the Bonds will state that interest on the 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 law alternative minimum tax. As set forth in the *Preliminary Official Statement*, the owners of the Bonds, however, may be subject to certain additional taxes or tax consequences arising with respect to ownership of the Bonds, reference is hereby made to the *Preliminary Official Statement* and the form of the opinion contained in Appendix A.

Continuing Disclosure. At the time the Bonds are delivered, the County will execute a Continuing Disclosure Certificate in 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 each of the County's fiscal years, (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the Municipal Securities Rulemaking Board (the "MSRB") through the operation of the Electronic Municipal Market Access system (the "EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the County is unable to provide the Annual Report to the MSRB and the SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such

date. The notices of events will be filed by the County either with the MSRB and the SID. The specific nature of the information to be contained in the Annual Report or the notices of material events will be summarized in the County's *Official Statement* to be prepared and distributed in connection with the sale of the Bonds.

Delivery of Bonds. Delivery of the Bonds is expected within forty-five (45) days. At least five (5) days notice will be given to the successful bidder. Delivery will be made in book-entry form through the facilities of DTC, New York, New York. Payment for the Bonds must be made in *Federal Funds* or other immediately available funds.

CUSIP Numbers. CUSIP numbers will be assigned to the Bonds at the expense of the County. The County will assume no obligation for assignment of such numbers or the correctness of such numbers and neither failure to record such numbers on Bonds nor any error with respect thereto shall constitute cause for failure or refusal by the purchaser thereof to accept delivery of and make payment for the Bonds.

Official Statements; Other. The County has deemed the PRELIMINARY OFFICIAL STATEMENT to be final as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission (the "SEC") except for the omission of certain pricing and other information. The County will furnish the successful bidder at the expense of the County a reasonable number of copies of the *Official Statement* in final form, containing the pricing and other information to be supplied by the successful bidder and to be dated the date of the sale, to be delivered by the successful bidder to the persons to whom such bidder and members of its bidding group initially sell the Bonds. Acceptance of the bid will constitute a contract between the County and the successful bidder for the provision of such copies within seven business days of the sale date.

Further Information. Additional information, including the *Preliminary Official Statement*, this Detailed Notice of Sale and the Official Bid Form, may be obtained from the County's Financial Advisor, Cumberland Securities Company, Inc., Telephone: 865-988-2663. Further information regarding **PARITY**<sup>®</sup> may be obtained from i-Deal LLC, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018, Telephone: 212-849-5000.

SEVIER COUNTY, TENNESSEE

By: Larry Waters  
County Mayor

**Exhibit A to Detailed Notice of Sale**

**SEVIER COUNTY, TENNESSEE  
\$9,780,000 GENERAL OBLIGATION BONDS, SERIES 2018B  
ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of [NAME OF UNDERWRITER] (the “Underwriter”), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the “Bonds”).

**1. *Reasonably Expected Initial Offering Price.***

(a) As of the Sale Date, the reasonably expected initial offering prices of the Bonds to the Public by the Underwriter are the prices listed below (the “Expected Offering Prices”). The Expected Offering Prices are the prices for the Maturities of the Bonds used by the Underwriter in formulating its bid to purchase the Bonds. Attached as Exhibit A is a true and correct copy of the bid provided by the Underwriter to purchase the Bonds, including the Expected Offering Prices submitted by the Underwriter on the Sale Date.

(b) The Underwriter was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by the Underwriter constituted a firm offer to purchase the Bonds.

**2. *Defined Terms.***

(a) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Issuer* means Sevier County, Tennessee.

(c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this Certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(d) *Sale Date* means the first day on which there is a binding contract in writing for the sale or exchange the Bonds. The Sale Date of the Bonds is June 18, 2018.

(e) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Underwriter’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Owings, Wilson & Coleman in connection with rendering its opinion

that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: [Issue Date]

[UNDERWRITER], as Underwriter

By: \_\_\_\_\_

Name: \_\_\_\_\_

BID FORM

Honorable Larry Waters County Mayor  
 125 Court Avenue, Sevierville,  
 Tennessee 37862

June 18, 2018

Dear Mr. Waters:

For your legally issued, properly executed \$9,900,000\* General Obligation Bonds, Series 2018B (the "Bonds") of Sevier County, Tennessee, in all respects as more fully outlined in your Notice of Sale, which by reference are made a part hereof, we will pay you a sum of \_\_\_\_\_ (\$\_\_\_\_\_).

The Bonds shall be dated the date of issuance (assume June 29, 2018) and shall be callable in accordance with the DETAILED NOTICE OF SALE. The Bonds shall mature on June 1 and bear interest at the following rates:

<u>Maturity</u> <u>(June 1)</u>	<u>Amount*</u>	<u>Rate</u>	<u>Maturity</u> <u>(June 1)</u>	<u>Amount*</u>	<u>Rate</u>
2022	\$ 455,000	___	2031	\$ 590,000	___
2023	465,000	___	2032	610,000	___
2024	475,000	___	2033	635,000	___
2025	485,000	___	2034	655,000	___
2026	495,000	___	2035	680,000	___
2027	515,000	___	2036	700,000	___
2028	535,000	___	2037	730,000	___
2029	550,000	___	2038	750,000	___
2030	575,000	___			

We have the option to designate two or more consecutive serial maturities as term bond maturities as indicated:

- Term Bond 1: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.
- Term Bond 2: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.
- Term Bond 3: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.
- Term Bond 4: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.
- Term Bond 5: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.
- Term Bond 6: Maturities from June 1, 20\_\_\_\_ through June 1, 20\_\_\_\_ @ \_\_\_\_%.

It is our understanding that the Bonds are offered for sale as "qualified tax exempt obligations" subject to the final approving opinion of Owings, Wilson & Coleman, Bond Counsel, Knoxville, Tennessee, whose opinion together with the executed Bonds, will be furnished by the County without cost to us.

If our bid is accepted, we agree to provide a good faith deposit for 2% of the Bonds on which we have bid by the close of business on the date following the competitive public sale as outlined in the *Detailed Notice of Sale*. Should for any reason we fail to comply with the terms of this bid, this good faith deposit shall be forfeited by us as full liquidated damages. Otherwise, this good faith deposit shall be applied to the purchase price of the Bonds on which we have bid.

This bid is a firm offer for the purchase of the Bonds identified in the Notice of Sale, on the terms set forth in this bid form and the Notice of Sale, and is not subject to any conditions, except as permitted by the Notice of Sale. By submitting this bid, we confirm that we have an established industry reputation for underwriting new issuances of municipal bonds. [If the bidder cannot confirm an established industry reputation for underwriting new issuances of municipal bonds, the preceding sentence should be crossed out.]

Accepted for and on behalf of the  
 Sevier County, Tennessee, this  
 18<sup>th</sup> day of June, 2018.

Respectfully submitted,

\_\_\_\_\_  
 Larry Waters, Mayor

\_\_\_\_\_  
 Total interest cost from  
 June 29, 2018 to final maturity \$ \_\_\_\_\_  
 Less: Premium /plus discount, if any \$ \_\_\_\_\_  
 Net Interest Cost ..... \$ \_\_\_\_\_  
 True Interest Rate ..... %

*The computations of net interest cost and true interest rate are for comparison purposes only and are not to be considered as part of this proposal.*

\*Preliminary, subject to change.



**\$9,900,000\***  
**SEVIER COUNTY, TENNESSEE**  
**General Obligation Bonds, Series 2018B**

**SECURITIES OFFERED**

**AUTHORITY AND PURPOSE**

This PRELIMINARY OFFICIAL STATEMENT which includes the Summary Statement hereof and appendices hereto is furnished in connection with the offering by the Sevier County, Tennessee (the "County" or "Issuer") of its \$9,900,000\* General Obligation Bonds, Series 2018B (the "Bonds").

The Bonds are authorized to be issued pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, as amended, and other applicable provisions of the law and pursuant to resolutions (the "Resolution") adopted by the County Commission of the County (the "Board") on June 27, 2016 & May 21, 2018.

The Bonds are being issued for the purpose of (i) the acquisition of land for and the construction, improvement, renovation and equipping of schools; jails, courts, roads, streets, sidewalks and other public buildings and facilities; (ii) the acquisition of all property, real and personal, appurtenant thereto or connected thereto; (iii) technological improvements; (iv) athletic facilities construction and improvements; (v) payment of legal, fiscal, administrative, architectural and engineering costs incident to all of the foregoing (collectively, the "Projects"); and (vi) payment of costs incident to the issuance of the bonds authorized herein.

**DESCRIPTION OF THE BONDS**

The Bonds will be initially dated and bear interest from the date of issuance (assume June 29, 2018). Interest on the Bonds will be payable semi-annually on June 1 and December 1, commencing December 1, 2018. The Bonds are issuable in registered book-entry form only and in \$5,000 denominations or integral multiples thereof as shall be requested by each respective registered owner.

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

**SECURITY**

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of, premium, if any, and interest on the Bonds, the full faith and credit of the County are irrevocably pledged. To the extent permitted by applicable law, the Bonds shall be additionally payable from and secured by funds the County receives pursuant to Section 67-6- 712(a)(2), Tennessee Code Annotated, as amended (the "Sales Tax Funds").

\*Preliminary, subject to change.

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 or other available funds 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.

### **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 Bonds, Bond Counsel has determined that the Bonds upon issuance will be "qualified tax-exempt obligations" within the meaning of the Code.

### **OPTIONAL REDEMPTION**

Bonds maturing June 1, 2026, and thereafter, shall be subject to optional redemption prior to maturity at the option of the County on June 1, 2025 and thereafter, as a whole or in part, at any time, at the redemption price of par plus accrued interest to the redemption date.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be designated by the Board of Commissioners of the County, 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.

### **MANDATORY REDEMPTION**

The bidders have the option of creating term bonds pursuant to the Detailed Notice of Sale. If term bonds are created, then the following provisions will apply. Subject to the credit hereinafter provided, the County shall redeem Bonds maturing June 1, 20\_\_, and June 1, 20\_\_ on the redemption dates set forth below opposite the maturity date, in aggregate principal amounts equal to the respective dollar amounts set forth below opposite the respective redemption dates at a price of par plus accrued interest thereon to the



date of redemption. The Bonds to be so redeemed with a maturity shall be selected in the same manner as is described above relating to optional redemption.

The dates of redemption and principal amount of Bonds to be redeemed on said dates are as follows:

<u>Maturity</u>	<u>Redemption Date</u>	<u>Principal Amount of Bonds Redeemed</u>
-----------------	----------------------------	---------------------------------------------------

\*Final Maturity

At its option, to be exercised on or before the forty-fifth (45) day next preceding any such redemption date, the County may (i) deliver to the Registration Agent for cancellation Bonds of the maturity to be redeemed, in any aggregate principal amount desired, and/or (ii) receive a credit in respect of its redemption obligation for any Bonds of the maturity to be redeemed which prior to said date have been purchased or redeemed (otherwise than through the operation of this section) and canceled by the Registration Agent and not theretofore applied as a credit against any redemption obligation. Each Bond so delivered or previously purchased or redeemed shall be credited by the Registration Agent at 100% of the principal amount thereof on the obligation of the County on such payment date and any excess shall be credited on future redemption obligations in chronological order, and the principal amount of Bonds to be redeemed by operation shall be accordingly reduced. The County shall on or before the forty-fifth (45) day next preceding each payment date furnish the Registration Agent with its certificate indicating whether or not and to what extent the provisions of clauses (i) and (ii) of this subsection are to be availed of with respect to such payment and confirm that funds for the balance of the next succeeding prescribed payment will be paid on or before the next succeeding payment date.

**NOTICE OF REDEMPTION**

Notice of call for redemption, whether optional or mandatory, 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 effect 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.

*(The remainder of this page left blank intentionally.)*

## 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 described below. However, if the winning bidder certifies to the County that it intends to hold the Bonds for its own account and has no present intent to reoffer the Bonds, then the use of the Book-Entry System is not required.

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 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 S&P rating of AA+. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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 representing their ownership interests in Bonds, except in the event that use of the book-entry 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 for 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 affect 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 system has been obtained from sources that the County believes to be reliable, but the County, the Bond Counsel, the Registration Agent, the Financial Advisor and the Underwriter 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, the Financial Advisor or the Underwriter 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 deposited with a financial institution regulated by the Federal Deposit Insurance Corporation or similar federal agency in a special fund known as the 2018 Construction Fund (the "Construction Fund") to be kept separate and apart from all other funds of the County. If applicable, the County shall disburse funds in the Construction Fund to pay costs of issuance of the Bonds, including necessary legal, accounting and fiscal expenses, printing, engraving, advertising and similar expenses, administrative and clerical costs, Registration Agent fees, bond insurance premiums, if any, and other necessary miscellaneous expense incurred in connection with the issuance and sale of the Bonds. The remaining funds in the Construction Fund shall be disbursed solely to pay the costs of the Projects. Money in the Construction Fund shall be secured in the manner prescribed by applicable statutes relative to the securing of public or trust funds, if any, or, in the absence of such a statute, by a pledge of readily marketable securities having at all times a market value of not less than the amount in said Construction Fund. Money in the Construction Fund shall be expended only for the purposes authorized by this resolution. Any funds remaining in the Construction Fund after completion of the Projects and payment of authorized expenses shall be used to pay principal of and interest on the Bonds. Moneys in the Construction Fund shall be invested by the County Trustee in such investments as shall be permitted by applicable law. Earnings from such investments shall be placed in the Construction Fund, or at the direction of the Budget and Accounts Director of the County, used to pay debt service on the Bonds, subject to any modifications by the Board.

## **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 or 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 (defined herein) deposited as aforesaid.

Except as otherwise provided in this section, neither Defeasance Obligations nor moneys deposited with the Registration Agent 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 the purposes hereof, Defeasance Obligations shall mean 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 herein, 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.

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## LEGAL MATTERS

### LITIGATION

There are no claims against the County, including claims in litigation, which, in the opinion of the County, would have a material adverse effect on the County's financial position. 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.

### TAX MATTERS

#### Federal

*General.* Owings, Wilson & Coleman, Knoxville, Tennessee, is Bond Counsel for the 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 Bonds:

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

The Code imposes requirements on the Bonds that the County must continue to meet after the 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 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 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 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 Bonds or affect the market price of the Bonds. See also the section "CHANGES IN FEDERAL AND STATE TAX LAW" below.

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 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 Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Bond with 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 Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of 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 Bonds as it accrues is excluded from a bondholder's federal gross income under the Internal Revenue Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Bonds will be increased. If a bondholder owns one of these Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount

*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 Bonds, Bond Counsel has determined that the 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 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 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 Taxes**

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) 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 (b) 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.

## **APPROVAL OF LEGAL PROCEEDINGS**

Certain legal matters relating to the authorization and the validity of the Bonds are subject to the approval of Owings, Wilson & Coleman, 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**

Moody's Investment Services ("Moody's") has given the Bonds the rating of "Aa2".

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 Moody'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 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 Moody's and any explanation of the significance of such ratings should be obtained from Moody's.

### **COMPETITIVE PUBLIC SALE**

The Bonds will be offered for sale at competitive public bidding on June 18, 2018. Details concerning the public sale were provided to potential bidders and others in the *Preliminary Official Statement* that was dated June 1, 2018.

The successful bidder for the Bonds was an account led by \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ (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 Bonds at a purchase price of \$\_\_\_\_\_ (consisting of the par amount of the Bonds, less an underwriter's discount of \$\_\_\_\_\_ and less an original issue discount of \$\_\_\_\_\_) or \_\_\_\_% of par.

### **FINANCIAL ADVISOR; RELATED PARTIES; OTHER**

*Financial Advisor.* Cumberland Securities Company, Inc., Knoxville, Tennessee, has served as financial advisor (the "Financial Advisor") to the County for purposes of assisting with the development and implementation of a bond structure in connection with the issuance of the Bonds. The Financial Advisor has not been engaged by the County to compile, create, or interpret any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT relating to the County, including without limitation any of the County's financial and operating data, whether historical or projected. Any information contained in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT concerning the County, any of its affiliated or contractors and any outside parties has not been independently verified by the Financial Advisor, and inclusion of such information is not, and should not be construed as, a representation by the Financial Advisor as to its accuracy or completeness or otherwise. The Financial Advisor is not a public accounting firm and has not been engaged by the County to review or audit any information in the PRELIMINARY OFFICIAL STATEMENT and OFFICIAL STATEMENT in accordance with accounting standards.

*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 Statements.* 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.

*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. 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.

## **DEBT RECORD**

There is no record of default on principal or interest payments of the Issuer. Additionally, no agreements or legal proceedings of the Issuer relating to securities have been declared invalid or unenforceable.

## **ADDITIONAL DEBT**

The County has not authorized any additional debt. However, the County has ongoing capital needs that may or may not require the issuance of additional debt. The County may also authorize the issuance of additional refundings of outstanding debt as savings opportunities arise.

## **CONTINUING DISCLOSURE**

The audit for 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 and operating data relating to the County and the Electric System by not later than twelve months after the end of each fiscal year commencing with the

fiscal year ending June 30, 2018 (the "Annual Reports"), 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 issuer will provide notice in a timely manner to the MSRB of a failure by the County to provide the annual financial information on or before the date specified in the continuing disclosure agreement. The Annual Reports (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](http://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 Reports or the notices of events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities Exchange Act Rule 15c2-12(b), as it may be amended from time to time (the "Rule 15c2-12").

*Five-Year History of Filing.* In the past five years, the County has filed its Annual Reports at [www.emma.msrb.org](http://www.emma.msrb.org) under the base CUSIP Number 818189 which is the base CUSIP Number for the County; however, the County inadvertently failed to also file such Annual Reports under the CUSIP Number of certain conduit issuers of bonds for which the County was an obligated person. The County has now additionally filed its Annual Reports for all outstanding bonds for which it is an obligated person under the conduit issuer's CUSIP Number. While it is believed that all appropriate filings were made with respect to the ratings of the County's outstanding bond issues, some of which were insured by the various municipal bond insurance companies, no absolute assurance can be made that all such rating changes of the bonds or various insurance companies which insured some transaction were made or made in a timely manner as required by SEC Rule 15c2-2. The County does not deem any of the forgoing omissions to be material, and therefore, in the judgment of the County, for the past five years, the County has complied in all material respects with its existing continuing disclosure agreements in accordance with Rule 15c2-12.

*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 bonded indebtedness as of the end of such fiscal year as shown on page B-20;
1. The indebtedness and debt ratio as of the end of such fiscal year, together with information about the property tax base as shown on pages B-21 and B-22;
2. Information about the Bonded Debt Service Requirements – General Fund and General Debt Service Fund as of the end of such fiscal year as shown on page B-23;
3. The fund balances and retained earnings for the fiscal year as shown on page B-24;
5. Summary of Revenues, Expenditures and Changes in Fund Balances - General Fund for the fiscal year as shown on page B-25;

6. 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-31;
7. 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-31; and
8. The ten largest taxpayers as shown on page B-32.

Any or all of the items listed 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 MSRB or the U.S. Securities and Exchange Commission. If the document incorporated by reference is an OFFICIAL STATEMENT, in final form, it will be available from the MSRB. 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.
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 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 the PRELIMINARY OFFICIAL STATEMENT and 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 the PRELIMINARY OFFICIAL STATEMENT and 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 the PRELIMINARY OFFICIAL STATEMENT and 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 PRELIMINARY OFFICIAL STATEMENT as "final" as of its date within the meaning of Rule 15c2-12 of the U.S. Securities and Exchange Commission except for the omission of certain pricing information allowed to be omitted pursuant to Rule 15c2-12.

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**CERTIFICATION OF ISSUER**

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/  
County Mayor

ATTEST:

/s/  
County Clerk



**APPENDIX A**

**FORM OF LEGAL OPINION**



June \_\_, 2018

Sevier County, Tennessee  
Board of Commissioners  
c/o Larry Waters, County Mayor  
125 Court Avenue  
Sevierville, TN 37862

In re: Sevier County, Tennessee  
\$9,780,000 General Obligation Bonds, Series 2018B

Ladies and Gentlemen:

We have acted as bond counsel to Sevier County, Tennessee (the "Issuer") in connection with the issuance of \$9,780,000 General Obligation Bonds, Series 2018B, dated June \_\_, 2018 (the "Bonds"). 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 general 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 for the payment of which the Issuer has validly and irrevocably pledged its full faith and credit.

4. Interest on the 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. 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. 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) 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 (b) 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 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 resolution 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,

Owings, Wilson & Coleman

**SUPPLEMENTAL INFORMATION STATEMENT**





## GENERAL INFORMATION

### LOCATION

Sevier County (the “County”) is located in the eastern portion of the State of Tennessee. The County is bordered to the north by Jefferson County and to the east by Cocke County. The state of North Carolina provides the County's southern border. Blount and Knox Counties make up the County's western border. The City of Sevierville serves as the County seat and is approximately 26 miles east of Knoxville. Incorporated towns within Sevier County include Gatlinburg, Sevierville, Pigeon Forge and Pittman Center.

Gatlinburg is the principal resort town and entrance for the Great Smoky Mountains National Park area. The Great Smoky Mountains National Park is located in the center of the eastern half of the United States, is readily accessible to 70% of the country's population and each year draws the largest attendance of any of the National Parks in the United States. Gatlinburg is surrounded by the Park on three sides.

Please see the sections “NOVEMBER 2016 WILDFIRES” and “RECENT DEVELOPMENTS” for more information about the damage from wildfires on November 28, 2016.

### GENERAL

The approximate land area of the County is 385,920 acres, of which 57.6% is devoted to agriculture. In fact, agriculture provides employment for more than 1,000 full and part-time farmers in the County. Principal crops are tobacco, Irish and sweet potatoes, green beans and corn.

The governing board of the County is the 25-member Board of County Commissioners which is elected to concurrent four-year terms of office by direct vote of the voters in each district represented. The County Mayor is the chief financial and administrative officer of the County and is elected by a direct vote of the people to a four-year term of office.

Sevierville was designated a Micropolitan Statistical Area (the “mSA”) that had a population of 89,889 according to the 2010 US Census. An mSA is defined by the U.S. Census Bureau as a non-urban community that is anchored by a town of no more than 50,000 residents.

The County is also part of the Knoxville-Sevierville-Harriman Combined Statistical Area (the “CSA”). According to the 2010 Census, the CSA had a population of 1,056,442. The CSA includes Roane, Anderson, Blount, Knox, Loudon, Union, Grainger, Hamblen, Jefferson, Campbell, Cocke and Sevier Counties. The City of Knoxville is the largest city in the CSA with a population of 178,874 according to the 2010 Census. The 2010 Census estimated that Sevier County’s population was 89,889 and the City of Sevierville was 14,807. The 2010 Census estimated that the City of Pigeon Forge in 2010 was 5,875.

## TRANSPORTATION

The County is served by U.S. Highways 411 and 441, and links the City to Interstates 40, 75, and 81 as well as state highways 35, 66, 71 and 321. The County has a trolley system that is the fifth largest mass transit system in the State of Tennessee. It originated in 1980 with only six trolleys, but the fleet has grown to 20-plus trolleys servicing approximately 50 miles of trolley routes.

The Gatlinburg-Pigeon Forge Airport, located ten miles from Gatlinburg, provides facilities for private planes. The airport has parking spaces for 125 aircraft, 45 hangars and a 5,500-foot runway. Construction of a \$1.6 million terminal and a \$2 million aircraft parking ramp was completed in 2009. The McGhee Tyson Airport, located 35 miles away in Knoxville, provides complete passenger and air freight services.

The Douglas Dam is about eight miles from Sevierville and part of the Tennessee River System. The Douglas Reservoir covers about 4,000 acres in the County. Channelization of the Tennessee River to a 9-foot minimum navigable depth from its junction with the Ohio River at Paducah, Kentucky to Knoxville, Tennessee gives the County the benefits of year round, low cost water transportation on the nation's 10,000 mile-inland waterway system. This system formed largely by the Mississippi River and its tributaries, effectively links the County with the Great Lakes to the north and the Gulf of Mexico to the south.

## EDUCATION

The *Sevier County School System*, which serves all the cities in the County, is quite extensive serving its citizens with twenty-nine schools. This system had a fall 2016 combined enrollment of over 14,717 students and about 1,090 teachers. Five private/parochial schools and a vocational school also serve the County.

*Source:* Tennessee Department of Education.

*Walters State Community College Sevier County Campus.* The 67-acre Sevier County Campus in Sevierville consists of three buildings that provide academic credit classes during the day and evening and non-credit classes/training. Culinary Arts, Hospitality Management and Professional Entertainment courses are provided to address the special educational/training needs of the community.

Walters State Community College, a public two-year higher education institution founded in 1970, is located in Morristown, Tennessee. The college offers programs of study that lead to the Associate of Science, Associate of Arts, and Associate of Applied Science degrees. Fall 2016 enrollment was 6,004 students. There are four principal campuses in Hamblen, Sevier, Greene, and Claiborne counties. Walters State serves ten predominantly rural East Tennessee counties in the mountains and foothills of the Great Smokies and Clinch Mountains. The primary service area includes the counties of Claiborne, Cocke, Grainger, Greene, Hamblen, Hancock, Hawkins, Jefferson, Sevier, and Union.

*Source:* Walter State Community College and Tennessee Higher Education Commission.

*The Tennessee Technology Center at Morristown Sevierville Campus.* The Tennessee Technology Center at Morristown 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 Morristown serves the northeast region of the state including Greene, Cocke, Jefferson, Hancock, Hawkins, Claiborne, Grainger, Sevier and Hamblen Counties. The Technology Center at Morristown main campus is located in Hamblen County. Fall 2015 enrollment was 1,068 students. There are three satellite campuses for Morristown: Tazewell, Claiborne County; Greeneville, Greene County; and Sevierville, Sevier County.

*Source:* Tennessee Technology Center at Morristown and Tennessee Higher Education Commission.

## **HEALTHCARE**

*LeConte Medical Center*, a 79-bed acute care hospital, opened in 2010 and is affiliated with Covenant Health. The facility offers o imaging services, 24-hour emergency care, family-centered maternity care, surgical services, and convenient physical therapy clinics, as well as a host of other services to the residents of Sevier County. LeConte Medical Center anchors a campus that includes the Dolly Parton Center for Women's Services, Dr. Robert F. Thomas Professional Building and Thompson Cancer Survival Center for a combined investment of \$115 million. The hospital includes new features such as private patient rooms with mountain views, a new 10-bed intensive care step-down unit, a dedicated surgical suite and a sleep center. It also has an expanded emergency department capable of handling more than 50,000 patients a year as well as an on-site heliport. It was named one of the nation’s 100 Top Hospitals by Thomson Reuters in 2011.

Covenant Health, headquartered in nearby Knoxville, has nine acute-care hospitals plus inpatient and outpatient cancer care, behavioral and rehabilitation centers, home health, outpatient surgery and diagnostic centers, physician offices and more. More than 10,000 people are employed by Covenant Health and its member organizations, with nearly 1,500 affiliated physicians. Covenant Health is a comprehensive health system established in 1996.

*Source:* Knoxville News Sentinel.

## **SOCIAL AND DEMOGRAPHIC DATA**

The population of the County more than tripled since 1970. According to the 2010 Census, Sevier County’s population had grown by 38,846 since 1990. This growth ranked the County as one of the fastest growing counties in Tennessee. This growth is depicted in the chart below:

1970.....	28,141 persons
1980.....	41,418 persons
1990.....	51,043 persons
2000.....	71,170 persons
2010.....	89,889 persons

## Social and Economic Characteristics

	<u>National</u>	<u>Tennessee</u>	<u>Sevier County</u>	<u>Pigeon Forge</u>	<u>Sevierville</u>
Median Value Owner Occupied Housing	\$184,700	\$146,000	\$158,200	\$168,900	\$166,300
% High School Graduates or Higher Persons 25 Years Old and Older	87.0%	86.0%	83.5%	78.5%	83.8%
% Persons with Income Below Poverty Level	12.7%	15.8%	15.1%	10.6%	23.3%
Median Household Income	\$55,322	\$46,574	\$42,586	\$34,949	\$37,784

*Source:* U.S. Census Bureau State & County QuickFacts - 2016.

### POWER PRODUCTION

*Douglas Dam.* Douglas Dam is a hydroelectric dam on the French Broad River in Sevier County. The dam is operated by the Tennessee Valley Authority (“TVA”), which built the dam in world record time in the early 1940s to meet emergency energy demands at the height of World War II. Douglas Dam is a straight reinforced concrete gravity-type dam 1705 feet (520 m) long and 202 feet (62 m) high, impounding the 28,420-acre (11,500 ha) Douglas Lake. The water used to generate power at Douglas is used again and again at the nine TVA hydroelectric plants located along the Tennessee River from Knoxville to Paducah, Kentucky. The generating capacity of Douglas’s four units combined is 165,600 kilowatts of electricity. The dam was named for Douglas Bluff, a cliff overlooking the dam site prior to construction.

*Source:* Tennessee Valley Authority.

### NOVEMBER 2016 WILDFIRES

On November 23, 2016 a small, one-and-a-half-acre fire was first reported near the Chimney Tops Trail in the Great Smoky Mountains National Park (the “GSMP”) in Sevier County. The fire had remained containable in a remote area until the evening of November 28, 2016 when a storm front blew hurricane force winds into the area. The high winds blew the fire towards the GSMP gateway town of Gatlinburg with almost no warning. The winds also blew down multiple power lines whose sparks created multiple additional fires.

The firestorm raced through the GSMP, Gatlinburg, Tennessee and a very small portion of Pigeon Forge, Tennessee. The wildfires covered more than 17,100 acres, killing 14 people, injuring 190 people, displacing more than 14,000 residents and visitors, and destroying or damaging 2,460 homes and businesses — 1,137 in Gatlinburg, 18 in Pigeon Forge and 1,305 in Sevier County (there was no damage in Sevierville, Tennessee). Downtown Gatlinburg was spared from the fires.

The fires were brought on mainly by a drought that began in April of 2016, and during the week of the fire the area was classified at Exceptional Level (the highest level) by the National Drought Mitigation Center of the United States Department of Agriculture. This fire

was not the first fire in the State for 2016; for two months prior to the Sevier County fire, a series of wildfires had already burned through 44,027 acres elsewhere in Tennessee and more than 300,000 acres across the South.

*State Executive Order and a State of Emergency.* Governor Bill Haslam issued an executive order suspending some state laws to ensure wildfire victims can obtain health care services, consumer rights protections and other state services in the wake of the wildfires. The order also enacts a state of emergency from November 28, 2016 through January 30, 2017 preventing individuals and businesses from charging excessive prices for essential goods and services including repair or construction, building materials, gas, food, medical supplies, housing, storage and other necessities.

*The My People Fund.* The Dollywood Foundation, a 501(c)(3) nonprofit, pledged through the My People Fund to donate \$1,000 a month for six months to any family who lost their primary residence (renters and homeowners) due to the wildfires in Sevier County. The Dollywood Foundation also accepted donations to the My People Fund through a nationally televised telethon on December 13, 2016.

Dolly Parton hosted the telethon that featured performers such as Dolly Parton, Kenny Rogers, Hank Williams Jr., Chris Stapleton, Reba McEntire, Alison Krauss, Michael W. Smith, Chris Janson, Big & Rich, LOCASH, Chris Young, Montgomery Gentry, Jamey Johnson, Cyndi Lauper, Don McLean, Amy Grant, Alabama, Aaron Lewis and Rhonda Vincent. \$9 million was raised the night of the telethon, with more donations being collected afterwards. Many high-profile donors donated \$50,000 or more each: Verizon, Tanger Outlets, Miley Cyrus' Happy Hippie Foundation, CoreCivic, The Blalock Company, Tennessee Titans, Nashville Predators, Country Music Television, Country Music Association, the Academy of Country Music and ACM Lifting Lives, Paula Deen, Taylor Swift, Kenny Chesney, Paul Simon and many other recording artists.

*Source:* the Knoxville News Sentinel.

## **TOURISM**

Sevier County has enjoyed a booming tourist industry. The tourism industry about employs 45% of Sevier County's local workforce and captures about 30% of total industry earnings in Sevier County. The County ranks third in the state for Tourist Spending dollars (about \$937 million for 2013). Tourism is the largest contributor to Sevier County's economy. Sevier County ranks second for percentage growth in tourism spending since 2004 (+16.3%). The total tax generated by the Hospitality and Tourism Industry in Sevier County per year is about \$116 million. Each Sevier County household pays \$2,834 LESS in State and Local taxes as a result of taxes generated by the Hospitality and Tourism Industry. Sevier County ranks lowest in effective property tax rates (.35%) of all 95 counties in Tennessee as a result of the economic impact of tourism. The number of accommodations in the County continues to increase (approximately 60,000 overnight guests can be housed in hotels, condominiums, campgrounds, cabins, etc.).

*Source:* Sevier County Economic Development Council.

The following is a breakdown of the activities of the average visitor to the County:

1. Shopping (87%)
2. Scenic Drives (80%)
3. Eating at Unique Restaurants (71%)
4. Smoky Mountains (69%)
5. Historic Sites (57%)
6. Live Music (41%)
7. Dollywood (35%)
8. Antique Shopping (30%)
9. Hiking / Biking (28%)
10. Art Galleries (26%)

The main tourist attraction in the area is the Great Smoky Mountains National Park. The National Park Service ranked the Great Smoky Mountains a top national park in visitor spending. The Smokies estimated nine million visitors spent almost double what was spent at Arizona's Grand Canyon, the next national park on the list.

While the National Park has long been a major attraction to the region, there are a number of tourism attractions in Sevier County to entertain visitors. Family-oriented attractions include museums, an aquarium, water parks, numerous music theaters, go-cart tracks, miniature golf, etc. In addition, more than 200 outlet stores in six malls have greatly expanded the economy, and reduced the seasonality that often affects other tourist destinations. Please see "RECENT DEVELOPMENTS" for information on construction of new projects.

### ***Sevier County***

#### **Tax Structure**

State Sales Tax: 7.00%

Local Option Sales Tax: 2.75%

Lodging Tax: 3.00%

*Douglas Reservoir.* The Douglas Reservoir extends 43 miles upriver from the Douglas Dam through the foothills of the Great Smoky Mountains. It covers over 4,000 acres of the County before it travels through Jefferson, Sevier, Cocke and Hamblen Counties. It is located mostly in the north eastern part of the County near Sevierville. Douglas and other TVA reservoirs built during World War II made a historic contribution, providing hydropower to drive the war effort. Under normal conditions, Douglas stores spring rainwater for release during the dry summer and fall months to maintain adequate depth for navigation on the Tennessee River and to generate electricity. Set against the backdrop of the lush, green Smoky Mountain foothills, Douglas attracts two million recreation visitors a year. Picnicking, camping, boating, and fishing are all popular activities at the Reservoir.

*Source:* Tennessee Valley Authority.

*Winterfest.* A strategy for conquering the seasonality of the area has been the implementation of the annual Winterfest promotional. A combination of various special entertainment events and businesses extending their seasons, this festival was created by the cities of Sevierville, Gatlinburg and Pigeon Forge to increase tourist activity in the County from

November through March. Winterfest puts on an elaborate winter lights display. All three Cities have switched all the incandescent lights to light-emitting diodes, or LEDs. The switch saved over 75 percent on the power bill from the last year only incandescent lights were used (in 2005).

*Source:* Knoxville News Sentinel.

## ***Gatlinburg***

### **Tax Structure**

State Sales Tax:	7.00%
Local Option Sales Tax:	2.75%
Amusement Tax:	2.00%
Lodging Tax:	3.00%
Restaurant Tax:	1.50%
Gross Receipts Tax:	1.25%

Gatlinburg tourism is the largest contributor to Sevier County's economy, even though it only has a 2010 U.S. Census population of 3,944. Over 60,000 guests can be lodged every night in accommodations ranging from rustic cabins and chalets, modern motels and motor inns, high-rise hotels, bed & breakfast inns and camping. America's most visited national park is the Great Smoky Mountains.

Gatlinburg offers over 12,000 sleeping rooms including full-service and limited-service hotels and motels, condominiums, chalets, cabins and campgrounds. These accommodations are available with a variety of locations: from downtown overlooking the Little Pigeon River, to a mountaintop overlooking the Smoky Mountains to secluded natural surroundings.

Downtown Gatlinburg suffered no significant damage from the November 2016 Wildfires.

*Appalachian National Scenic Trail (the "AT").* The Appalachian Trail is a 2,175-mile long footpath stretching through 14 eastern states from Maine to Georgia. It can be accessed in Sevier County through the Great Smokey Mountain National Park. Conceived in 1921 and first completed in 1937, it traverses the wild, scenic, wooded, pastoral, and culturally significant lands of the Appalachian Mountains. The AT is enjoyed by an estimated 4 million people each year.

*Source:* National Park Service.

*Dogwood Plaza.* The Mellow Mushroom restaurant moved into Dogwood Plaza in 2011. Also located in the Plaza is The Ole Smoky Distillery, which sells legal moonshine and opened for business in 2010. They now have two facilities in Sevier County and distribute its moonshine to 49 states, Canada, Latin America and the Caribbean.

The Dogwood Plaza suffered no damage from the wildfires of November 2016.

*Gatlinburg Convention Center and W.L. Mills Conference Center.* Built in 1989, the Gatlinburg Convention Center offers over 148,000 square feet of flexible meeting and exhibit space. Total economic impact of the Convention Center from 1990 to 2008 was \$936,729,197. The Great Hall provides 67,000 square feet of exhibit space, 60,000 square feet of which is free-span with a ceiling height of 30 feet. It can accommodate 6,000 people, 350 booths or be divided

into three separate halls for smaller events. The Convention Center Gallery area is 38,200 square feet, including 18 meeting rooms, pre-function space, two private parlors and a special VIP/media suite. In March of 2006, an additional 50,000 square feet was added with the opening of W.L. Mills Conference Center adjoining the Convention Center.

*Source:* The City of Gatlinburg.

The Convention Center suffered no damage from the wildfires of November 2016.

*Great Smoky Mountains National Park (the "Park").* The Great Smoky Mountains National Park straddles the border between North Carolina and Tennessee in Blount and Sevier Counties and the southern part of Cocke County. The City of Gatlinburg in Sevier County is the gateway city to the Park. Over 500,000 acres were set aside in 1934 to form the Park. The Park includes 244,000 acres in Tennessee and 276,000 acres in North Carolina and covers a total 800 square miles. It includes 97 historic and 342 modern structures that are maintained by the Park. The Park is a hiker's paradise with over 800 miles of maintained trails, including the Appalachian Trail. The Smoky Mountains have the most biological diversity of any area in the world's temperate zone. The Park is a sanctuary for a magnificent array of animal and plant life, all of which is protected for future generations to enjoy.

Located in the center of the eastern half of the United States, the Park is readily accessible to 70% of the country's population. Each year it draws the largest attendance of any of the National Parks in the United States. A report from the National Park Service says more than 9.6 million visitors to Great Smoky Mountains National Park spent \$741 million in communities near the park in 2012. Visitors during 2015 reached 6 million.

A news release from the park service says the spending supported 10,959 jobs in the local area. The peer-reviewed visitor spending analysis was conducted by U.S. Geological Survey economists along with the National Park Service. The report shows \$14.7 billion of direct spending by 283 million park visitors in communities within 60 miles of a national park. According to the report, most visitor spending supports jobs in restaurants, grocery and convenience stores (39 percent); hotels, motels and bed and breakfasts (27 percent); and other amusement and recreation (20 percent).

In 2011 construction was complete on the \$3 million, 7,000 square-foot Oconoluftee Visitor Center near Cherokee, N.C. In 2008 construction was completed to build a \$4.5 million Twin Creeks Science and Education Center near Gatlinburg. These are the first new major buildings to be built in the Park since the Sugarlands Visitor Center opened in 1964 at the Gatlinburg entrance.

*Source:* National Park Service.

The wildfires of November 2016 burned over 17,100 acres (less than 3.3% of the Park), most of which were located within the Park. Please see the section "NOVEMBER 2016 WILDFIRES" for more information.

*Nantahala Outdoor Center Great Outpost.* The former Open Hearth Restaurant in Gatlinburg was redeveloped into the Nantahala Outdoor Center Great Outpost, a multimillion-dollar, 18,000-square-foot development. Completed in the spring of 2010, the former mountain lodge-style building became one of the largest stores in Gatlinburg and the only LEED-certified



retail locations in the Smokies. The Great Outpost has been registered for LEED certification from the U.S. Green Building Council, which rates buildings on cost-efficient and energy-saving building design and construction.

The new store is described as being experiential in nature with strong educational components as well as outdoor activities within the store, such as a 25-foot climbing wall. The Great Outpost offers outdoor activities in the national park including whitewater rafting, flatwater kayaking, fly-fishing, guided hiking, mountain biking, outdoor education programs and nature tours. Nantahala Outdoor Center, based in Bryson City, N.C., is a privately held, employee-owned company and one of the largest employers in Western North Carolina.

The Nantahala Outdoor Center Great Outpost was undamaged in the November 2016 wildfires.

*Ober Gatlinburg Ski Resort and Amusement Park.* Ober Gatlinburg Ski Resort has 8 trails for skiing and snowboarding with rental equipment provided. The Snow Tubing Park opened in 2008 and features nine 400' lanes and a 50' vertical drop. There is an indoor ice arena for year-round skating. The Alpine Slide is a summer slide on one of two 1,800' tracks through woods and ski trails. The Amusement Park has many games, arcades and water rides to provide entertainment year round.

The Aerial Tramway provides transportation to Ober Gatlinburg at the top of Mt. Harrison in the Smoky Mountains. In 2007 a \$1 million project replaced the original cable cars Tramway that were originally built in 1973. The Tramway is the safer and more comfortable way to reach the Ski Resort than driving up the mountain road. The tramway has transported over 18 million passengers since opening, with service from downtown Gatlinburg available approximately every 20 minutes and the ride covering a distance of 2.1 miles to the resort. Along the way, riders of all ages enjoy a magnificent panorama of Gatlinburg and the Smokies, taking in the changing seasons and splendor of the mountains.

*Source:* Ober Gatlinburg Ski Resort and Amusement Park.

Ober Gatlinburg suffered no damage from the November 28 wildfires.

*Park Vista Hotel.* The Park Vista, a Double Tree by Hilton Hotel located in Gatlinburg, is the largest hotel in Sevier County. The hotel has been a landmark in Gatlinburg since it was opened in 1976. The 16-story, 300-room hotel has a circular high-rise design overlooking the Smoky Mountains, two restaurants featuring indoor and outdoor dining and over 25,000 square feet of meeting and conference space. The hotel also includes a fitness center and an indoor pool.

Park Vista Hotel suffered some damage from the wildfires of November 2016. The hotel was closed for 22 days after the wildfire, but reopened on December 21, 2016 after repairs were completed.

*Ripley's Aquarium of the Smokies.* Since opening in 2000, the 1.4-million-gallon aquarium is home to more than 11,000 sea animals (over 350 species) and has had more than 10

million visitors. One highlight of the aquarium is a 345-foot-long underwater tunnel at the bottom of the shark tank for visitors to walk through.

Ripley's Aquarium suffered no damage from the wildfires of November 2016.

*Source:* The Knoxville Sentinel.

## ***Pigeon Forge***

### **Tax Structure**

State Sales Tax:	7.00%
Local Option Sales Tax:	2.75%
Amusement Tax:	2.50%
Lodging Tax:	2.50%
Restaurant Tax:	1.00%
Gross Receipts Tax:	1.00%

The major portion of the commercial activity in Pigeon Forge is devoted to the tourism industry. Pigeon Forge has about a 2010 U.S. Census population of 5,875, yet visitors can boost the daily population to upwards of 50,000. The temporary population gain is the result of approximately 10,000 lodging units inside the city limits-hotels, motels, condominiums, cabins, log homes and campgrounds. The City is visited by more than 11,000,000 tourists a year. The 2013 gross revenue was over \$937 million.

*Source:* Pigeon Forge Development.

*Dollywood Entertainment Park.* Dolly Parton's Dollywood theme park is located in Pigeon Forge and is the most popular private attraction in Tennessee. Beginning in 2014, for the next 10 years the park plans to invest \$300 million to include new attractions, resorts, and 2500 additional jobs. Dollywood sits on 125 acres and has more than 30 rides and is the 25th largest theme park in the United States. The Park has attendance of over 2.4 million visitors each year, and is Sevier County, Tennessee's largest seasonal employer with around 3,000 employees in the peak season from June through August. Dollywood's Splash Country Water Park is more serene than other parts of the park and should appeal to a slightly different demographic profile. Please see "RECENT DEVELOPMENTS" for information on construction of new projects.

The Dollywood theme park itself suffered no damaged from the November 2016 wildfires, however more than a dozen of the rental cabins owned by Dollywood Entertainment located on the outside border of the theme park were damaged in the fire. The Dollywood's DreamMore Resort also suffered no damage from the fires.

*Greenway.* The Greenway is a series of connected, meandering hiking and biking trails, some running through heavily populated areas and others wandering into the countryside. The first phase of the Pigeon Forge Greenway was completed in 2006. A 75-acre park with \$2 million in trails and a pavilion is also being donated by a developer to the city to connect to the greenways.

*LeConte Convention Center.* The LeConte Center, a \$45 million, 232,000-square-foot multipurpose facility, opened in October of 2013. It is designed to attract trade shows,

competitive events and assemblies such as church-organized youth rallies. It is located next to a 1,600-space parking lot and the Pigeon Forge Riverwalk, the City's greenway along the Little Pigeon River. Please see the "RECENT DEVELOPMENTS" for more information.

The LeConte Center was undamaged in the November 2016 wildfires.

*Source:* Pigeon Forge Convention Center.

*Music Road Entertainment Park.* This Pigeon Forge-sponsored development is based upon the concept of an industrial park, but is specifically designed for Pigeon Forge's industry: tourism and entertainment. The park currently is home to the Smoky Mountain Opry, Country Legends Grill, WonderWorks, and the Hatfield and McCoy Dinner Show. More than \$40 million of private investment has been attracted to the park since its creation in 1994, and the businesses within the park generate hundreds of thousands of dollars in tax revenues annually. The only remaining undeveloped tract in the park is currently optioned by the developers of WonderWorks.

The Music Road Entertainment Park was undamaged in the November 2016 wildfires.

*Titanic Museum.* The \$25 million dollar, 30,000 square-foot Titanic Museum is located on the Parkway. This will be second location for a Titanic Museum, the first being located in Branson, Mo. The museum opened in the Spring of 2010.

The Titanic Museum was undamaged in the November 2016 wildfires.

*WonderWorks.* WonderWorks in Pigeon Forge is Tennessee's only upside down attraction and is an amusement park for the mind. This unique attraction that opened in the Summer of 2006 features over 100 interactive hands-on exhibits that is part science museum and part entertainment venue. Wonder Works is located on the Parkway in the former Music Mansion Theater. There are different theme zones, a "far-out gallery" of hands-on items, futuristic art, and two mini-theaters showing 3-D films. The Hoot N Holler dinner show, which seats about 300, is also located inside and was written by a Disney senior writer.

The WonderWorks facility was undamaged in the November 2016 wildfires.

## *Sevierville*

### **Tax Structure**

State Sales Tax:	7.00%
Local Option Sales Tax:	2.75%
Amusement Tax:	2.00%
Lodging Tax:	2.00%
Restaurant Tax:	2.00%

During 2009, Sevierville experienced its first full year with an additional 1,300 hotel rooms in the City's overall inventory. Comfort Suites Interstate, Hampton Inn Interstate, LaQuinta Inn, Wilderness of the Smokies, Fairfield Inn & Suites by Marriott and Holiday Inn Express all opened within the year before. The City has about 14,807 residents for 2010, yet 13

million visitors come every year. The City is small with only 22 square miles, yet it has almost 2,000 businesses.

The City of Sevierville had no damage from the November 2016 wildfires.

*Sevierville Convention Center.* The \$59 million, 247,000-square-foot Sevierville Convention Center opened in 2007 and is a part of the Bridgemont Project on the "billion-dollar highway" in Sevierville. The state-of-the-art Convention Center offers 108,000 square foot Exhibit Hall, 19,000 square foot Ball Room, pre-function space and show office, plus expansive outdoor areas for boat, car, RV, and equipment shows. The Convention Center is next door to two 18-hole golf courses and a 264-room hotel.

*Source:* Sevierville Convention Center.

*Wilderness at the Smokies.* Wilderness at the Smokies is an upscale waterpark resort including condos, hotels and nearby event center and golf course. There are 702 rooms total. The resort is a part of the Bridgemont Project on the "billion-dollar highway" in Sevierville. The indoor waterpark is the first of its kind in the East Tennessee area and provides year round entertainment. The 3-acre outdoor waterpark was completed in the summer of 2009. The resort has also built a hotel that will serve the city's Sevierville Convention Center. The Convention Center hotel has 234 rooms and 468 rooms at the River Lodge. Construction of the hotel and indoor waterpark were completed in late 2008. See "RECENT DEVELOPMENTS" for information on an expansion.

Wilderness also built a 4-story, 160 condominium residence properties with views of golf courses, water park and the Smoky Mountains. Several perks of ownership of a residence include indoor and outdoor waterpark admission and the option of using them as rental units. Prices ranged from \$100,000 to \$500,000, and on the first day the units went up for sale over 70 percent of the condos were sold at almost \$41 million dollars. Construction was completed in the summer of 2009.

*Source:* Wilderness Dells.

## **MANUFACTURING AND COMMERCE**

Although tourism is a vital component of the local economy in Sevier County, the industrial sector continues to grow and diversify. There are several industrial parks available to the City and County. *John L. Marshall Industrial Park* is located just 12 miles from Interstate 40 and contains 144 acres with 30 acres left for future development. Full utilities are on site. The County also has access to the *Hodsden-Hicks Industrial Park* within the Sevierville city limits, having 41 acres occupied with industries and the remaining 25 acres available. Full utilities are on site as well. The *Smith Thomas Industrial Park* within the Kodak city limits has over 40 acres available for new industries. Full utilities are on site as well. The *Interstate 40 Industrial Park*, located in Kodak, was completed in late 2014. The 115 acres are available to subdivide. Full utilities are on site.

In 2006 the City of Pigeon Forge created a Tourism Development Zone (the "TDZ") to fund \$180 million in projects. Under state law, a TDZ is an area where a city builds an event center and can use special bonds to pay for improvements. The law allows cities to repay the

bonds by collecting an increased portion of sales tax revenues in the district. The City is using the TDZ to fund the Events Center and surrounding infrastructure, improvements to City parking, the Jake Thomas Road Connector and more.

In 2004 the City of Sevierville created a Central Business Improvement District (the “CBID”) to fund \$202 million in projects. Under state law, a CBID are areas where a city builds an event center and can use special bonds to pay for improvements. The law allows cities to repay the bonds by collecting an increased portion of sales tax revenues in the district. The City is using the CBID to fund the Events Center and surrounding infrastructure, improvements to the city golf course, extension of the Veterans Boulevard and more. Every project proposed is either complete or under construction except for a parking garage, which is still under consideration. Please see the “RECENT DEVELOPMENTS” for more information.

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

**Major Employers in Sevier County**

<u>Company</u>	<u>Product</u>	<u>Employees</u>
Dollywood <sup>1</sup>	Amusement Park	4,000
Sevier County Schools	School System	2,750
Tanger Five Oaks Outlet	Retail	2,500
Collier Foods	Restaurant	900
Charles Blalock & Sons <sup>4</sup>	Asphalt & Concrete	740
LeConte Medical Center	Hospital	657
Sevier County	Government	650
Wilderness at the Smokies	Hotel and Water Park	638
Walmart	Retail	527
Fee Hedrick Family Entertainment	Entertainment	511
Wyndham Vacation <sup>2</sup>	Collections	500
Family Inns of America	Hotels	475
Israel Enterprises	Restaurants	450
City of Pigeon Forge	Government	400
Stokely Hospitality	Restaurants, Catering & Resorts	400
Ripley's Aquarium	Aquarium	371
Diverse Concepts		361
City of Gatlinburg	Government	358
Great Smoky Mtns National Park	National Park	345
Bass Pro Shop	Retail	336
City of Sevierville	Government	332
Ober Gatlinburg	Ski Resort & Amusement Park	307
Johnson Family of Restaurants	Restaurants	300
Dixie Stampede	Dinner Theater	265
Blalock Lumber Co	Asphalt & concrete	250
Federal-Mogul Corp.	Motor Vehicle Parts	250
Old Smokey Distillery	Moonshine Distillery	175
Park Vista Hotel	Hotel	165
TRW-Fuji Valve	Engine Valves	150

<sup>1</sup> Employment figure is based on Operating season; it drops to around 300 during the off-season.

<sup>2</sup> Includes employment from both Knox and Sevier County locations.

Source: Department of Economic & Community Development, City of Sevierville Audit, the City of Gatlinburg Audit and Knoxville News Sentinel - 2018.

## EMPLOYMENT INFORMATION

Due to seasonal nature of the tourism and agriculture industries, unemployment rates for the County fluctuate greatly during the course of the year. For instance, 2017's rates ranged from 9.6% in January to 2.5% in September.

For the month of February 2018, the unemployment rate for the Sevierville mSA and Sevier County stood at 6.3% with 47,370 persons employed out of a labor force of 50,550. As of February 2018, the unemployment rate in the Knoxville-Sevierville-Harriman-LaFollette CSA stood at 3.8%, representing 518,810 persons employed out of a workforce of 539,390.

	<b>Unemployment</b>				
	Annual Average	Annual Average	Annual Average	Annual Average	Annual Average
	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>
National	8.1%	7.4%	6.2%	5.3%	4.9%
Tennessee	8.0%	8.2%	6.7%	5.8%	4.8%
<b>Sevierville mSA &amp; Sevier County</b>	<b>8.7%</b>	<b>8.7%</b>	<b>7.2%</b>	<b>6.1%</b>	<b>5.0%</b>
Index vs. National	107	118	116	115	102
Index vs. State	108	106	107	105	104
<b>Knoxville-Sevierville- Harriman CSA</b>	<b>7.5%</b>	<b>7.7%</b>	<b>6.5%</b>	<b>6.5%</b>	<b>4.7%</b>
Index vs. National	93	104	105	123	96
Index vs. State	94	94	97	112	98

*Source:* Tennessee Department of Labor and Workforce Development, Employment Security, CPS Labor Force Estimates Summary.

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## ECONOMIC DATA

### Per Capita Personal Income

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
National	\$44,282	\$44,493	\$46,494	\$48,451	\$49,246
Tennessee	\$38,778	\$38,814	\$40,128	\$42,128	\$43,326
<b>Sevierville mSA &amp; Sevier County</b>	<b>\$31,615</b>	<b>\$32,350</b>	<b>\$33,411</b>	<b>\$35,071</b>	<b>\$36,285</b>
Index vs. National	71%	73%	72%	72%	74%
Index vs. State	82%	83%	83%	83%	84%
<b>Knoxville-Sevierville-Harriman CSA</b>	<b>\$37,991</b>	<b>\$37,756</b>	<b>\$39,115</b>	<b>\$40,921</b>	<b>\$42,102</b>
Index vs. National	86%	85%	84%	84%	85%
Index vs. State	98%	97%	97%	97%	97%

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

## RECENT DEVELOPMENTS

*November 2016 Wildfire Damage.* The November 28, 2016 wildfires affected parts of Gatlinburg, Pigeon Forge and Sevier County. The list of the major businesses and communities that were significantly damaged or destroyed in the wildfires can be found at the Knoxville News Sentinel website, [www.knoxnews.com](http://www.knoxnews.com).

### ***Gatlinburg***

*Westgate Smokey Mountain Resort & Spa.* The wildfires of November 28, 2016 heavily damaged the Westgate Smokey Mountain Resort & Spa. The fire destroyed or damaged 652 out of about 1,000 dwelling units and 65 out of 90 buildings. However, the original check-in building was undamaged, which includes the 60,000-square-foot Wild Bear Falls Indoor Water Park, grocery store, deli and ice cream shop, restaurant, fitness center and swimming pool. The resort reopened ten days after the fire with the remaining dwelling units booked.

Plans were announced at the reopening to include expansion with the reconstruction of the resort. The \$150 million construction (which is fully covered by insurance) will rebuild 800 lost units plus add another 100 dwelling units. Also, a new 50,000-square-foot indoor activity center that will offer rope and rock climbing will be built. Construction began soon after the fires.

### ***Pigeon Forge***

*Dollywood Entertainment Park.* From 2014-2024 the park plans to invest \$300 million to include new attractions, resorts, and 2,500 additional jobs. It's estimated that the new



Dollywood investments will add \$150 million annually to the local economy. Additionally, more than \$7 million in state and local taxes will be generated by the company's 10-year investments. The approximately 2,500 jobs to be created are due to the addition of the resort, primarily in the hospitality and construction industries. First constructed was the \$15 million family rollercoaster The FireChaser Express, which opened in March of 2014.

Next was the DreamMore, which is a 306-room resort that opened in the summer of 2015. It was built on 100 acres near the existing Splash Country. The resort has a variety of room sizes and suites available, along with more than 8,000 square feet of indoor meeting space with state-of-the-art technology. Outdoors, the property can accommodate groups as large as 500. The resort also includes a full-service farmhouse restaurant with indoor and outdoor seating, an indoor and outdoor pool, an amphitheater for outdoor entertainment. Guests will also be able to enjoy fire pits and hammocks and a full-service spa.

The \$22 million Lightning Rod roller coaster opened in the summer of 2016 and is the fastest wooden roller coaster in the world. The ride propels guests to top speeds of more than 70 miles an hour as has been labeled as one of the most anticipated thrill rides of 2016 by USA Today. It is the single-largest attraction investment in the park.

Dollywood's Splash Country is under construction for a new water slide, the \$2.5 million TailSpin Racer, opened in the summer of 2017. The Drop Line, a 200-foot tall free fall ride, and Whistle Punk Chaser, a children's roller coaster, will also open in 2017, along with 250 other smaller renovations throughout the Park. The Backstage Restaurant will be transformed into the Front Porch Café. The total cost of the 2017 renovations and additions is \$8.5-\$9 million.

In early 2018 Dollywood began construction on a previously undeveloped five-acre area of the park to build eight new attractions, plus a restaurant and other amenities.

*Hollywood Wax Museum.* Formerly located in the Dogwood Plaza in Gatlinburg, the Museum opened a newly constructed building on the Parkway in Pigeon Forge in 2012. The 22,000-square-foot facility includes two floors of celebrity displays and a facade with a 40-foot tall replica of King Kong and a Hollywood-style version of Mount Rushmore. The Museum is also located next to other attractions owned by the same company, the Castle of Chaos and Hannah's Maze of Mirrors.

*LeConte Center.* The \$45 million, 232,000-square-foot multipurpose event facility, the LeConte Center, opened in October of 2013. It is designed to attract trade shows, competitive events and assemblies such as church-organized youth rallies. It is located next to a 1,600-space parking lot and the Pigeon Forge Riverwalk, the City's greenway

*The Island in Pigeon Forge.* The 22-acre development, the Island in Pigeon Forge, is a retail and entertainment center that opened Phase One in 2013. It contains the 200-foot Great Smoky Mountain Wheel, the largest observation wheel in Tennessee, and a \$45 million event center containing numerous restaurants and shops. \$5 million were provided by the City of Pigeon Forge for infrastructure improvements, including a road connecting the Parkway.

Phase Two was opened late 2014 with 80 percent of the entire facility leased and with a \$2.7 million show fountain and a 132-room four-star hotel. A second location for the Ole Smoky Moonshine opened a 6,000-square-foot still, tasting bar and retail store in The Island in 2014. Also opened was Jimmy Buffett's Margaritaville restaurant. A Margaritaville hotel with 132 rooms is set to open in fall 2014.

In 2015 Paula Deen's Family Kitchen and Paula Deen's The Bag Lady opened at the Island. The Family Kitchen is a full-service restaurant with 300 seating and has a 4,000-square-foot retail store. The Bag Lady restaurant offers sandwiches, salads and sweets.

*Ripken Experience Pigeon Forge Youth Baseball Complex.* Opened in 2016 and named for the Hall of Fame shortstop Cal Ripken, Jr., the Ripken Experience features six fields that borrow designs from well-known professional ballparks. The 2,749 square-foot facility cost \$22.5 million to build and is a tournament spot for 12-and-under baseball and amateur fast-pitch softball. A two-level clubhouse with more than 14,000 square feet offers spectacular views of the Great Smoky Mountains while overlooking each of the six fields on the complex.

*Source:* Knoxville News Sentinel and The Ripken Experience.

## ***Sevierville***

*Bridgemont Project.* A billion dollars' worth of capital investment projects were completed or announced in 2007 for an eight-mile stretch of Highway 66 in Sevierville leading through Pigeon Forge to Gatlinburg (15 miles away) and the gateway to the Great Smoky Mountains National Park. Anchoring the south end of the "billion-dollar highway" on the Little Pigeon River is the 1,000-acre Bridgemont project, a blend of resort, convention, residential and retail development. The Bridgemont Group's planned \$850 million mixed-use upscale development includes the City owned Convention Center, two hotels, two 18-hole golf courses (one championship) and a proposed large shopping center. One of the first projects in the Bridgemont area was the \$59 million city-owned Sevierville Convention Center, which opened in 2007. A 234-room hotel including a 40,000-square-foot indoor water park opened in 2008.

If fully completed, Bridgemont could host up to 16,000 visitors with projected annual gross receipts over \$600 million dollars. It is estimated that more than 3,300 jobs could be generated for Sevierville.

*Dumplin Creek.* Anchoring the north end of the "billion-dollar highway" is a flurry of commercial development at the intersection of Interstate 40 and Highway 66. On the south side of I-40, site work was begun on Dumplin Creek, a proposed \$150 million, 190-acre retail development project. Dumplin Creek plans call for 800,000 square feet of retail space and 400,000 square feet of entertainment and hospitality offerings. Currently, the project's developers are seeking additional finance and talking to potential tenants. There is no assurance that this project will be completed at this time.

*OTICS USA.* Automotive parts manufacturer OTICS will invest \$69.5 million to build a factory at the new Sevier County Interstate 40 Industrial Park in Sevierville, which will create 117 jobs. The new facility will make engine components for Toyota and should be operational

in early 2017. The Japanese company opened a facility in Morristown in 2001, where it has expanded three times and now employs more than 250 people.

*Wilderness at the Smokies.* In 2017, Wilderness at the Smokies completed a \$1.3 million expansion to its Lake Wilderness Outdoor Waterpark. The project includes a new children's play attraction, VIP climate controlled cabanas, a new bar and snack shack and a new outdoor sound system. In 2013, construction was completed on an expansion to the park to include a "dry park" featuring a ropes course, laser tag, bowling and a black-light min-golf course. The multi-million-dollar Adventure Forest expansion (the amount remains undisclosed) increased the park from seven to fourteen acres. With this expansion, the Wilderness at the Smokies will be the second-largest tourist investor in Sevier County, behind Dollywood.

*Source:* Knoxville News Sentinel, The Mountain Press, the Bridgemont Group, Wilderness Dells.

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**SEVIER COUNTY, TENNESSEE**  
**SUMMARY OF BONDED INDEBTEDNESS**

<b>AMOUNT ISSUED</b>	<b>PURPOSE</b>	<b>As of June 30, 2018 OUTSTANDING (1)</b>
\$ 13,625,000	(3)&(4) Loan Agreement, Series V-F-1	\$ 4,425,000
6,900,000	(3) Loan Agreement, Series VII-A-4	(2) & (7) 3,625,000
63,945,000	(3)&(5) Loan Agreement, Series VII-B-1	(2) & (7) 53,365,000
14,504,000	Qualified School Construction Loan, Series 2010	8,319,649
1,000,000	School Energy Efficiency Loan, Series 2011	300,028
5,500,000	(3) General Obligation Bonds, Series 2011	5,275,000
9,950,000	(6) General Obligation Bonds, Series 2012	5,250,000
6,800,000	(3) General Obligation Bonds, Series 2013	3,025,000
9,670,000	(3) General Obligation Refunding Bonds, Series 2015	9,305,000
9,750,000	General Obligation Bonds, Series 2016	9,750,000
4,480,000	General Obligation Bonds, Series 2017	4,480,000
<b>\$ 131,894,000</b>	<b>TOTAL BONDED DEBT</b>	<b>\$ 107,119,677</b>
\$ 9,900,000	General Obligation Bonds, Series 2018B	\$ 9,900,000
4,135,000	Plus: General Obligation Refunding Bonds, Series 2018A	4,135,000
(13,625,000)	Less: Refunded Bonds	(4,425,000)
(42,714,000)	Less: Bonds Payable from Local Option Sales Tax Revenue	(52,054,677)
<b>\$ 89,590,000</b>	<b>NET BONDED DEBT</b>	<b>\$ 64,675,000</b>

**NOTES:**

(1) The above figures do not include short-term notes or leases 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) Payable from revenues of the County property tax. All other issues payable from Local Option Sales Tax revenue.

(4) \$4,425,000 of these Outstanding Bonds are payable from the Local Option Sales Tax Revenues.

(5) \$13,945,000 of these Outstanding Bonds are payable from the Local Option Sales Tax Revenues.

(6) \$2,225,000 of these Outstanding Bonds are payable from the Local Option Sales Tax Revenues.

(7) The County has entered into an interest rate swap agreement on all or a portion of the following Loan Agreements Series IV-A-2 Loan, the Series IV-E-4 Loan, the Series IV-H-3 Loan and \$13,000,000 of the Series V-A-1 Loan, during the fiscal year ending June 30, 2009 all the bonds associated with above the referenced loans were refinanced but all the interest rate swap agreements remain in place. For more information, see the notes to the Financial Statements in the CAFR.

**SEVIER 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 the Fiscal Year Ended June 30					Post Issuance
	2013	2014	2015	2016	2017	2018
<b>INDEBTEDNESS</b>						
<b>TAX SUPPORTED</b>						
General Obligation Bonds & Notes	\$81,295,000	\$83,735,000	\$78,140,000	\$73,015,000	\$68,435,000	\$64,675,000
<b>TOTAL TAX SUPPORTED</b>	<u>81,295,000</u>	<u>83,735,000</u>	<u>78,140,000</u>	<u>73,015,000</u>	<u>68,435,000</u>	<u>64,675,000</u>
<b>REVENUE SUPPORTED</b>						
School Bonds (Sales Tax Supported)	\$42,456,036	\$40,316,013	\$38,110,990	\$35,839,723	\$46,815,944	\$52,054,677
Jail Bonds (Sales Tax Supported)	485,000	425,000	365,000			
<b>TOTAL REVENUE SUPPORTED</b>	<u>\$42,941,036</u>	<u>\$40,741,013</u>	<u>\$38,475,990</u>	<u>\$35,839,723</u>	<u>\$46,815,944</u>	<u>\$52,054,677</u>
<b>TOTAL DEBT</b>	<u>\$124,236,036</u>	<u>\$124,476,013</u>	<u>\$116,615,990</u>	<u>\$108,854,723</u>	<u>\$115,250,944</u>	<u>\$116,729,677.38</u>
Less: Revenue Supported Debt	(\$42,941,036)	(\$40,741,013)	(\$38,475,990)	(\$35,839,723)	(\$46,815,944)	(\$52,054,677)
Less: Debt Service Fund	(32,800,519)	(32,273,263)	(24,174,447)	(25,577,383)	(27,130,618)	(27,130,618)
<b>NET DIRECT DEBT</b>	<u>\$48,494,481</u>	<u>\$51,461,737</u>	<u>\$53,965,553</u>	<u>\$47,437,617</u>	<u>\$41,304,382</u>	<u>\$37,544,382</u>

<b>PROPERTY TAX BASE</b>						
Estimated Actual Value	\$12,464,987,508	\$12,446,426,953	\$12,522,851,009	\$12,545,863,942	\$12,768,737,637	\$12,565,005,596
Appraised Value	12,464,987,508	12,446,426,953	12,522,851,009	12,545,863,942	12,768,737,637	12,565,005,596
Assessed Value	3,562,157,740	3,557,182,961	3,589,885,452	3,595,405,373	3,702,385,407	3,656,653,624

DEBT RATIOS	For the Fiscal Year Ended June 30					Post Issuance
	2013	2014	2015	2016	2017	
TOTAL DEBT to Estimated Actual Value	1.00%	1.00%	0.93%	0.87%	0.90%	0.93%
TOTAL DEBT to Appraised Value	1.00%	1.00%	0.93%	0.87%	0.90%	0.93%
TOTAL DEBT to Assessed Value	3.49%	3.50%	3.25%	3.03%	3.11%	3.19%
NET DIRECT DEBT to Estimated Actual Value	0.39%	0.41%	0.43%	0.38%	0.32%	0.30%
NET DIRECT DEBT to Appraised Value	0.39%	0.41%	0.43%	0.38%	0.32%	0.30%
NET DIRECT DEBT to Assessed Value	1.36%	1.45%	1.50%	1.32%	1.12%	1.03%
<b>PER CAPITA RATIOS</b>						
POPULATION (1)	93,693	95,110	95,946	96,673	96,673	96,673
PER CAPITA PERSONAL INCOME (2)	\$32,289	\$33,397	\$34,693	\$34,693	\$34,693	\$34,693
Estimated Actual Value to POPULATION	133,041	130,863	130,520	129,776	132,082	129,974
Assessed Value to POPULATION	38,019	37,401	37,416	37,191	38,298	37,825
Total Debt to POPULATION	1,326	1,309	1,215	1,126	1,192	1,207
Net Direct Debt to POPULATION	518	541	562	491	427	388
Total Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	4.11%	3.92%	3.50%	3.25%	3.44%	3.48%
Net Direct Debt Per Capita as a percent of PER CAPITA PERSONAL INCOME	1.60%	1.62%	1.62%	1.41%	1.23%	1.12%

(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.

**SEVIER COUNTY, TENNESSEE**  
**BONDED DEBT SERVICE REQUIREMENTS**

F. Y. Ended 6/30	Existing Debt - As of June 30, 2018		Less: Bonds Refunded		Refrunding Bonds, Series 2018A		General Obligation Bonds, Series 2018A		% 2018A Principal Repaid		General Obligation Bonds, Series 2018B		% 2018B Principal Repaid		Total Bonded Debt Service Requirements		% All Principal Repaid
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2019	\$ 8,380,023	\$ 3,987,981	\$ 12,368,004	\$ (217,600)	\$ 1,030,000	\$ 1,452,600	\$ 190,669	\$ 1,220,669	\$ -	\$ -	\$ 297,504	\$ 322,595	0.00%	\$ 8,175,023	\$ 4,258,555	\$ 12,433,578	7.00%
2020	8,315,023	3,720,656	12,035,679	(155,850)	435,000	(555,850)	155,250	590,250	-	-	322,595	322,595	0.00%	8,350,023	4,042,651	12,392,674	
2021	8,370,063	3,397,431	11,767,494	(137,850)	700,000	(797,850)	133,500	833,500	-	-	322,595	322,595	0.00%	8,410,063	3,715,676	12,125,739	
2022	8,585,027	3,103,656	11,688,683	(106,500)	690,000	(751,500)	98,500	788,500	455,000	455,000	777,595	777,595	9.29%	9,085,027	3,418,251	12,503,278	37.20%
2023	8,890,027	2,808,656	11,698,683	(74,250)	670,000	(699,250)	64,000	734,000	465,000	465,000	778,495	778,495	9.29%	9,400,027	3,111,901	12,511,928	
2024	9,480,027	2,496,394	11,976,421	(43,000)	610,000	(713,000)	30,500	640,500	475,000	475,000	778,265	778,265	9.29%	9,895,027	2,787,159	12,682,186	
2025	9,325,027	2,141,381	11,466,408	(9,500)	610,000	(199,500)	-	640,500	485,000	485,000	777,340	777,340	9.29%	9,820,027	2,424,221	12,044,248	
2026	5,830,027	1,803,963	7,633,989	-	-	-	-	-	495,000	495,000	280,700	280,700	9.29%	6,325,027	2,084,663	8,409,689	
2027	6,124,116	1,599,188	7,723,303	-	-	-	-	-	515,000	515,000	263,375	263,375	9.29%	6,639,116	1,862,563	8,501,678	
2028	5,435,318	1,382,838	6,818,156	-	-	-	-	-	535,000	535,000	245,350	245,350	9.29%	5,970,318	1,628,188	7,598,506	70.14%
2029	5,580,000	1,155,988	6,735,988	-	-	-	-	-	550,000	550,000	226,625	226,625	9.29%	6,130,000	1,382,613	7,512,613	
2030	5,820,000	917,462	6,737,462	-	-	-	-	-	575,000	575,000	207,375	207,375	9.29%	6,395,000	1,124,837	7,519,837	
2031	6,070,000	665,400	6,735,400	-	-	-	-	-	590,000	590,000	187,250	187,250	9.29%	6,660,000	852,650	7,512,650	
2032	6,335,000	400,088	6,735,088	-	-	-	-	-	610,000	610,000	166,600	166,600	9.29%	6,945,000	566,688	7,511,688	
2033	870,000	122,363	992,363	-	-	-	-	-	635,000	635,000	145,250	145,250	9.29%	1,505,000	267,613	1,772,613	93.81%
2034	890,000	100,300	990,300	-	-	-	-	-	655,000	655,000	123,025	123,025	9.29%	1,545,000	223,325	1,768,325	
2035	915,000	76,625	991,625	-	-	-	-	-	680,000	680,000	100,100	100,100	9.29%	1,595,000	176,725	1,771,725	
2036	940,000	52,275	992,275	-	-	-	-	-	700,000	700,000	76,300	76,300	9.29%	1,640,000	128,575	1,768,575	
2037	965,000	26,488	991,488	-	-	-	-	-	730,000	730,000	51,800	51,800	9.29%	1,695,000	78,288	1,773,288	99.36%
2038	-	-	-	-	-	-	-	-	750,000	750,000	26,250	26,250	100.00%	750,000	26,250	776,250	100.00%
	<b>\$1,071,119,677</b>	<b>\$ 29,959,132</b>	<b>\$1,137,078,809</b>	<b>\$(744,850)</b>	<b>\$ 4,135,000</b>	<b>\$(5,169,850)</b>	<b>\$ 672,419</b>	<b>\$ 4,807,419</b>	<b>\$ 9,900,000</b>	<b>\$ 4,274,389</b>	<b>\$ 14,174,389</b>	<b>\$ 4,274,389</b>	<b>100.00%</b>	<b>\$ 11,672,977</b>	<b>\$ 34,161,390</b>	<b>\$ 150,891,068</b>	<b>100.00%</b>

**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. For further information concerning Interest Rate SWAPS, see the CAFR.
- (3) Interest Rates: Average Coupon of 5%.
- (4) Estimated Interest Rates: Estimated Average Coupon of 3.39%.



## FINANCIAL OPERATIONS

### 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 fund balances, net assets and retained earnings for the last five fiscal years ending June 30:

<u>Fund Type</u>	<u>For the Fiscal Year Ended June 30</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<i>Governmental Funds:</i>					
General	\$17,110,470	\$19,195,426	\$20,483,149	\$22,063,871	\$25,172,479
Highway/Public Works	5,092,754	4,980,413	3,762,351	2,984,932	5,548,857
General Debt Service	32,800,519	32,273,263	24,174,447	25,577,383	27,130,618
Capital Projects	7,718,993	7,269,395	5,419,856	4,619,656	4,420,949
Other Governmental	<u>1,192,972</u>	<u>956,761</u>	<u>6,399,816</u>	<u>1,016,588</u>	<u>1,353,627</u>
<b>Total</b>	<b><u>\$63,915,708</u></b>	<b><u>\$64,675,258</u></b>	<b><u>\$54,819,763</u></b>	<b><u>\$56,262,430</u></b>	<b><u>\$63,626,530</u></b>
<i>Proprietary Funds:</i>					
Public Utility Fund	\$18,358,890	\$18,639,461	\$18,788,220	\$19,046,758	\$19,106,543
Internal Service Net Assets	<u>1,525,451</u>	<u>830,976</u>	<u>327,877</u>	<u>852,037</u>	<u>1,648,220</u>
<b>Total</b>	<b><u>\$19,884,341</u></b>	<b><u>\$19,470,437</u></b>	<b><u>\$19,116,097</u></b>	<b><u>\$19,898,795</u></b>	<b><u>\$20,754,763</u></b>

Source: The County.

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Revenues:</b>					
Local taxes	\$ 24,754,477	\$ 25,210,708	\$ 25,715,812	\$ 29,105,027	\$ 29,603,557
Licenses and Permits	554,617	628,038	649,229	753,885	1,026,427
Fines, forfeitures and penalties	356,028	355,187	424,295	432,962	371,559
Charges for current services	3,401,933	3,753,000	3,383,640	3,241,904	3,533,702
Other local revenues	221,476	226,385	151,312	162,443	83,093
Fees Recv'd from County Officials	6,156,535	6,234,199	6,403,538	6,848,381	6,948,038
State of Tennessee	3,648,327	3,855,951	3,588,179	3,863,787	3,570,933
Federal Government	1,051,715	1,087,362	1,194,383	1,204,763	1,410,727
Other Governments & Citizens Groups	491,560	529,060	729,053	901,109	795,137
<b>Total Revenues</b>	<u>\$ 40,636,668</u>	<u>\$ 41,879,890</u>	<u>\$ 42,239,441</u>	<u>\$ 46,514,261</u>	<u>\$ 47,343,173</u>
<b>Expenditures:</b>					
General Government	\$ 6,105,286	\$ 5,831,216	\$ 5,645,973	\$ 5,916,787	\$ 6,035,813
Finance	2,990,772	3,048,585	3,111,931	3,140,797	3,140,639
Administration of Justice	3,032,552	3,029,844	3,032,415	3,149,349	3,198,254
Public Safety	13,410,095	14,327,455	14,555,593	15,409,099	16,587,718
Public Health & Welfare	5,171,710	5,643,270	5,739,125	5,944,723	6,038,397
Social, Cultural & Recreational Services	1,651,656	1,724,770	1,717,785	1,791,563	1,810,100
Agricultural & Natural Resources	442,290	457,969	467,229	431,505	439,865
Other Operations	4,593,705	4,288,378	4,751,410	5,614,618	4,798,378
Highways	232,483	225,168	287,177	291,451	296,186
Debt Service	-	-	-	-	-
Capital Projects	2,624,995	362,128	1,075,605	3,155,407	1,849,728
<b>Total Expenditures</b>	<u>\$ 40,255,544</u>	<u>\$ 38,938,783</u>	<u>\$ 40,384,243</u>	<u>\$ 44,845,299</u>	<u>\$ 44,195,078</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 381,124	\$ 2,941,107	\$ 1,855,198	\$ 1,668,962	\$ 3,148,095
<b>Other Sources and Uses:</b>					
Note Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -
Insurance Recovery	79,020	16,656	32,525	725	10,513
Operating Transfers - In	-	-	-	-	-
Capitalized Lease Proceeds	-	-	-	-	-
Operating Transfers - Out	(131,000)	(872,807)	(600,000)	(88,965)	(50,000)
<b>Total Other Sources &amp; Uses</b>	<u>\$ (51,980)</u>	<u>\$ (856,151)</u>	<u>\$ (567,475)</u>	<u>\$ (88,240)</u>	<u>\$ (39,487)</u>
Net Change in Fund Balances	\$ 329,144	\$ 2,084,956	\$ 1,287,723	\$ 1,580,722	\$ 3,108,608
<b>Fund Balance July 1</b>	16,781,326	17,110,470	19,195,426	20,483,149	22,063,871
Prior Period Adjustment	-	-	-	-	-
<b>Fund Balance June 30</b>	<u><u>\$ 17,110,470</u></u>	<u><u>\$ 19,195,426</u></u>	<u><u>\$ 20,483,149</u></u>	<u><u>\$ 22,063,871</u></u>	<u><u>\$ 25,172,479</u></u>

Source: Comprehensive Annual Financial Reports for Sevier 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. For reporting purposes, all investments are stated at cost which approximates market value.

## **REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES**

### ***State Taxation of Property; Classifications of Taxable Property; Assessment Rates***

Under the Constitution and laws of the State of Tennessee, all real and personal property is subject to taxation, except to the extent that the General Assembly of the State of Tennessee (the "General Assembly") exempts certain constitutionally permitted categories of property from taxation. Property exempt from taxation includes federal, state and local government property, property of housing authorities, certain low cost housing for elderly persons, property owned and used exclusively for certain religious, charitable, scientific and educational purposes and certain other property as provided under Tennessee law.

Under the Constitution and laws of the State of Tennessee, property is classified into three separate classes for purposes of taxation: Real Property; Tangible Personal Property; and Intangible Personal Property. Real Property includes lands, structures, improvements, machinery and equipment affixed to realty and related rights and interests. Real Property is required constitutionally to be classified into four sub classifications and assessed at the rates as follows:

- (a) Public Utility Property (which includes all property of every kind used or held for use in the operation of a public utility, such as railroad companies, certain telephone companies, freight and private car companies, street car companies, power companies, express companies and other public utility companies), to be assessed at 55% of its value;
- (b) Industrial and Commercial Property (which includes all property of every kind used or held for use for any commercial, mining, industrial, manufacturing, business or similar purpose), to be assessed at 40% of its value;
- (c) Residential Property (which includes all property which is used or held for use for dwelling purposes and contains no more than one rental unit), to be assessed at 25% of its value; and
- (d) Farm Property (which includes all real property used or held for use in agriculture), to be assessed at 25% of its value.

Tangible Personal Property includes personal property such as goods, chattels and other articles of value, which are capable of manual or physical possession and certain machinery and equipment. Tangible Personal Property is required constitutionally to be classified into three sub classifications and assessed at the rates as follows:

- (a) Public Utility Property, to be assessed at 55% of its value;
- (b) Industrial and Commercial Property, to be assessed at 30% of its value; and
- (c) All other Tangible Personal Property (including that used in agriculture), to be assessed at 5% of its value, subject to an exemption of \$7,500 worth of Tangible Personal Property for personal household goods and furnishings, wearing apparel and other tangible personal property in the hands of a taxpayer.

Intangible Personal Property includes personal property, such as money, any evidence of debt owed to a taxpayer, any evidence of ownership in a corporation or other business organization having multiple owners and all other forms of property, the value of which is expressed in terms of what the property represents rather than its own intrinsic value. The Constitution of the State of Tennessee empowers the General Assembly to classify Intangible Personal Property into sub classifications and to establish a ratio of assessment to value in each class or subclass and to provide fair and equitable methods of apportionment of the value to the State of Tennessee for purposes of taxation.

The Constitution of the State of Tennessee requires that the ratio of assessment to value of property in each class or subclass be equal and uniform throughout the State of Tennessee and that the General Assembly direct the method to ascertain the value and definition of property in each class or subclass. Each respective taxing authority is constitutionally required to apply the same tax rate to all property within its jurisdiction.

### ***County Taxation of Property***

The Constitution of the State of Tennessee empowers the General Assembly to authorize the several counties and incorporated towns in the State of Tennessee to impose taxes for county and municipal purposes in the manner prescribed by law. Under the *Tennessee Code Annotated*, the General Assembly has authorized the counties in Tennessee to levy an *ad valorem* tax on all taxable property within their respective jurisdictions, the amount of which is required to be fixed by the county legislative body of each county based upon tax rates to be established on the first Monday of July of each year or as soon thereafter as practicable.

All property is required to be taxed according to its value upon the principles established in regard to State taxation as described above, including equality and uniformity. All counties, which levy and collect taxes to pay off any bonded indebtedness, are empowered, through the respective county legislative bodies, to place all funds levied and collected into a special fund of the respective counties and to appropriate and use the money for the purpose of discharging any bonded indebtedness of the respective counties.

### ***Assessment of Property***

*County Assessments; County Board of Equalization.* The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own such property on January 1 for the year for which the assessment is made. All assessment of real and personal property are required to be made annually and as of January 1 for the year to which the assessment applies. Not later than May 20 of each year, the assessor of property in each county is required to (a) make an assessment of all property in the county and (b) note upon the

assessor's records the current classification and assessed value of all taxable property within the assessor's jurisdiction.

The assessment records are open to public inspection at the assessor's office during normal business hours. The assessor is required to notify each taxpayer of any change in the classification or assessed value of the taxpayer's property and to cause a notice to be published in a newspaper of general circulation stating where and when such records may be inspected and describing certain information concerning the convening of the county board of equalization. The notice to taxpayers and such published notice are required to be provided and published at least 10 days before the local board of equalization begins its annual session.

The county board of equalization is required (among other things) to carefully examine, compare and equalize the county assessments; assure that all taxable properties are included on the assessments lists and that exempt properties are eliminated from the assessment lists; hear and act upon taxpayer complaints; and correct errors and assure conformity to State law and regulations.

*State Assessments of Public Utility Property; State Board of Equalization.* The State Comptroller of the Treasury is authorized and directed under Tennessee law to assess for taxation, for State, county and municipal purposes, all public utility properties of every description, tangible and intangible, within the State. Such assessment is required to be made annually as of the same day as other properties are assessed by law (as described above) and takes into account such factors as are prescribed by Tennessee law.

On or before the first Monday in August of each year, the assessments are required to be completed and the State Comptroller of the Treasury is required to send a notice of assessment to each company assessable under Tennessee law. Within ten days after the first Monday in August of each year, any owner or user of property so assessed may file an exception to such assessment together with supporting evidence to the State Comptroller of the Treasury, who may change or affirm the valuation. On or before the first Monday in September of each year, the State Comptroller of the Treasury is required to file with the State Board of Equalization assessments so made. The State Board of Equalization is required to examine such assessments and is authorized to increase or diminish the valuation placed upon any property valued by the State Comptroller of the Treasury.

The State Board of Equalization has jurisdiction over the valuation, classification and assessment of all properties in the State. The State Board of Equalization is authorized to create an assessment appeals commission to hear and act upon taxpayer complaints. The action of the State Board of Equalization is final and conclusive as to all matters passed upon by the Board, subject to judicial review consisting of a new hearing in chancery court.

### ***Periodic Reappraisal and Equalization***

Tennessee law requires reappraisal in each county by a continuous six-year cycle comprised of an on-site review of each parcel of real property over a five-year period, or, upon approval of the State Board of Equalization, by a continuous four-year cycle comprised of an one-site review of each parcel of real property over a three-year period, followed by revaluation

of all such property in the year following completion of the review period. Alternatively, if approved by the assessor and adopted by a majority vote of the county legislative body, the reappraisal program may be completed by a continuous five-year cycle comprised of an on-site review of each parcel of real property over a four-year period followed by revaluation of all such property in the year following completion of the review period.

After a reappraisal program has been completed and approved by the Director of Property Assessments, the value so determined must be used as the basis of assessments and taxation for property that has been reappraised. The State Board of Equalization is responsible to determine whether or not property within each county of the State has been valued and assessed in accordance with the Constitution and laws of the State of Tennessee.

### ***Valuation for Property Tax Purposes***

*County Valuation of Property.* The value of all property is based upon its sound, intrinsic and immediate value for purposes of sale between a willing seller and a willing buyer without consideration of speculative values. In determining the value of all property of every kind, the assessor is to be guided by, and follow the instructions of, the appropriate assessment manuals issued by the division of property assessments and approved by the State board of equalization. Such assessment manuals are required to take into account various factors that are generally recognized by appraisers as bearing on the sound, intrinsic and immediate economic value of property at the time of assessment.

*State Valuation of Public Utility Property.* The State Comptroller of the Treasury determines the value of public utility property based upon the appraisal of the property as a whole without geographical or functional division of the whole (*i.e.*, the unit rule of appraisal) and on other factors provided by Tennessee law. In applying the unit rule of appraisal, the State Comptroller of the Treasury is required to determine the State's share of the unit or system value based upon factors that relate to the portion of the system relating to the State of Tennessee.

### ***Certified Tax Rate***

Upon a general reappraisal of property as determined by the State Board of Equalization, the county assessor of property is required to (1) certify to the governing bodies of the county and each municipality within the county the total assessed value of taxable property within the jurisdiction of each governing body and (2) furnish to each governing body an estimate of the total assessed value of all new construction and improvements not included on the previous assessment roll and the assessed value of deletions from the previous assessment roll. Exclusive of such new construction, improvements and deletions, each governing body is required to determine and certify a tax rate (herein referred to as the "*Certified Tax Rate*") which will provide the same *ad valorem* revenue for that jurisdiction as was levied during the previous year. The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

Tennessee law provides that no tax rate in excess of the Certified Tax Rate may be levied by the governing body of any county or of any municipality until a resolution or ordinance has been adopted by the governing body after publication of a notice of the governing body's intent

to exceed the Certified Tax Rate in a newspaper of general circulation and the holding of a public hearing.

The Tennessee Local Government Public Obligations Act of 1986 provides that a tax sufficient to pay when due the principal of and interest on general obligation bonds (such as the Bonds) shall be levied annually and assessed, collected and paid, in like manner with the other taxes of the local government as described above and shall be in addition to all other taxes authorized or limited by law. Bonds issued pursuant to the Local Government Public Obligations Act of 1986 may be issued without regard to any limit on indebtedness provided by law.

### ***Tax Freeze for the Elderly Homeowners***

The Tennessee Constitution was amended by the voters in November 2006 to authorize the Tennessee General Assembly to enact legislation providing property tax relief for homeowners age 65 and older. The General Assembly subsequently adopted the Property Tax Freeze Act permitting (but not requiring) local governments to implement a program for "freezing" the property taxes of eligible taxpayers at an amount equal to the taxes for the year the taxpayer becomes eligible. For example, if a taxpayer's property tax bill is \$500 for the year in which he becomes eligible, his property taxes will remain at \$500 even if property tax rates or appraisals increase so long as he continues to meet the program's ownership and income requirements.

### ***Tax Collection and Tax Lien***

Property taxes are payable the first Monday in October of each year. The county trustee of each county acts as the collector of all county property taxes and of all municipal property taxes when the municipality does not collect its own taxes.

The taxes assessed by the State of Tennessee, a county, a municipality, a taxing district or other local governmental entity, upon any property of whatever kind, and all penalties, interest and costs accruing thereon become and remain a first lien on such property from January 1 of the year for which such taxes are assessed. In addition, property taxes are a personal debt of the property owner as of January and, when delinquent, may be collected by suit as any other personal debt. Tennessee law prescribes the procedures to be followed to foreclose tax liens and to pursue legal proceedings against property owners whose property taxes are delinquent.

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*Assessed Valuations.* According to the Tax Aggregate Report, property in the County reflected a ratio of appraised value to true market value of 1.00. The following table shows pertinent data for tax year 2016.<sup>1</sup>

<u>Class</u>	<u>Estimated Assessed Valuation</u>	<u>Assessment Rate</u>	<u>Estimated Appraised Value</u>
Public Utilities	\$ 32,511,833	55%	\$ 74,352,119
Commercial and Industrial	1,248,294,880	40%	3,120,737,200
Personal Tangible Property	168,999,769	30%	563,332,618
Residential and Farm	<u>2,252,578,925</u>	25%	<u>9,010,315,700</u>
<b>Total</b>	<b><u>\$3,702,385,407</u></b>		<b><u>\$12,768,737,637</u></b>

The estimated assessed value of property in the County for the fiscal year ending June 30, 2017 (tax year 2016) is \$3,702,385,407 compared to \$3,595,405,373 for the fiscal year ending June 30, 2016 (tax year 2015). The estimated actual value of all taxable property for tax year 2016 is \$12,768,737,637 compared to \$12,545,863,942 for tax year 2015.

*Source:* 2016 Tax Aggregate Report of Tennessee and the County

*Property Tax Rates and Collections.* The following table shows the property tax rates and collections of the County for tax years 2013 through 2017 as well as the aggregate uncollected balances for each fiscal year ending June 30, 2017.

<b>PROPERTY TAX RATES AND COLLECTIONS</b>				<b>Fiscal Yr Collections</b>		<b>Aggregate Uncollected Balance</b>	
<b>Tax Year<sup>1</sup></b>	<b>Assessed Valuation</b>	<b>Tax Rates</b>	<b>Taxes Levied</b>	<b>Amount</b>	<b>Pct</b>	<b>As of June 30, 2017 Amount</b>	<b>Pct</b>
2013	\$3,527,542,106	\$1.63	\$57,505,185	\$54,017,243	93.9%	\$ 80,000	0.14%
2014	3,589,885,452	1.63	58,012,168	55,508,195	95.7%	165,498	0.29%
2015	3,595,405,373	1.88	66,968,465	65,027,480	97.1%	490,784	0.73%
2016	3,702,385,407	1.86	68,190,366	65,559,513	96.1%	2,526,532	3.71%
2017	3,656,653,624	1.86	67,950,712	<b>IN PROGRESS</b>			

<sup>1</sup> The tax year coincides with the calendar year, therefore, tax year 2017 is actually fiscal year 2017-2018.

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*Ten Largest Taxpayers.* For the fiscal year ending June 30, 2017 (tax year 2016), the ten largest taxpayers in the County are as follows:

<u>Taxpayer</u>	<u>Business Type</u>	<u>Assessed Value</u>	<u>Taxes Levied</u>
1. Five Oaks Dev Group	Tanger Five Oaks Mall	\$ 30,655,440	\$ 570,191
2. Dollywood Co.	Amusement Park	13,532,320	251,701
3. Dollywood Co.	Dreammore Resort	12,194,960	226,826
5. Leconte Village LLC (The Island)	Retail	9,969,840	185,439
6. Ripley's Aquarium	Aquarium	7,870,120	146,384
7. Wilderness Tenn Venture#1	Wilderness Hotel	7,264,400	135,118
4. DRA Smoky Crossing LLC	Apartments	6,372,520	118,529
8. Bass Pro Station LLC	Bass Pro Outdoor World	6,346,840	118,051
9. Wilderness Tenn Venture#2	Waterpark	5,814,240	108,145
10. RB Hotel Park Vista LLC	Hotel	<u>5,628,640</u>	<u>104,693</u>
TOTAL		<u><b>\$105,649,320</b></u>	<u><b>\$1,965,077</b></u>

*Source:* The County.

## SALES TAX

*Introduction.* The residents of Sevier County, Tennessee, adopted on December 16, 1967 a county-wide 1% local sales tax under the provisions of Chapter 329 of the 1963 Public Acts of Tennessee which is known as the 1963 Local Option Revenue Act. This county-wide tax became effective February 1, 1968. On September 9, 1971, the voters approved an increase to 1-1/2% which went into effect in November 1971. On July 28, 1983, the residents of Sevier County voted to increase the sales tax from 1-1/2% to 2-1/4%. This change went into effect on September 1, 1983 and was maintained until the October 1, 1991. On August 20, 1991, the residents of Sevier County voted to increase the sales tax from 2-1/4% to 2-1/2% effective October 1, 1991.

Effective July 1, 2009 the sales tax was increased from 2.50% to 2.75% after the residents of the County voted to approve the increase. The new rate will apply to all taxable sales of tangible personal property and taxable services made on or after July 1, 2009 by sellers located in all areas of Sevier County, including the cities of Sevierville, Gatlinburg, Pigeon Forge and Pittman Center.

*Source:* Tennessee Department of Revenue

*[balance of page left blank]*

*Revenues and Pledges.* The following tabulation shows the historical results of the local sales tax collections for the last ten years ended June 30, 2008 through June 30, 2017.

2008.....	\$ 71,425,669
2009.....	\$ 68,849,413
2010.....	\$ 71,627,766
2011.....	\$ 76,076,913
2012.....	\$ 80,512,240
2013.....	\$ 84,449,736
2014.....	\$ 87,691,410
2015.....	\$ 94,297,092
2016.....	\$105,530,524
2017.....	\$109,184,650

One-half of the sales tax monies collected goes to the Sevier County Board of Education and the other half is divided between the General Fund of Sevier County, the City of Gatlinburg, the City of Pigeon Forge, the City of Sevierville and the City of Pittman Center.

A portion of local sales taxes collected in the TDZ are not allocated as described in the preceding paragraph but instead are diverted to the payment of debt service on the TDZ Bonds.

## **INSURANCE**

The County participates in the Tennessee County Services Association's self-insurance program for workmen's compensation insurance. This program has been established pursuant of Section 12-9-104(f), Tennessee Code Annotated. Sevier County is required to pay into the program according to a formula which will be adjusted each year based upon the loss record of the County.

The County has established a Self-Insurance Fund which is reflected as an expendable trust fund. This fund is used to account for transactions pertaining to the County's self-insured group medical plan. The County is self-insured to a limit of \$20,000 for single medical claims and \$357,453 for all medical claims in any plan year. Any amounts in excess of these limits are covered by a excess loss policy. Group life and accident insurance premiums paid to a private insurance company are also recorded in this fund.

## **PENSION PLANS**

Employees of Sevier 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 Sevier 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 on 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.

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**GENERAL PURPOSE FINANCIAL STATEMENTS**

**SEVIER COUNTY, TENNESSEE**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2017**

The General Purpose Financial Statements are extracted from the Financial Statements with Report of Certified Public Accountants of the Sevier County for the fiscal year ended June 30, 2017 which is available upon request from the County



**ANNUAL FINANCIAL REPORT  
SEVIER COUNTY, TENNESSEE**

**FOR THE YEAR ENDED JUNE 30, 2017**



**DIVISION OF LOCAL GOVERNMENT AUDIT**



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**ANNUAL FINANCIAL REPORT  
SEVIER COUNTY, TENNESSEE  
FOR THE YEAR ENDED JUNE 30, 2017**

**COMPTROLLER OF THE TREASURY  
JUSTIN P. WILSON**

**DIVISION OF LOCAL GOVERNMENT AUDIT  
JAMES R. ARNETTE  
Director**

**MARK TREECE, CPA, CGFM  
Audit Manager**

**AMY SOSVILLE, CPA  
Auditor 4**

**ANGIE COLLINS, CPA, CFE  
AMY MOORE, CGFM  
DOUG SANDIDGE, CISA, CFE  
State Auditors**

**This financial report is available at [www.comptroller.tn.gov](http://www.comptroller.tn.gov)**

## ***Summary of Audit Findings***

Annual Financial Report  
Sevier County, Tennessee  
For the Year Ended June 30, 2017

### ***Scope***

We have audited the basic financial statements of Sevier County as of and for the year ended June 30, 2017.

### ***Results***

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

Our audit resulted in one finding and recommendation, which we have reviewed with Sevier County management. The detailed finding, recommendation, and management's response is included in the Single Audit section of this report.

### ***Findings***

The following is a summary of the audit finding:

#### **OFFICE OF COUNTY MAYOR**

- ◆ The office did not require a depository to adequately collateralize funds.

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# INTRODUCTORY SECTION

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Sevier County Officials  
June 30, 2017

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**Officials**

Larry Waters, County Mayor  
Jonas Smelcer, Road Superintendent  
Jack Parton, Director of Schools  
Greg Patterson, Trustee  
Thomas King, Assessor of Property  
Karen Cotter, County Clerk  
Rita Ellison, Circuit Court Clerk  
Connie Holt, General Sessions and Juvenile Courts Clerk  
Carolyn McMahan, Clerk and Master  
Cyndi Loveday, Register of Deeds  
Ronald Seals, Sheriff

**Board of County Commissioners**

Larry Waters, County Mayor, Chairman  
Ronnie Allen  
Fred Atchley  
Gene Byrd  
Mike Chambers  
Ben Clabo  
Gary Cole  
Rod Cowan  
Mary Davis  
Bryan Delius  
Chuck Godfrey  
Greg Haggard  
Mike Hillard  
Warren Hurst

Phil King  
Michael Maddron  
David Norton  
Ray Ogle  
Frank Parton  
Harold Pitner  
Carroll Rauhuff  
Tommy Watts  
Keith Whaley  
Ronnie Whaley  
Randy Williams  
Kent Woods

**Board of Education**

Mike Oakley, Chairman  
Becky Barnes  
John McClure

Mark Strange  
Charles Temple

**Audit Committee**

Kent Woods, Chairman  
Ronnie Whaley  
Fred Atchley  
Gary Cole

Warren Hurst  
Ben Clabo  
David Norton

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# FINANCIAL SECTION

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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

Sevier County Mayor and  
Board of County Commissioners  
Sevier 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 Sevier County, Tennessee, as of and for the year ended June 30, 2017, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Sevier County, Tennessee, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and Highway/Public Works Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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 schedule of changes in the county's net pension liability and related ratios, schedule of county contributions, schedule of school's proportionate share of the net pension liability, and schedule of funding progress - other postemployment benefit plans on pages 104-111 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 Sevier County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison schedules of nonmajor governmental funds and the General Debt Service Fund, combining and individual fund financial statements of the Sevier County School Department (a discretely presented component unit), miscellaneous schedules, and statutory section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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 General Debt Service Fund, combining and individual fund financial statements of the Sevier County School Department (a discretely presented component unit), schedule of expenditures of federal awards, 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 General Debt Service Fund, combining and individual fund financial statements of the Sevier County School Department (a discretely presented component unit), schedule of expenditures of federal awards, and miscellaneous schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

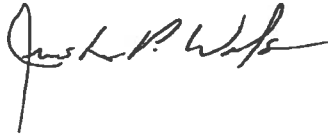
#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of Sevier 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 Sevier County's internal control over financial reporting and compliance.

Very truly yours,

A handwritten signature in black ink, appearing to read "Justin P. Wilson". The signature is fluid and cursive, with a long vertical stroke extending downwards from the end.

Justin P. Wilson  
Comptroller of the Treasury  
Nashville, Tennessee

October 12, 2017

JPW/yu

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## BASIC FINANCIAL STATEMENTS

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Sevier County, Tennessee  
Statement of Net Position  
June 30, 2017

	Primary Government			Total	Component Unit	
	Governmental		Business-type Activities			Sevier County School Department
	Activities	Activities				
Cash	\$ 2,305,873	\$ 200	\$ 2,306,073	\$ 5,350		
Equity in Pooled Cash and Investments	61,898,515	999,594	62,898,109	37,852,722		
Accounts Receivable	3,397,057	127,212	3,524,269	497,384		
Allowance for Uncollectibles	(941,141)	(5,780)	(946,921)	0		
Due from Other Governments	3,279,774	0	3,279,774	11,064,820		
Due from Primary Government	0	0	0	441		
Property Taxes Receivable	35,119,718	0	35,119,718	36,271,183		
Allowance for Uncollectible Property Taxes	(656,350)	0	(656,350)	(677,870)		
Net Pension Asset - Agent Plan	2,900,562	22,802	2,923,364	2,695,248		
Net Pension Asset - Teacher Retirement Plan	0	0	0	104,055		
Capital Assets						
Assets Not Depreciated:						
Land	6,339,092	0	6,339,092	17,576,936		
Construction in Progress	542,910	1,251,093	1,794,003	5,985,979		
Assets Net of Accumulated Depreciation:						
Buildings and Improvements	38,724,191	0	38,724,191	88,122,801		
Other Capital Assets	4,302,616	276,764	4,579,380	6,964,682		
Infrastructure	59,154,584	16,472,554	75,627,138	5,058,088		
Total Assets	\$ 216,367,401	\$ 19,144,439	\$ 235,511,840	\$ 211,441,769		

DEFERRED OUTFLOWS OF RESOURCES

Deferred Charge on Refunding	\$ 952,435	\$ 0	\$ 952,435	\$ 0
Pension Changes in Experience	0	0	0	450,382
Net Pension Changes in Investment Earnings	2,204,889	17,383	2,222,272	13,747,410
Pension Contributions After Measurement Date	1,719,175	13,351	1,732,526	7,228,428
Pension - Other Deferrals	0	0	0	1,144,215
Accumulated Decrease in Fair Value of Hedging Derivatives	51,399	0	51,399	0
Total Deferred Outflows of Resources	\$ 4,927,898	\$ 30,684	\$ 4,958,582	\$ 22,570,435

(Continued)

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

	Primary Government			Total	Component Unit
	Governmental Activities	Business-type Activities	School Department		
Accounts Payable	\$ 1,100,207	\$ 23,213	\$ 1,123,420	\$	44,319
Accrued Payroll	890,763	6,909	897,672		3,502
Accrued Interest Payable	118,852	0	118,852		0
Payroll Deductions Payable	336,425	990	337,415		0
Contracts Payable	0	0	0		3,327
Due to Component Units	161	280	441		0
Derivative - Interest Rate Swap	2,743,885	0	2,743,885		0
Other Current Liabilities	0	0	0		4,203,482
Customer Deposits Payable	0	22,004	22,004		0
Noncurrent Liabilities:					
Due Within One Year	8,115,023	0	8,115,023		0
Due in More Than One Year	111,002,316	0	111,002,316		35,892,968
Total Liabilities	\$ 124,307,632	\$ 53,396	\$ 124,861,028	\$	40,147,598

LIABILITIES

DEFERRED INFLOWS OF RESOURCES

Deferred Current Property Taxes	\$ 33,548,222	\$ 0	\$ 33,548,222	\$	34,648,163
Pension Changes in Experience	1,931,440	15,184	1,946,624		14,473,378
Pension - Other Deferrals	0	0	0		8,656
Accumulated Increase in Fair Value of Hedging Derivatives	8,052	0	8,052		0
Total Deferred Inflows of Resources	\$ 35,487,714	\$ 15,184	\$ 35,502,898	\$	49,130,197

(Continued)

Exhibit A

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

	Primary Government			Total	Component Unit	
	Governmental Activities		Business-type Activities			Sevier County School Department
<b>NET POSITION</b>						
Net Investment in Capital Assets						
Restricted for:						
General Government	83,127	0	0	83,127	0	
Administration of Justice	139,734	0	0	139,734	0	
Public Safety	103,221	0	0	103,221	0	
Other Operations	2,097,001	0	0	2,097,001	0	
Highways	5,928,875	0	0	5,928,875	0	
Education	0	0	0	0	741,223	
Debt Service	27,136,658	0	0	27,136,658	0	
Capital Outlay	596,533	0	0	596,533	9,056,544	
Pensions	2,900,562	22,802	0	2,923,364	2,799,303	
Unrestricted	(53,056,733)	1,083,330	(51,973,403)		8,528,903	
<b>Total Net Position</b>	<b>\$ 61,499,953</b>	<b>\$ 19,106,543</b>	<b>\$ 80,606,496</b>	<b>\$ 144,734,409</b>		

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

Exhibit B

Savvier County, Tennessee  
Statement of Activities  
For the Year Ended June 30, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position										Component Unit	
	Program Revenues			Charges for Services			Primary Government					
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total	Savvier County School Department		
<b>Primary Government:</b>												
<b>Governmental Activities:</b>												
General Government	\$ 13,646,906	\$ 2,398,582	\$ 0	\$ 0	\$ (11,198,264)	\$ 0	\$ (11,198,264)	\$ 0	\$ (11,198,264)	\$ 0	\$ 0	\$ 0
Finance	3,057,014	4,400,636	0	0	1,343,622	0	1,343,622	0	1,343,622	0	0	0
Administration of Justice	3,356,360	1,966,715	0	0	(1,249,494)	0	(1,249,494)	0	(1,249,494)	0	0	0
Public Safety	16,534,769	2,013,154	19,700	19,700	(13,748,103)	0	(13,748,103)	0	(13,748,103)	0	0	0
Public Health and Welfare	9,658,730	3,140,915	873,693	208,362	(5,435,760)	0	(5,435,760)	0	(5,435,760)	0	0	0
Social, Cultural, and Recreational Services	2,354,405	56,313	128,713	0	(2,169,379)	0	(2,169,379)	0	(2,169,379)	0	0	0
Agriculture and Natural Resources	431,726	0	0	0	(431,726)	0	(431,726)	0	(431,726)	0	0	0
Highways	13,659,087	150,893	3,701,595	0	(9,806,599)	0	(9,806,599)	0	(9,806,599)	0	0	0
Education	15,380,510	1,373,547	0	0	(14,006,963)	0	(14,006,963)	0	(14,006,963)	0	0	0
Interest on Long-term Debt	3,880,317	0	0	0	(3,880,317)	0	(3,880,317)	0	(3,880,317)	0	0	0
<b>Total Primary Government</b>	<b>\$ 81,959,824</b>	<b>\$ 15,490,755</b>	<b>\$ 5,658,024</b>	<b>\$ 228,062</b>	<b>\$ (60,582,983)</b>	<b>\$ 0</b>	<b>\$ (60,582,983)</b>	<b>\$ 0</b>	<b>\$ (60,582,983)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Business-type Activities:</b>												
Public Utility Fund	\$ 1,605,197	\$ 1,623,201	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 18,004	\$ 18,004	\$ 0	\$ 0	\$ 0
<b>Total Business-type Activities</b>	<b>\$ 1,605,197</b>	<b>\$ 1,623,201</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 18,004</b>	<b>\$ 18,004</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Total Primary Government</b>	<b>\$ 83,565,021</b>	<b>\$ 17,113,956</b>	<b>\$ 5,658,024</b>	<b>\$ 228,062</b>	<b>\$ (60,582,983)</b>	<b>\$ 18,004</b>	<b>\$ (60,582,983)</b>	<b>\$ 18,004</b>	<b>\$ (60,564,979)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Component Units:</b>												
Savvier County School Department	\$ 151,740,944	\$ 1,601,934	\$ 11,772,699	\$ 15,002,338	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (123,363,973)	\$ (123,363,973)
<b>Total Component Units</b>	<b>\$ 151,740,944</b>	<b>\$ 1,601,934</b>	<b>\$ 11,772,699</b>	<b>\$ 15,002,338</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ (123,363,973)</b>	<b>\$ (123,363,973)</b>

(Continued)

Exhibit B

Sevier County, Tennessee  
Statement of Activities (Cont.)

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Business-type Activities	Governmental Activities	Total	Sevier County School Department	
General Revenues:									
Taxes:									
Property Taxes Levied for General Purposes					\$ 20,094,010	\$ 0	\$ 20,094,010	\$	35,495,304
Property Taxes Levied for Special Purposes					1,123,451	0	1,123,451		0
Property Taxes Levied for Highways					6,936,380	0	6,936,380		0
Property Taxes Levied for Debt Service					5,994,988	0	5,994,988		0
Local Option Sales Taxes					4,866,394	0	4,866,394		56,130,144
Other Local Taxes					396,455	0	396,455		184,713
Hotels/Motel Tax					3,086,295	0	3,086,295		3,086,295
Business Tax					2,839,103	0	2,839,103		0
Mixed Drink Tax					30,263	0	30,263		583,843
Wholesale Beer Tax					357,539	0	357,539		0
Grants and Contributions Not Restricted to Specific Programs					9,414,877	0	9,414,877		47,783,966
Unrestricted Investment Income					846,845	0	846,845		3,554
Miscellaneous					88,890	0	88,890		100,889
Insurance Recovery					31,634	0	31,634		0
Total General Revenues					\$ 56,107,124	\$ 0	\$ 56,107,124	\$	143,318,708
Change in Fair Value of Derivatives - Interest Rate Swap					\$ 1,423,136	\$ 0	\$ 1,423,136	\$	0
Transfers					(41,781)	41,781	0		0
Change in Net Position					(3,094,504)	\$ 59,785	(3,034,719)	\$	19,954,735
Net Position, July 1, 2016					64,594,457	19,046,758	83,641,215		124,779,674
Net Position, June 30, 2017					\$ 61,499,953	\$ 19,106,543	\$ 80,606,496	\$	144,734,409

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

Exhibit C-1

Sevier County, Tennessee  
Balance Sheet  
Governmental Funds  
June 30, 2017

	Major Funds				Nonmajor Funds		Total Governmental Funds
	General	Highway/ Public Works	General Debt Service	General Capital Projects	Other	Governmental Funds	
\$	375	0	0	0	2,700	3,075	
Equity in Pooled Cash and Investments	24,398,841	5,269,841	26,988,048	4,369,293	872,492	61,898,515	
Accounts Receivable	3,284,392	0	107,487	0	5,228	3,397,057	
Allowance for Uncollectibles	(941,141)	0	0	0	0	(941,141)	
Due from Other Governments	1,754,580	825,027	0	51,656	648,511	3,279,774	
Due from Other Funds	6,399	0	0	0	204,477	210,876	
Property Taxes Receivable	20,726,390	7,100,708	6,141,153	0	1,151,467	35,119,718	
Allowance for Uncollectible Property Taxes	(987,354)	(192,704)	(114,772)	0	(21,520)	(656,350)	
Total Assets	\$ 48,842,482	\$ 13,062,872	\$ 33,121,866	\$ 4,420,949	\$ 2,963,355	\$ 102,311,524	

ASSETS

Cash	\$ 375
Equity in Pooled Cash and Investments	24,398,841
Accounts Receivable	3,284,392
Allowance for Uncollectibles	(941,141)
Due from Other Governments	1,754,580
Due from Other Funds	6,399
Property Taxes Receivable	20,726,390
Allowance for Uncollectible Property Taxes	(987,354)
Total Assets	\$ 48,842,482

LIABILITIES

Accounts Payable	\$ 150,874
Accrued Payroll	772,351
Payroll Deductions Payable	83,903
Due to Other Funds	13,139
Due to Component Units	204,477
Total Liabilities	\$ 1,446,463

DEFERRED INFLOWS OF RESOURCES

Accounts Payable	\$ 150,874	\$ 40,774	\$ 445,629
Accrued Payroll	772,351	34,509	890,763
Payroll Deductions Payable	83,903	4,686	336,425
Due to Other Funds	13,139	6,399	210,876
Due to Component Units	204,477	0	161
Total Liabilities	\$ 1,446,463	\$ 86,368	\$ 1,883,554
Deferred Current Property Taxes	\$ 19,798,950	\$ 0	\$ 33,548,222
Deferred Delinquent Property Taxes	421,513	1,099,942	714,231
Other Deferred/Unavailable Revenue	2,003,077	23,418	2,598,687
Total Deferred Inflows of Resources	\$ 22,223,540	\$ 1,423,360	\$ 36,801,140

(Continued)



Exhibit C-1

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

	Major Funds					Nonmajor Funds		Total Governmental Funds
	General	Highway / Public Works		General Debt Service	General Capital Projects	Other	Governmental Funds	
<b>Restricted:</b>								
Restricted for General Government	\$ 0	\$ 0	\$ 0	\$ 0	\$ 144,105	\$ 83,127	\$ 227,232	
Restricted for Administration of Justice	0	0	0	0	0	139,734	139,734	
Restricted for Public Safety	16,337	0	0	0	0	86,884	103,221	
Restricted for Public Health and Welfare	0	0	0	0	2,416,833	0	2,416,833	
Restricted for Other Operations	2,097,001	0	0	0	0	0	2,097,001	
Restricted for Highways/Public Works	0	5,548,857	0	0	0	0	5,548,857	
Restricted for Capital Outlay	0	0	0	0	1,711,942	573,115	2,285,057	
Restricted for Debt Service	0	0	0	27,130,618	0	0	27,130,618	
<b>Committed:</b>								
Committed for Public Health and Welfare	0	0	0	0	0	470,767	470,767	
Committed for Other Operations	250,000	0	0	0	0	0	250,000	
Committed for Capital Projects	0	0	0	0	148,069	0	148,069	
<b>Assigned:</b>								
Assigned for General Government	918,026	0	0	0	0	0	918,026	
Assigned for Finance	1,885	0	0	0	0	0	1,885	
Assigned for Administration of Justice	478	0	0	0	0	0	478	
Assigned for Public Safety	3,880	0	0	0	0	0	3,880	
Assigned for Public Health and Welfare	5,883	0	0	0	0	0	5,883	
Assigned for Social, Cultural, and Recreational Services	7,248	0	0	0	0	0	7,248	
Unassigned	21,871,741	0	0	0	0	0	21,871,741	
<b>Total Fund Balances</b>	<b>\$ 25,172,479</b>	<b>\$ 5,548,857</b>	<b>\$ 27,130,618</b>	<b>\$ 33,121,866</b>	<b>\$ 4,420,949</b>	<b>\$ 1,353,627</b>	<b>\$ 63,626,550</b>	
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 48,842,482</b>	<b>\$ 13,062,872</b>	<b>\$ 33,121,866</b>	<b>\$ 4,420,949</b>	<b>\$ 2,863,355</b>	<b>\$ 102,311,524</b>		

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

Exhibit C-2

Sevier County, Tennessee  
Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Position  
June 30, 2017

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)		\$	63,626,530
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Add: land	\$	6,339,092	
Add: construction in progress		542,910	
Add: infrastructure net of accumulated depreciation		59,154,584	
Add: buildings and improvements net of accumulated depreciation		38,724,191	
Add: other capital assets net of accumulated depreciation		<u>4,302,616</u>	109,063,393
(2) Internal service funds are used by management to charge the cost of workers' compensation, employee health, dental, and vision benefits to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.			1,648,220
(3) Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			
Less: other loans payable	\$	(66,571,687)	
Less: bonds payable		(48,679,257)	
Less: other postemployment benefits liability		(2,763,030)	
Add: deferred amount on refunding		952,435	
Less: accrued interest on bonds, notes, and other loans		(118,852)	
Less: fair value of investment-type derivative - interest rate swap		(2,743,885)	
Less: deferred inflow on derivative - accumulated increase in FV		(8,052)	
Add: deferred outflow on derivative - accumulated decrease in FV		51,399	
Less: other deferred revenue - premium on debt		<u>(1,103,365)</u>	(120,984,294)
(4) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:			
Add: deferred outflows related to pensions	\$	3,924,064	
Less: deferred inflows related to pensions		<u>(1,931,440)</u>	1,992,624
(5) Net pension assets of the agent plan are not current financial resources and therefore are not reported in the governmental funds.			2,900,562
(6) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.			<u>3,252,918</u>
Net position of governmental activities (Exhibit A)		\$	<u>61,499,953</u>

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

Exhibit C-3

Sevier County, Tennessee  
Statement of Revenues, Expenditures,  
 and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2017

	Major Funds					Nonmajor Funds		Total Governmental Funds
	General	Highway /	General		Other Governmental Funds	Total Governmental Funds		
		Public Works	Debt Service	Capital Projects				
<b>Revenues</b>								
Local Taxes	\$ 29,603,557	\$ 7,127,718	\$ 6,156,945	\$ 0	\$ 0	\$ 3,685,455	\$ 46,573,675	
Licenses and Permits	1,026,427	0	0	0	0	0	1,026,427	
Fines, Forfeitures, and Penalties	371,559	0	0	0	0	129,734	501,293	
Charges for Current Services	3,533,702	0	0	0	0	24,862	3,558,564	
Other Local Revenues	83,093	46,227	840,884	0	0	93,926	1,064,130	
Fees Received From County Officials	6,948,038	0	0	0	0	0	6,948,038	
State of Tennessee	3,570,933	3,523,032	0	0	0	130,967	7,224,932	
Federal Government	1,410,727	217,290	0	91,178	0	83,829	1,803,024	
Other Governments and Citizens Groups	795,137	147,897	6,546,791	0	0	0	7,489,825	
<b>Total Revenues</b>	<b>\$ 47,343,173</b>	<b>\$ 11,062,164</b>	<b>\$ 13,544,620</b>	<b>\$ 91,178</b>	<b>\$ 91,178</b>	<b>\$ 4,148,773</b>	<b>\$ 76,189,908</b>	
<b>Expenditures</b>								
Current:								
General Government	\$ 6,035,813	\$ 0	\$ 0	\$ 0	\$ 0	\$ 83,601	\$ 6,119,414	
Finance	3,140,639	0	0	0	0	37,408	3,178,047	
Administration of Justice	3,198,254	0	0	0	0	342,374	3,540,628	
Public Safety	16,587,718	0	0	0	0	304,746	16,892,464	
Public Health and Welfare	6,038,397	0	0	0	0	2,993,886	9,032,283	
Social, Cultural, and Recreational Services	1,810,100	0	0	0	0	0	1,810,100	
Agriculture and Natural Resources	439,865	0	0	0	0	0	439,865	
Other Operations	4,798,378	0	0	0	0	99,769	4,898,147	
Highways	296,186	8,498,239	0	0	0	0	8,794,425	
Debt Service:								
Principal on Debt	0	0	8,050,023	0	0	0	8,050,023	
Interest on Debt	0	0	3,792,213	0	0	0	3,792,213	
Other Debt Service	0	0	149,149	247,007	0	0	396,156	

(Continued)

Exhibit C-3

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

	Major Funds				Nonmajor Funds		Total Governmental Funds
	General	Highway / Public Works	General Debt Service	General Capital Projects	Other Governmental Funds		
<b>Expenditures (Cont.)</b>							
Capital Projects	\$ 1,849,728	\$ 0	\$ 0	\$ 14,637,235	\$ 0	\$ 0	\$ 16,486,963
Total Expenditures	\$ 44,195,078	\$ 8,498,239	\$ 11,991,385	\$ 14,884,242	\$ 3,861,734	\$ 3,861,734	\$ 83,430,678
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	\$ 3,148,095	\$ 2,563,925	\$ 1,553,235	\$ (14,793,064)	\$ 287,039	\$ (7,240,770)	
<b>Other Financing Sources (Uses)</b>							
Bonds Issued	\$ 0	\$ 0	\$ 0	\$ 14,230,000	\$ 0	\$ 0	\$ 14,230,000
Premiums on Debt Sold	0	0	0	364,357	0	0	364,357
Insurance Recovery	10,513	0	0	0	0	0	10,513
Transfers In	0	0	0	0	0	0	0
Transfers Out	(50,000)	0	0	0	0	50,000	50,000
Total Other Financing Sources (Uses)	\$ (39,487)	\$ 0	\$ 0	\$ 14,594,357	\$ 0	\$ 50,000	\$ 14,604,870
<b>Net Change in Fund Balances</b>	\$ 3,108,608	\$ 2,563,925	\$ 1,553,235	\$ (198,707)	\$ 337,039	\$ 337,039	\$ 7,364,100
<b>Fund Balance, July 1, 2016</b>	22,063,871	2,984,932	25,577,383	4,619,656	1,016,588	1,016,588	56,262,430
<b>Fund Balance, June 30, 2017</b>	\$ 25,172,479	\$ 5,548,857	\$ 27,130,618	\$ 4,420,949	\$ 1,353,627	\$ 1,353,627	\$ 63,626,530

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

Exhibit C-4

Sevier 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, 2017

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)		\$ 7,364,100	
(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:			
Add: capital assets purchased in the current period	\$ 5,211,030		
Less: current-year depreciation expense	<u>(12,326,879)</u>	(7,115,849)	
(2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.			
Less: assets donated to business-type activities	\$ (41,781)		
Add: assets donated and capitalized	21,121		
Less: book value of assets disposed	<u>(910)</u>	(21,570)	
(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, 2017	\$ 3,252,918		
Less: deferred delinquent property taxes and other deferred June 30, 2016	<u>(3,369,093)</u>	(116,175)	
(4) The issuance of long-term debt (e.g., bonds, notes, other loans) 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: change in premium on debt issuances	\$ (256,557)		
Add: principal payments on bonds	3,280,027		
Add: principal payments on capital outlay notes	200,000		
Add: principal payments on other loans	4,569,996		
Less: bond proceeds	<u>(14,230,000)</u>		
Less: change in deferred amount on refunding debt	<u>(185,663)</u>	(6,622,197)	

(Continued)

Exhibit C-4

Sevier County, Tennessee  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities (Cont.)

(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	\$	(10,241)	
Change in other postemployment benefits liability		(363,905)	
Change in net pension liability/asset		(1,363,160)	
Change in deferred outflows related to pensions		2,062,985	
Change in deferred inflows related to pensions		872,189	\$ 1,197,868
		<hr/>	
(6) Internal service funds are used by management to charge the cost of workers' compensation, employee health, dental, and vision benefits to individual funds. The net revenue (expense) of certain activities of the internal service funds is reported with governmental activities in the statement of activities.			796,183
(7) For interest rate swap agreements that are classified as investment derivatives, the change in fair market value is reflected in changes in net position for governmental activities.			
Change in fair value of derrivative	\$	1,543,770	
Change in deferred outflows related to derravitives		(112,582)	
Change in deferred inflows related to derravitives		(8,052)	1,423,136
		<hr/>	<hr/>
Change in net position of governmental activities (Exhibit B)			<u>\$ (3,094,504)</u>

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

Exhibit C-5

Sevier County, Tennessee  
Statement of Revenues, Expenditures, and Changes  
in Fund Balance - Actual (Budgetary Basis) and Budget  
General Fund  
For the Year Ended June 30, 2017

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2017	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<b>Revenues</b>						
Local Taxes	\$ 29,603,557	\$ 0	\$ 29,603,557	\$ 27,797,619	\$ 29,074,919	\$ 528,638
Licenses and Permits	1,026,427	0	1,026,427	585,000	585,000	441,427
Fines, Forfeitures, and Penalties	371,559	0	371,559	360,925	360,925	10,634
Charges for Current Services	3,533,702	0	3,533,702	3,912,750	3,912,750	(379,048)
Other Local Revenues	83,093	0	83,093	280,687	300,277	(217,184)
Fees Received From County Officials	6,948,038	0	6,948,038	6,240,000	6,240,000	708,038
State of Tennessee	3,570,933	0	3,570,933	3,425,160	3,425,985	144,998
Federal Government	1,410,727	0	1,410,727	921,378	1,051,778	358,949
Other Governments and Citizens Groups	795,137	0	795,137	662,740	662,740	132,397
<b>Total Revenues</b>	<b>\$ 47,343,173</b>	<b>\$ 0</b>	<b>\$ 47,343,173</b>	<b>\$ 44,126,259</b>	<b>\$ 45,614,324</b>	<b>\$ 1,728,849</b>

<b>Expenditures</b>						
<b>General Government</b>						
County Commission	\$ 469,102	\$ 0	\$ 469,102	\$ 598,022	\$ 598,022	\$ 128,920
Beer Board	5,360	0	5,360	11,500	15,000	9,640
Other Boards and Committees	715,210	100	715,310	787,194	787,194	71,884
County Mayor/Executive	794,077	450	794,527	894,603	894,603	100,076
Election Commission	658,894	0	658,894	715,495	715,495	56,601
Register of Deeds	593,859	0	593,859	607,984	607,984	14,125
Planning	310,119	76	310,195	305,892	342,892	32,697
Building	181,137	660	181,797	192,456	193,206	11,409
Geographical Information Systems	129,169	0	129,169	130,147	130,147	978
County Buildings	1,149,849	272	1,150,121	1,221,464	1,221,464	71,343
Other Facilities	315,290	0	315,290	294,750	324,750	9,460
Other General Administration	509,240	5,813	515,053	489,863	530,113	15,060
Preservation of Records	204,507	0	204,507	216,153	216,153	11,646

(Continued)

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2017	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
				Original	Final	
<b>Expenditures (Cont.)</b>						
<b>Finance</b>						
Property Assessor's Office	\$ 1,150,799	\$ 1,623	\$ 1,152,422	\$ 1,232,106	\$ 1,232,106	\$ 79,684
County Trustee's Office	628,343	0	628,343	630,877	637,327	8,984
County Clerk's Office	1,129,513	150	1,129,663	1,206,256	1,206,506	76,843
Data Processing	231,984	112	232,096	235,559	235,559	3,463
<b>Administration of Justice</b>						
Circuit Court	951,357	283	951,640	1,017,608	1,017,608	65,968
General Sessions Court	783,378	0	783,378	791,802	791,802	8,424
General Sessions Judge	516,616	158	516,774	574,038	574,038	57,264
Drug Court	0	0	0	50,000	0	0
Chancery Court	422,118	0	422,118	433,859	433,859	11,741
Juvenile Court	124,118	37	124,155	144,558	144,558	20,403
District Attorney General	103,685	0	103,685	68,039	127,039	23,354
Judicial Commissioners	267,785	0	267,785	297,266	297,266	29,481
Other Administration of Justice	0	0	0	185,272	185,272	185,272
Victim Assistance Programs	29,197	0	29,197	60,592	60,592	31,395
<b>Public Safety</b>						
Sheriff's Department	6,693,361	0	6,693,361	6,816,921	6,821,921	128,560
Drug Enforcement	244,785	0	244,785	285,813	285,813	41,028
Jail	6,916,719	3,264	6,919,983	6,479,181	7,079,181	159,198
Juvenile Services	372,198	17	372,215	388,853	388,853	16,638
Fire Prevention and Control	989,250	0	989,250	989,250	989,250	0
Civil Defense	4,000	0	4,000	4,000	4,000	0
Rescue Squad	51,750	0	51,750	48,750	51,750	0
Other Emergency Management	300,194	0	300,194	142,010	313,010	12,816
County Coroner/Medical Examiner	233,984	0	233,984	135,072	235,072	1,088

(Continued)



Exhibit C-6

Sevier County, Tennessee  
Statement of Revenues, Expenditures, and Changes  
in Fund Balance - Actual and Budget  
Highway/Public Works Fund  
For the Year Ended June 30, 2017

	Actual	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
		Original	Final	
<b>Revenues</b>				
Local Taxes	\$ 7,127,718	\$ 6,942,802	\$ 7,170,802	\$ (43,084)
Other Local Revenues	46,227	79,000	79,000	(32,773)
State of Tennessee	3,523,032	4,545,788	4,583,269	(1,060,237)
Federal Government	217,290	0	379,464	(162,174)
Other Governments and Citizens Groups	147,897	100,000	100,000	47,897
<b>Total Revenues</b>	<b>\$ 11,062,164</b>	<b>\$ 11,667,590</b>	<b>\$ 12,312,535</b>	<b>\$ (1,250,371)</b>
<b>Expenditures</b>				
<u>Highways</u>				
Administration	\$ 278,042	\$ 287,530	\$ 289,521	\$ 11,479
Highway and Bridge Maintenance	5,940,550	6,903,963	8,514,207	2,573,657
Operation and Maintenance of Equipment	1,157,118	1,294,964	1,327,674	170,556
Quarry Operations	154,944	252,799	252,799	97,855
Other Charges	346,593	390,160	390,160	43,567
Employee Benefits	97,250	140,000	140,000	42,750
Capital Outlay	523,742	2,398,174	2,398,174	1,874,432
<b>Total Expenditures</b>	<b>\$ 8,498,239</b>	<b>\$ 11,667,590</b>	<b>\$ 13,312,535</b>	<b>\$ 4,814,296</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>\$ 2,563,925</b>	<b>\$ 0</b>	<b>\$ (1,000,000)</b>	<b>\$ 3,563,925</b>
<b>Net Change in Fund Balance</b>	<b>\$ 2,563,925</b>	<b>\$ 0</b>	<b>\$ (1,000,000)</b>	<b>\$ 3,563,925</b>
<b>Fund Balance, July 1, 2016</b>	<b>2,984,932</b>	<b>2,977,229</b>	<b>2,977,229</b>	<b>7,703</b>
<b>Fund Balance, June 30, 2017</b>	<b>\$ 5,548,857</b>	<b>\$ 2,977,229</b>	<b>\$ 1,977,229</b>	<b>\$ 3,571,628</b>

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

Exhibit D-1

Sevier County, Tennessee  
Statement of Net Position  
Proprietary Funds  
June 30, 2017

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Public Utility Fund</u>	<u>Internal Service Funds</u>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash	\$ 200	\$ 2,302,798
Equity in Pooled Cash and Investments	999,594	0
Accounts Receivable	127,212	0
Allowance for Uncollectibles	(5,780)	0
Total Current Assets	<u>\$ 1,121,226</u>	<u>\$ 2,302,798</u>
Noncurrent Assets:		
Net Pension Asset	\$ 22,802	\$ 0
Capital Assets:		
Assets Not Depreciated:		
Construction in Progress	1,251,093	0
Assets Net of Accumulated Depreciation:		
Infrastructure	16,472,554	0
Other Capital Assets	276,764	0
Total Noncurrent Assets	<u>\$ 18,023,213</u>	<u>\$ 0</u>
Total Assets	<u>\$ 19,144,439</u>	<u>\$ 2,302,798</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Deferred Outflows of Resources:		
Pension Changes in Investment Earnings	\$ 17,333	\$ 0
Pension Contributions After Measurement Date	13,351	0
Total Deferred Outflows of Resources	<u>\$ 30,684</u>	<u>\$ 0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 19,175,123</u>	<u>\$ 2,302,798</u>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts Payable	\$ 23,213	\$ 654,578
Accrued Payroll	6,909	0
Payroll Deductions Payable	990	0
Due to Component Units	280	0
Customer Deposits Payable	22,004	0
Total Current Liabilities	<u>\$ 53,396</u>	<u>\$ 654,578</u>
Total Liabilities	<u>\$ 53,396</u>	<u>\$ 654,578</u>

(Continued)

Exhibit D-1

Sevier County, Tennessee  
Statement of Net Position  
Proprietary Funds (Cont.)

	<u>Business-type Activities - Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Public Utility Fund</u>	<u>Internal Service Funds</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Deferred Inflows of Resources:		
Pension Changes in Experience	\$ 15,184	\$ 0
Total Deferred Inflows of Resources	<u>\$ 15,184</u>	<u>\$ 0</u>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	\$ 18,000,411	\$ 0
Restricted for Pensions	22,802	0
Unrestricted	<u>1,083,330</u>	<u>1,648,220</u>
Total Net Position	<u>\$ 19,106,543</u>	<u>\$ 1,648,220</u>

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

Exhibit D-2

Sevier County, Tennessee  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds  
For the Year Ended June 30, 2017

	<u>Business-type</u>	
	<u>Activities</u>	
	<u>Major</u>	<u>Governmental</u>
	<u>Enterprise</u>	<u>Activities</u>
	<u>Fund</u>	<u>Internal</u>
	<u>Public Utility</u>	<u>Service Funds</u>
	<u>Fund</u>	
<b><u>Operating Revenues</u></b>		
Self-Insurance Premiums	\$ 0	\$ 8,320,722
Patient Charges	0	209,413
Water Sales	1,533,713	0
Water Tap Sales	78,075	0
Service Charges	11,413	0
<b>Total Operating Revenues</b>	<b>\$ 1,623,201</b>	<b>\$ 8,530,135</b>
<b><u>Operating Expenses</u></b>		
Handling Charges and Administrative Costs	\$ 0	\$ 601,119
Employee and Dependent Insurance	0	139,992
Disability and Life Insurance	0	199,254
Excess Risk Insurance	0	665,008
Medical Claims	0	3,738,550
Other Self-Insured Claims	0	2,390,044
Supervisor/Director	63,150	0
Secretary(ies)	27,546	0
Longevity	1,250	0
Other Salaries and Wages	75,108	0
Social Security	9,824	0
Employee and Dependent Insurance	31,020	0
Employer Medicare	2,297	0
Bank Charges	0	493
Communication	3,934	0
Consultants	12,193	0
Contracts with Government Agencies	12,046	0
Contracts with Other Public Agencies	712,385	0
Dues and Memberships	1,670	0
Maintenance and Repair Services - Equipment	81,065	0
Postal Charges	7,800	0
Travel	3,304	0
Other Contracted Services	5,012	0
Electricity	35,079	0
Gasoline	5,205	0
Office Supplies	6,897	0
Pipe	40,577	0
Uniforms	1,987	0
Water and Sewer	168	0
Other Supplies and Materials	49,563	5,453
Liability Insurance	2,100	0
Refunds	1,723	0
Trustee's Commission	16,123	0
Vehicle and Equipment Insurance	1,200	0
Depreciation	356,021	0
Other Capital Outlay	38,950	0
<b>Total Operating Expenses</b>	<b>\$ 1,605,197</b>	<b>\$ 7,739,913</b>
<b>Operating Income (Loss)</b>	<b>\$ 18,004</b>	<b>\$ 790,222</b>

(Continued)

Exhibit D-2

Sevier County, Tennessee  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Funds (Cont.)

	<u>Business-type Activities</u>	
	<u>Major Enterprise Fund</u>	<u>Governmental Activities</u>
	<u>Public Utility Fund</u>	<u>Internal Service Funds</u>
<u>Nonoperating Revenues (Expenses)</u>		
Investment Income	\$ 0	\$ 5,961
Total Nonoperating Revenues (Expenses)	<u>\$ 0</u>	<u>\$ 5,961</u>
Income (Loss) Before Transfers and Contributions	\$ 18,004	\$ 796,183
Capital Contributions - Primary Government	<u>41,781</u>	<u>0</u>
Change in Net Position	\$ 59,785	\$ 796,183
Net Position, July 1, 2016	<u>19,046,758</u>	<u>852,037</u>
Net Position, June 30, 2017	<u>\$ 19,106,543</u>	<u>\$ 1,648,220</u>

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

Exhibit D-3

Sevier County, Tennessee  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2017

	<u>Business-type</u> <u>Activities</u>	
	<u>Major</u> <u>Enterprise</u> <u>Fund</u>	<u>Governmental</u> <u>Activities</u>
	<u>Public Utility</u> <u>Fund</u>	<u>Internal</u> <u>Service Funds</u>
<u>Cash Flows from Operating Activities</u>		
Receipts for Self-Insurance Premiums	\$ 0	\$ 8,320,722
Receipts for Patient Charges	0	209,413
Receipts from Customers and Users	1,632,708	0
Payments to Insurers	0	(1,004,747)
Payments for Claims	0	(6,272,514)
Payments for Administrative Costs	0	(606,572)
Payments to Vendors	(1,053,019)	0
Payments to Employees	(223,342)	0
Net Cash Provided By (Used In) Operating Activities	<u>\$ 356,347</u>	<u>\$ 646,302</u>
<u>Cash Flows from Capital and Related Financing Activities</u>		
Purchases of Capital Assets not Expended	\$ (5,271)	\$ 0
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>\$ (5,271)</u>	<u>\$ 0</u>
<u>Cash Flows from Investing Activities</u>		
Interest on Investments	\$ 0	\$ 5,961
Net Cash Provided By (Used In) Investing Activities	<u>\$ 0</u>	<u>\$ 5,961</u>
Increase (Decrease) in Cash	\$ 351,076	\$ 652,263
Cash, July 1, 2016	<u>648,718</u>	<u>1,650,535</u>
Cash, June 30, 2017	<u>\$ 999,794</u>	<u>\$ 2,302,798</u>
<u>Reconciliation of Net Operating Income (Loss)</u>		
<u>to Net Cash Provided By (Used In) Operating Activities</u>		
Operating Income (Loss)	\$ 18,004	\$ 790,222
Adjustments to Reconcile Net Operating Income (Loss)		
to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	356,021	0
Changes in Net Pension Asset/Liability	8,119	0
Changes in Deferred Outflows for Pensions	(15,961)	0
Changes in Deferred Inflows for Pensions	(5,149)	0
Changes in Current Assets and Liabilities:		
(Increase) Decrease in Current Receivables	(13,547)	0
Increase (Decrease) in Allowance for Uncollectibles	615	0
(Increase) Decrease in due from other funds (excluding transfers)	435	0
Increase (Decrease) in Accounts Payable	(14,039)	(143,920)
Increase (Decrease) in Accrued Payroll	169	0
Increase (Decrease) in Payroll Deductions	(41)	0
Increase (Decrease) in Due to Other Funds/Component Units	(283)	0
Increase (Decrease) in Customer Deposits Payable	22,004	0
Net Cash Provided By (Used In) Operating Activities	<u>\$ 356,347</u>	<u>\$ 646,302</u>
<u>Noncash Investing, Capital, and Financing Activities</u>		
Contribution of Capital Assets from Government	\$ 41,781	\$ 0

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

Exhibit E

Sevier County, Tennessee  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2017

	<u>Agency Funds</u>
<b><u>ASSETS</u></b>	
Cash	\$ 3,903,248
Equity in Pooled Cash and Investments	220,978
Accounts Receivable	46,227
Due from Other Governments	<u>7,806,314</u>
Total Assets	<u>\$ 11,976,767</u>
<b><u>LIABILITIES</u></b>	
Due to Other Taxing Units	\$ 7,806,314
Due to Litigants, Heirs, and Others	4,005,046
Due to Joint Ventures	<u>165,407</u>
Total Liabilities	<u>\$ 11,976,767</u>

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

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**SEVIER COUNTY, TENNESSEE**  
**Index of Notes to the Financial Statements**

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**SEVIER COUNTY, TENNESSEE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Sevier 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 Sevier County:

**A. Reporting Entity**

Sevier County is a public municipal corporation governed by an elected 25-member board. As required by GAAP, these financial statements present Sevier County (the primary government) and its component units. Although required by GAAP, the financial statements of the Sevier County Emergency Communications District, the Sevier County Public Building Authority, and the Sevier County Fair Association, component units requiring discrete presentation, were excluded from this report due to materiality calculations; therefore, the effect of their omission did not affect the independent auditor's opinion thereon. 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 Sevier County School Department operates the public school system in the county, and the voters of Sevier 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 Sevier County Emergency Communications District provides a simplified means of securing emergency services through a uniform emergency number for the residents of Sevier County, and the Sevier 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 financial statements of the Sevier County Emergency Communications District were not material to the component units' opinion unit and therefore have been omitted from this report.

The Sevier County Public Building Authority serves primarily as a financing mechanism to provide capital loans to local governments throughout the state. The Authority also holds title to certain development properties within Sevier County. The authority is a public nonprofit organization whose board is appointed by the county commission. The county is entitled to net earnings of the authority after provisions have been made for obligations and any reserves, which are determined by the board. The financial statements of the Sevier County Public Building Authority were not material to the component units' opinion unit and therefore have been omitted from the report.

The Sevier County Fair Association oversees the planning and operation of the annual Sevier County Fair, as well as, other events at the fairgrounds, and the Sevier County Commission appoints its governing body. The fair association is funded primarily through revenues collected for the use of the fairgrounds. Sevier County also makes annual contributions to the fair association. The financial statements of the Sevier County Fair Association were not material to the component units' opinion unit and therefore have been omitted from this report.

The Sevier 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 Sevier County Emergency Communications District, the Sevier County Public Building Authority, and the Sevier County Fair Association can be obtained from their respective administrative offices at the following addresses:

Administrative Offices:

Sevier County Emergency Communications District  
245 Bruce Street  
Sevierville, TN 37862

Sevier County Public Building Authority  
248 Bruce Street  
Sevierville, TN 37862

Sevier County Fair Association  
P.O. Box 4066  
Sevierville, TN 37864

**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 Sevier 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.

Sevier County issues all debt for the discretely presented Sevier County School Department. Net Debt proceeds totaling \$14,347,350 were contributed by the county to the School Department during the year ended June 30, 2017.

Separate financial statements are provided for governmental funds, proprietary funds (internal service and enterprise), and fiduciary funds. The internal service funds are reported with the governmental activities in the government-wide financial statements, and 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 proprietary funds and 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 Sevier 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 inflow 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. Sevier County reports four proprietary funds, an enterprise fund and three internal service funds.

Separate financial statements are provided for governmental funds, proprietary funds, 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 internal service funds and the fiduciary funds in total are reported in single columns by fund type.

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. Sevier 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 General Debt Service Fund 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 funds 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.

Sevier 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.

**General Debt Service Fund** – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**General Capital Projects Fund** – This fund accounts for and reports the financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Sevier County reports the following major proprietary fund:

**Public Utility Fund** – This fund is used to account for the operations of the county’s Water Department.

Additionally, Sevier County reports the following fund types:

**Internal Service Funds** – These funds, the Employee Insurance - Health, Employee Insurance - Dental and Vision, and Workers’ Compensation funds, are used to account for the county’s self-insured health, dental and vision, and workers’ compensation programs. Premiums charged to the various county funds and employee payroll deductions are placed in these funds for the payment of claims of county employees.

**Agency Funds** – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Sevier County, state grants and other restricted revenues held for the benefit of the Judicial District Drug Task Force, and restricted revenues held for the benefit of the Office of District Attorney General. 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 Sevier County School Department reports the following major governmental fund:

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

Additionally, the Sevier 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 four proprietary funds, an enterprise fund and three internal service funds used to account for the employees' health insurance, dental and vision insurance, and workers' compensation programs. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenues of the enterprise fund are water and tap sales. The principal operating revenues of the county's internal service funds are charges for services. Operating expenses for the internal service funds include administrative expenses and employee benefits. Operating expenses for the enterprise fund include salaries, benefits, depreciation, and other expenses of the Water Department.

**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 hand, demand deposits, and 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 Sevier 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 Debt Service Fund. Sevier 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 amortized cost using a stable net asset value. 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. All other investments are reported at fair value. 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 Service, Water Department, and property taxes receivables are shown with an allowance for uncollectibles. Ambulance and Water Department receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to 0.97 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 a 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 as a 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. The Other Current Liabilities account reflected in the discretely presented School Department's General Purpose School Fund represents the remaining balance in the retirement and teachers' insurance clearing accounts.

**3. 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 \$5,000 or more and an estimated useful life of more than two years. 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.

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20 - 60
Other Capital Assets	5 - 10
Infrastructure	20 - 60

**4. 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 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 items are for a deferred charge on refunding, pension changes in experience, pension changes in investment earnings, employer contributions made to the pension plan after the measurement date, other pension deferrals, and the accumulated decrease in fair value of hedging derivatives. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent 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 items are from the following sources: current and delinquent property taxes, pension changes in experience, other pension deferrals, the accumulated increase in fair value of hedging derivatives, and various receivables for revenues, which do not meet the availability criteria for governmental funds.

**5. Compensated Absences**

Vacation leave benefits for Sevier County employees granted through the primary government and the discretely presented Sevier County School Department do not vest or accumulate and must be used within the year or lost. Therefore, no accrual or recording is required. The granting of sick leave has no guaranteed payment attached and therefore is not required to be accrued or recorded.

**6. 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 other postemployment benefits, are recognized to the extent that the liabilities have matured (come due for payment) each period.

## **7. Net Position and Fund Balance**

In the government-wide financial statements and the proprietary funds 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, 2017, Sevier County had \$77,219,242 in outstanding debt for capital purposes for the discretely presented Sevier County School Department. The debt is a liability of Sevier County, but the capital assets acquired are reported in the financial statements of the School Department. Therefore, Sevier 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 except in the General Debt Service Fund. The General Debt Service Fund uses the least restrictive fund balance first. 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.

Restricted for Other Operations in the governmental activities of the primary government represents amounts restricted for tourism expenses.

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 authorized the finance director to make assignments for the general government. The Board of Education makes assignments for the School Department. Assigned fund balance in the primary government's General Fund consists of amounts assigned for encumbrances (\$72,400) and fund balance appropriated for use in the 2017-2018 budget (\$865,000). Assigned fund balance in the School Department's General Purpose School Fund consists primarily of amounts for encumbrances (\$1,003,550) and fund balance appropriated for use in the 2017-2018 year budget (\$6,645,542).

**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.

**E. Pension Plans**

**Primary Government**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Sevier County's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Sevier County's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

**Discretely Presented Sevier County School Department**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement Plan and the Teacher Legacy Pension Plan in the Tennessee Consolidated Retirement System, and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Retirement Plan and the Teacher Legacy Pension Plan. Investments are reported at fair value.

**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 Sevier County School Department**

Exhibit K-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 Sevier County School Department**

Exhibit K-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, Beer Board, Other Boards and Committees, County Mayor, 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, 2017, the Sevier County School Department reported the following significant encumbrances:

Fund	Description	Amount
General Purpose School	School Buses	\$ 471,331
"	Various capital improvements	8,012,822

**B. Cash Shortage – Prior and Current Years**

In 2009-10 fiscal year, a \$94,645 cash shortage was reported in the Office of County Clerk, which the clerk (Joe Keener, II) subsequently repaid. On May 23, 2012, the court ordered Mr. Keener to pay \$14,019 to the county for the costs of additional audit services related to this theft. The outstanding balance for audit costs at June 30, 2016, was \$1,578.50. That outstanding balance was paid in full during the 2016-17 year.

**C. Expenditures Exceeded Appropriations**

Expenditures exceeded appropriations approved by the county commission in the Other General Government Projects major appropriations category (the legal level of control) of the General Fund by \$22,219, and in the Drug Enforcement major appropriations category (the legal level of control) of the Drug Control Fund by \$8,979. Expenditures that exceed appropriations are a violation of state statutes. These expenditures in excess of appropriations were funded by greater than anticipated revenues and available fund balance.

**D. The County Had Deposits Exposed to Custodial Credit Risk**

The Office of County Mayor did not require a depository holding county funds to pledge adequate securities to protect funds that exceeded Federal Deposit Insurance Corporation (FDIC) coverage. The June 30, 2017, deposits at the depository exceeded FDIC coverage and collateral securities pledged by \$209,998. Section 5-8-201, *Tennessee Code Annotated*, requires any bank that is a depository of county funds to deposit in an escrow account in a second bank collateral security equal to 105 percent of such county funds. Pledged collateral for the depository at June 30, 2017, was \$242,278 below the required 105 percent threshold.

#### IV. DETAILED NOTES ON ALL FUNDS

##### A. Deposits and Investments

Sevier County and the Sevier 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 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.

**Custodial Credit Risk.** Custodial credit risk is the risk that in the event of a bank failure, Sevier County's deposits may not be returned to it. Sevier County does not have a formal policy that limits custodial credit risk for deposits. As of June 30, 2017, bank balances of \$209,998 were uninsured and uncollateralized. This entire amount was in the non-pooled bank balance and is further discussed in Note III.D. Uninsured and uncollateralized deposits are a violation of state statute.

##### 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, 2017.

**B. Derivative Instruments**

At June 30, 2017, Sevier County had the following derivative instruments outstanding:

<u>Instrument</u>	<u>Type</u>	<u>Objective</u>	<u>Original Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>
\$3M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate	\$ 3,000,000	10-1-09	6-1-25	Pay 4.44% receive 63.4% of LIBOR
\$4M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate	4,000,000	10-1-09	6-1-20	Pay 4.24% receive 70% of LIBOR
\$13M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate	13,000,000	10-1-09	6-1-25	Pay 3.97% receive 67% of LIBOR
\$14.435M Swap	Pay fixed interest rate swap	Variable to synthetic fixed rate	14,435,000	10-1-09	6-1-25	Pay 4.38% receive 63.4% of LIBOR

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2017, classified by type, and the changes in fair value using a pay-fixed interest rate swap, receive a percentage of LIBOR pricing model (Level 2 inputs of the GAAP fair value hierarchy) of such derivative instruments for the year then ended, as reported in the 2017 financial statements, are as follows:



Type	Changes in Fair Value		Fair Value at June 30, 2017		6-30-17
	Classification	Amount	Classification	Amount	Notional Amount
<b>Governmental Activities</b>					
Pay-fixed interest rate swaps:					
<b>\$3M Hybrid Swap:</b>					
					\$ 3,000,000
Cash Flow Hedge Portion	Deferred Outflow	\$ 108,742	Debt	\$ (51,399)	
Non-hedge Portion	Investment Earnings	96,750	Debt	(437,218)	
<b>Total \$3M Hybrid Swap</b>		<u>\$ 205,492</u>		<u>\$ (488,617)</u>	
<b>\$4M Hybrid Swap:</b>					
					\$ 915,000
Cash Flow Hedge Portion	Deferred Inflow	\$ 11,892	Debt	\$ 8,052	
Non-hedge Portion	Investment Earnings	44,990	Debt	(61,657)	
<b>Total \$4M Hybrid Swap</b>		<u>\$ 56,882</u>		<u>\$ (53,605)</u>	
<b>\$13M Swap:</b>					
					\$ 13,000,000
Investment Derivative	Investment Earnings	\$ 801,908	Debt	\$ (1,595,668)	
<b>\$14.435M Swap:</b>					
					\$ 7,750,000
Investment Derivative	Investment Earnings	\$ 479,488	Debt	\$ (605,995)	
<b>Total</b>		<u>\$ 1,543,770</u>		<u>\$ (2,743,885)</u>	

In a prior year, Sevier County amended its variable rate debt instruments associated with the \$4M and \$3M swap agreements. As a result, the county recognized a termination of the original hedging relationships and recognized new hedging relationships between the swap agreements and the amended debt instruments. Investment earnings or losses have been recognized for the portion of the swaps' values that are not attributable to the current hedge relationship. Changes in the portion of the swaps' fair values that are attributable to the current hedging relationship are deferred since they meet the effectiveness criteria of Governmental Accounting Standards Board Statement No. 53.

### Derivative Swap Agreement Detail

#### \$3M Swap

The Public Building Authority of Sevier County, Tennessee, at the request of the county, has entered into an interest rate swap agreement under its Series IV-H-3 Loan Agreement.

**Objective of the interest rate swap.** To protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the county requested the authority, on its behalf, to enter into an interest rate swap in connection with its \$3 million Series IV-H-3 variable-rate bonds. The intention of the swap was to effectively change the county's variable interest rate on the bonds to a synthetic fixed rate. The Series IV-H-3 bonds have since been refunded with a portion of the proceeds of the Series VII-A-4 bonds, and the interest rate swap is now associated with the Series VII-A-4 bonds.

**Terms.** Under the swap, the authority pays the counterparty a fixed payment of 4.44 percent and receives a variable payment computed as 63.4 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$3 million, and the original associated variable-rate bonds had a \$3 million principal amount. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the Series VII-A-4 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (SIFMA). The swap agreement matures on June 1, 2025. As of June 30, 2017, rates were as follows:

	<u>Terms</u>	<u>Rate</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.440 %
Variable payment from counterparty	% of LIBOR	<u>-1.241</u>
Net interest rate swap payments		3.199 %
Variable-rate bond coupon payments		<u>1.347</u>
Synthetic interest rate on bonds		<u><u>4.546 %</u></u>

**Fair value.** As of June 30, 2017, the swap had a negative fair value of \$488,617. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

**Credit risk.** As of June 30, 2017, the county was not exposed to credit risk because the swap had a negative fair value. However, if interest rates change and the fair value of the swap becomes positive, the county would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products (MKFP) was rated "A+" by Standard and Poor's as of June 30, 2017, with its Credit Support Provider, Deutsche Bank, rated Baa2/A-/A- by Moody's, Standard and Poor's, and Fitch, respectively.

**Basis risk.** As noted above, the swap exposes the county to basis risk if the bond rate increases to above 63.4 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the bond rate being below 63.4 percent of LIBOR, then the synthetic rate on the bonds will decrease.

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

**Swap payments and associated debt.** As of June 30, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap	
	Principal	Interest	Payment	Total
2018	\$ 0	\$ 40,402	\$ 95,959	\$ 136,361
2019	0	40,402	95,959	136,361
2020	0	40,402	95,959	136,361
2021	530,000	40,402	95,959	666,361
2022	565,000	33,264	79,006	677,270
2023-2025	1,905,000	52,253	124,107	2,081,360
<b>Total</b>	<b>\$ 3,000,000</b>	<b>\$ 247,125</b>	<b>\$ 586,949</b>	<b>\$ 3,834,074</b>

**\$4M Swap**

The Public Building Authority of Sevier County, Tennessee, at the request of the county, has entered into an interest rate swap agreement under its Series IV-E-4 Loan Agreement.

**Objective of the interest rate swap.** To protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the county requested the authority, on its behalf, to enter into an interest rate swap in connection with its \$4 million Series IV-E-4 variable-rate bonds. The intention of the swap was to effectively change the county’s variable interest rate on the bonds to a synthetic fixed rate. The Series IV-E-4 bonds have since been refunded with a portion of the proceeds of the Series VII-A-4 bonds, and the interest rate swap is now associated with the Series VII-A-4 bonds.

**Terms.** Under the swap, the authority pays the counterparty a fixed payment of 4.24 percent and receives a variable payment computed as 70 percent of the three-month London Interbank Offered Rate (LIBOR). The swap had an

original notional amount of \$4 million, and the original associated variable-rate bonds had a \$4 million principal amount. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the Series VII-A-4 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (SIFMA). The swap agreement matures on June 1, 2020. As of June 30, 2017, rates were as follows:

	<u>Terms</u>	<u>Rate</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.240 %
Variable payment from counterparty	% of LIBOR	<u>-0.909</u>
Net interest rate swap payments		3.331 %
Variable-rate bond coupon payments		<u>1.347</u>
Synthetic interest rate on bonds		<u><u>4.678 %</u></u>

**Fair value.** As of June 30, 2017, the swap had a negative fair value of \$53,605. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

**Credit risk.** As of June 30, 2017, the county was not exposed to credit risk because the swap had a negative fair value. However, if interest rates change and the fair value of the swap becomes positive, the county would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products (MKFP) was rated "A+" by Standard and Poor's as of June 30, 2017, with its Credit Support Provider, Deutsche Bank, rated Baa2/A-/A- by Moody's, Standard and Poor's, and Fitch, respectively.

**Basis risk.** As noted above, the swap exposes the county to basis risk if the bond rate increases to above 70 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the bond rate being below 70 percent of LIBOR, then the synthetic rate on the bonds will decrease.

**Termination risk.** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate

bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the authority for a payment equal to the swap's fair value.

**Swap payments and associated debt.** As of June 30, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Net Interest Rate Swap	
	Principal	Interest	Payment	Total
2018	\$ 290,000	\$ 12,323	\$ 30,475	\$ 332,798
2019	305,000	8,417	20,816	334,233
2020	320,000	4,310	10,658	334,968
<b>Total</b>	<b>\$ 915,000</b>	<b>\$ 25,050</b>	<b>\$ 61,949</b>	<b>\$ 1,001,999</b>

### **\$13M Swap**

The Public Building Authority of Sevier County, Tennessee, at the request of the county, has entered into an interest rate swap agreement under its Series V-A-1 Loan Agreement.

**Objective of the interest rate swap.** To protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the county requested the authority, on its behalf, to enter into an interest rate swap in connection with its \$27.5 million Series V-A-1 variable-rate bonds. The intention of the swap was to effectively change the county's variable interest rate on the bonds to a synthetic fixed rate. The Series V-A-1 bonds have since been refunded with a portion of the proceeds of the Series VII-B-1 bonds, and the interest rate swap is now associated with the Series VII-B-1 bonds.

**Terms.** Under the swap, the authority pays the counterparty a fixed payment of 3.97 percent and receives a variable payment computed as 67 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$13 million, and the original associated variable-rate bonds had a \$13 million principal amount. At no time will the notional amount on the interest rate swap agreement exceed the outstanding principal of the Series VII-B-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (SIFMA). The swap agreement matures on June 1, 2025. As of June 30, 2017, rates were as follows:

	<u>Terms</u>	<u>Rate</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.970 %
Variable payment from counterparty	% of LIBOR	<u>-1.312</u>
Net interest rate swap payments		2.658 %
Variable-rate bond coupon payments		<u>0.930</u>
Synthetic interest rate on bonds		<u>3.588 %</u>

**Fair value.** As of June 30, 2017, the swap had a negative fair value of \$1,595,668. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

**Credit risk.** As of June 30, 2017, the county was not exposed to credit risk because the swap had a negative fair value. However, if interest rates change and the fair value of the swap becomes positive, the county would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products (MKFP) was rated "A+" by Standard and Poor's as of June 30, 2017, with its Credit Support Provider, Deutsche Bank, rated Baa2/A-/A- by Moody's, Standard and Poor's, and Fitch, respectively.

**Basis risk.** As noted above, the swap exposes the county to basis risk if the bond rate increases to above 67 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the bond rate being below 67 percent of LIBOR, then the synthetic rate on the bonds will decrease.

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

**Swap payments and associated debt.** As of June 30, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Net Interest	
	Principal	Interest	Rate Swap Payment	Total
	2018	\$ 0	\$ 120,900	\$ 345,558
2019	0	120,900	345,558	466,458
2020	1,850,000	120,900	345,558	2,316,458
2021	1,950,000	103,695	296,383	2,350,078
2022	2,100,000	85,560	244,549	2,430,109
2023-2025	7,100,000	134,385	384,101	7,618,486
<b>Total</b>	<b>\$ 13,000,000</b>	<b>\$ 686,340</b>	<b>\$ 1,961,707</b>	<b>\$ 15,648,047</b>

**\$14.435M Swap**

The Public Building Authority of Sevier County, Tennessee, at the request of the county, has entered into an interest rate swap agreement under its Series IV-A-2 Loan Agreement.

**Objective of the interest rate swap.** To protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the county requested the authority, on its behalf, to enter into an interest rate swap in connection with its \$14.435 million Series IV-A-2 variable-rate bonds. The intention of the swap was to effectively change the county's variable interest rate on the bonds to a synthetic fixed rate. The Series IV-A-2 bonds have since been refunded with a portion of the proceeds of the Series VII-B-1 bonds, and the interest rate swap is now associated with the Series VII-B-1 bonds.

**Terms.** Under the swap, the authority pays the counterparty a fixed payment of 4.38 percent and receives a variable payment computed as 63.4 percent of the five-year London Interbank Offered Rate (LIBOR). The swap had an original notional amount of \$14.435 million, and the original associated variable-rate bonds had a \$14.435 million principal amount. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series VII-B-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index™ (SIFMA). The swap agreement matures on June 1, 2025. As of June 30, 2017, rates were as follows:

	<u>Terms</u>	<u>Rate</u>
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.380 %
Variable payment from counterparty	% of LIBOR	<u>-1.241</u>
Net interest rate swap payments		3.139 %
Variable-rate bond coupon payments		<u>0.930</u>
Synthetic interest rate on bonds		<u>4.069 %</u>

**Fair value.** As of June 30, 2017, the swap had a negative fair value of \$605,995. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

**Credit risk.** As of June 30, 2017, the county was not exposed to credit risk because the swap had a negative fair value. However, if interest rates change and the fair value of the swap becomes positive, the county would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products (MKFP) was rated "A+" by Standard and Poor's as of June 30, 2017, with its Credit Support Provider, Deutsche Bank, rated Baa2/A-/A- by Moody's, Standard and Poor's, and Fitch, respectively.

**Basis risk.** As noted above, the swap exposes the county to basis risk if the bond rate increases to above 63.4 percent of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the bond rate being below 63.4 percent of LIBOR, then the synthetic rate on the bonds will decrease.

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

**Swap payments and associated debt.** As of June 30, 2017, debt service requirements of the variable-rate debt and net swap payments, assuming



Exhibit C-5

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2017	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive Negative
				Original	Final	
<b>Expenditures (Cont.)</b>						
<b>Public Safety (Cont.)</b>						
Other Public Safety	\$ 781,477	\$ 598	\$ 782,075	\$ 802,719	\$ 810,219	\$ 28,144
Public Health and Welfare						
Local Health Center	74,516	619	75,135	79,546	79,546	4,411
Rabies and Animal Control	110,500	0	110,500	155,500	155,500	45,000
Ambulance/Emergency Medical Services	4,403,195	4,665	4,407,860	4,633,276	4,633,276	225,416
Maternal and Child Health Services	789,929	0	789,929	864,863	864,863	74,934
Other Local Health Services	179,233	0	179,233	202,900	202,900	23,667
Appropriation to State	85,589	600	86,189	86,261	86,261	72
Other Local Welfare Services	81,522	0	81,522	32,000	84,400	2,878
Other Public Health and Welfare	313,913	0	313,913	326,941	326,941	13,028
<b>Social, Cultural, and Recreational Services</b>						
Senior Citizens Assistance	388,290	369	388,659	412,807	412,807	24,148
Libraries	1,340,837	6,879	1,347,716	1,386,994	1,391,994	44,278
Parks and Fair Boards	80,973	0	80,973	99,765	99,765	18,792
<b>Agriculture and Natural Resources</b>						
Agricultural Extension Service	254,961	0	254,961	256,199	257,049	2,088
Forest Service	1,000	0	1,000	1,000	1,000	0
Soil Conservation	48,988	0	48,988	49,013	49,263	275
Storm Water Management	134,916	0	134,916	184,293	184,293	49,377
<b>Other Operations</b>						
Tourism	1,399,446	0	1,399,446	1,500,000	1,500,500	101,054
Veterans' Services	126,432	44	126,476	127,739	127,739	1,263
Contributions to Other Agencies	305,500	0	305,500	270,441	320,441	14,941
Employee Benefits	738,749	0	738,749	601,588	778,588	39,839
Miscellaneous	2,228,251	620	2,228,871	2,242,980	2,318,755	89,884

(Continued)

Exhibit C-5

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

	Actual (GAAP Basis)	Add: Encumbrances 6/30/2017	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
				Original	Final	
<u>Expenditures (Cont.)</u>						
<u>Highways</u>						
Litter and Trash Collection	\$ 292,895	0	\$ 292,895	\$ 293,479	\$ 293,479	\$ 584
Other Charges	3,291	0	3,291	28,250	28,250	24,959
<u>Capital Projects</u>						
Other General Government Projects	1,849,728	44,991	1,894,719	1,504,500	1,872,500	(22,219)
Total Expenditures	\$ 44,195,078	\$ 72,400	\$ 44,267,478	\$ 44,826,259	\$ 46,569,734	\$ 2,302,256
<u>Excess (Deficiency) of Revenues Over Expenditures</u>	\$ 3,148,095	\$ (72,400)	\$ 3,075,695	\$ (700,000)	\$ (955,410)	\$ 4,031,105
<u>Other Financing Sources (Uses)</u>						
Insurance Recovery	\$ 10,513	0	10,513	0	0	10,513
Transfers Out	(50,000)	0	(50,000)	0	(50,000)	0
Total Other Financing Sources	\$ (39,487)	0	\$ (39,487)	0	\$ (50,000)	10,513
Net Change in Fund Balance Fund Balance, July 1, 2016	\$ 3,108,608	(72,400)	\$ 3,036,208	(700,000)	\$ (1,005,410)	\$ 4,041,618
Fund Balance, June 30, 2017	22,063,871	0	22,063,871	21,705,415	21,705,415	358,456
	\$ 25,172,479	(72,400)	\$ 25,100,079	\$ 21,005,415	\$ 20,700,005	\$ 4,400,074

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

current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

Year Ending June 30	Variable Rate Bonds		Net Interest	Total
	Principal	Interest	Rate Swap Payment	
2018	\$ 1,945,000	\$ 72,075	\$ 243,244	\$ 2,260,319
2019	2,055,000	53,987	182,197	2,291,184
2020	2,170,000	34,875	117,699	2,322,574
2021	285,000	14,694	49,590	349,284
2022	300,000	12,044	40,645	352,689
2023-2025	995,000	18,833	63,557	1,077,390
<b>Total</b>	<b>\$ 7,750,000</b>	<b>\$ 206,508</b>	<b>\$ 696,932</b>	<b>\$ 8,653,440</b>

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2017, was as follows:

## Primary Government

### Governmental Activities:

	Balance 7-1-16	Increases	Decreases	Transfers Out	Balance 6-30-17
<b>Capital Assets Not Depreciated:</b>					
Land	\$ 6,339,092	\$ 0	\$ 0	\$ 0	6,339,092
Construction in Progress	363,333	179,577	0	0	542,910
<b>Total Capital Assets Not Depreciated</b>	<b>\$ 6,702,425</b>	<b>\$ 179,577</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>6,882,002</b>
<b>Capital Assets Depreciated:</b>					
<b>Buildings and Improvements</b>	\$ 67,141,900	\$ 149,922	\$ 0	\$ 0	67,291,822
<b>Roads and Bridges</b>	177,903,353	3,973,206	0	(41,781)	181,834,778
<b>Other Capital Assets</b>	16,524,028	929,446	(441,975)	0	17,011,499
<b>Total Capital Assets Depreciated</b>	<b>\$ 261,569,281</b>	<b>\$ 5,052,574</b>	<b>\$ (441,975)</b>	<b>\$ (41,781)</b>	<b>\$ 266,138,099</b>
<b>Less Accumulated Depreciation For:</b>					
<b>Buildings and Improvements</b>	\$ 26,486,478	\$ 2,081,153	\$ 0	\$ 0	28,567,631
<b>Roads and Bridges</b>	113,737,252	8,942,942	0	0	122,680,194
<b>Other Capital Assets</b>	11,847,164	1,302,784	(441,065)	0	12,708,883
<b>Total Accumulated Depreciation</b>	<b>\$ 152,070,894</b>	<b>\$ 12,326,879</b>	<b>\$ (441,065)</b>	<b>\$ 0</b>	<b>\$ 163,956,708</b>
<b>Total Capital Assets Depreciated, Net</b>	<b>\$ 109,498,387</b>	<b>\$ (7,274,305)</b>	<b>\$ (910)</b>	<b>\$ (41,781)</b>	<b>\$ 102,181,391</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 116,200,812</b>	<b>\$ (7,094,728)</b>	<b>\$ (910)</b>	<b>\$ (41,781)</b>	<b>\$ 109,063,393</b>

Transfers Out represent capital assets transferred to business-type activities (enterprise fund) from governmental activities during the year.

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

**Governmental Activities:**

General Government	\$ 856,414
Finance	36,353
Administration of Justice	10,232
Public Safety	770,168
Public Health and Welfare	867,076
Social, Cultural, and Recreational Services	616,468
Agriculture and Natural Resources	9,466
Highways/Public Works	<u>9,160,702</u>
<b>Total Depreciation Expense - Governmental Activities</b>	<b><u>\$ 12,326,879</u></b>

**Business-Type Activities:**

	Balance 7-1-16	Transfers In	Increases	Balance 6-30-17
<b>Capital Assets Not Depreciated:</b>				
Construction in Progress	\$ 1,251,093	\$ 0	\$ 0	\$ 1,251,093
<b>Total Capital Assets Not Depreciated</b>	<b><u>\$ 1,251,093</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,251,093</u></b>
<b>Capital Assets Depreciated:</b>				
Infrastructure	\$ 19,589,945	\$ 41,781	\$ 0	\$ 19,631,726
Other Capital Assets	376,172	0	5,271	381,443
<b>Total Capital Assets Depreciated</b>	<b><u>\$ 19,966,117</u></b>	<b><u>\$ 41,781</u></b>	<b><u>\$ 5,271</u></b>	<b><u>\$ 20,013,169</u></b>
<b>Less Accumulated Depreciation For:</b>				
Infrastructure	\$ 2,831,804	\$ 0	\$ 327,368	\$ 3,159,172
Other Capital Assets	76,026	0	28,653	104,679
<b>Total Accumulated Depreciation</b>	<b><u>\$ 2,907,830</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 356,021</u></b>	<b><u>\$ 3,263,851</u></b>
<b>Total Capital Assets Depreciated, Net</b>	<b><u>\$ 17,058,287</u></b>	<b><u>\$ 41,781</u></b>	<b><u>\$ (350,750)</u></b>	<b><u>\$ 16,749,318</u></b>
<b>Governmental Activities Capital Assets, Net</b>	<b><u>\$ 18,309,380</u></b>	<b><u>\$ 41,781</u></b>	<b><u>\$ (350,750)</u></b>	<b><u>\$ 18,000,411</u></b>

There were no decreases in capital assets to report for the year.

Transfers In represent capital assets transferred from governmental activities to business-type activities during the year.

Depreciation expense totaling \$356,021 was charged to the Public Utility Fund.

**Discretely Presented Sevier County School Department**

**Governmental Activities:**

	Balance 7-1-16	Increases	Decreases	Balance 6-30-17
Capital Assets Not Depreciated:				
Land	\$ 16,953,565	\$ 623,371	\$ 0	\$ 17,576,936
Construction in Progress	587,230	6,780,344	(1,481,595)	5,885,979
<b>Total Capital Assets Not Depreciated</b>	<b>\$ 17,540,795</b>	<b>\$ 7,403,715</b>	<b>\$ (1,481,595)</b>	<b>\$ 23,462,915</b>
Capital Assets Depreciated:				
Buildings and Improvements	\$ 150,017,157	\$ 1,481,595	\$ 0	\$ 151,498,752
Infrastructure	11,221,318	32,847	0	11,254,165
Other Capital Assets	21,775,233	1,631,952	(613,255)	22,793,930
<b>Total Capital Assets Depreciated</b>	<b>\$ 183,013,708</b>	<b>\$ 3,146,394</b>	<b>\$ (613,255)</b>	<b>\$ 185,546,847</b>
Less Accumulated Depreciation For:				
Buildings and Improvements	\$ 59,958,152	\$ 3,417,799	\$ 0	\$ 63,375,951
Infrastructure	5,726,241	469,886	0	6,196,127
Other Capital Assets	14,910,770	1,531,733	(613,255)	15,829,248
<b>Total Accumulated Depreciation</b>	<b>\$ 80,595,163</b>	<b>\$ 5,419,418</b>	<b>\$ (613,255)</b>	<b>\$ 85,401,326</b>
<b>Total Capital Assets Depreciated, Net</b>	<b>\$ 102,418,545</b>	<b>\$ (2,273,024)</b>	<b>\$ 0</b>	<b>\$ 100,145,521</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 119,959,340</b>	<b>\$ 5,130,691</b>	<b>\$ (1,481,595)</b>	<b>\$ 123,608,436</b>

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

**Governmental Activities:**

Instruction	\$ 3,027,005
Support Services	2,296,044
Operation of Non-instructional Services	<u>96,369</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 5,419,418</u>

**D. Insurance Recoveries**

Program expenses of the discretely presented Sevier County School Department include \$1,903,693 in repair, restoration, and student relocation costs related to smoke damage to the Pi Beta Phi school building resulting from wildfires that ravaged Sevier County in November 2016. These expenses have been reported net of associated insurance recoveries of \$1,832,348.

**E. Construction Commitments**

At June 30, 2017, the General Capital Projects Fund had uncompleted construction contracts of approximately \$77,880 for water line projects. Funding has been provided for these future expenditures.

At June 30, 2017, the Sevier County School Department had uncompleted construction contracts of approximately \$7,922,137 for the construction of a new junior high school. Funding has been received for these future expenditures.

**F. Interfund Receivables, Payables, and Transfers**

The composition of interfund balances as of June 30, 2017, is as follows:

**Due to/from Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Primary Government:		
General	Nonmajor governmental	\$ 6,399
Nonmajor governmental	General	<u>204,477</u>
Total		<u>\$ 210,876</u>

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:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Component Unit:</b>		
School Department:	Primary Government:	
General Purpose School	General	\$ 161
"	Public Utility	280

**Interfund Transfers:**

Interfund transfers for the year ended June 30, 2017, consisted of the following amounts:

**Primary Government**

<u>Transfer Out</u>	<u>Transfer In</u> Nonmajor Governmental Funds	<u>Purpose</u>
General Fund	\$ 50,000	Operations of Drug Court

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.

**G. Operating Leases**

Sevier County and the City of Sevierville entered into an agreement with East Tennessee State University (ETSU) during the year. The county and city own land and a building on Red Bank Road that ETSU will lease in order to house a college campus in the county. This lease is for a duration of five years with the option to renew for an additional five years. Neither the city nor the county will receive lease payments for use of the building. The Public Building Authority (PBA) of Sevier County issued debt in order to renovate the property for ETSU. Therefore, the lease payments from ETSU will go directly to the PBA to pay off the debt used to finance the renovations. Once this debt has been paid off, the remaining lease payments will continue to be paid to the PBA for maintenance and additional renovations in the future.



## H. Long-term Obligations

### Primary Government

#### General Obligation Bonds, Notes, and Other Loans

Sevier County issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities for the primary government and the discretely presented School Department. In addition, general obligation bonds and other loans have been issued to refund other general obligation bonds and loans. 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, and other loans outstanding were issued for original terms of up to 21 years for bonds, and up to 24 years for other loans. The county had no outstanding capital outlay notes at June 30, 2017. 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, 2017, will be retired from the General Debt Service Fund.

General obligation bonds and other loans outstanding as of June 30, 2017, for governmental activities are as follows:

Type	Interest Rate	Final Maturity	Original Amount of Issue	Balance 6-30-17
General Obligation Bonds	.4 to 4.3 %	6-30-37	\$ 32,770,000	\$ 26,860,000
General Obligation Bonds - Refunding	.4 to 4.5	6-1-25	27,215,000	12,670,000
Qualified School Construction Bonds	4.84	8-1-27	14,504,000	9,149,257
Other Loans - Fixed Rate - Refunding	3.5 to 5	6-1-25	13,625,000	6,475,000
Other Loans - Variable Rate	Variable	6-1-32	21,450,000	21,350,000
Other Loans - Variable Rate - Refunding	Variable	6-1-32	49,395,000	38,255,000
Energy Efficient Schools Initiative Loan	0	5-1-22	1,000,000	491,687

Sevier County has entered into loan agreements with the Sevier County Public Building Authority (PBA). The loan agreements provide for the PBA to make funds available for loan to Sevier County on an as-needed basis to finance various capital projects for the county and the discretely presented School Department. In addition to interest, the county pays various other fees (trustee, letter of credit, debt remarketing, administrative, etc.) in connection with these loans. The following table summarizes the loan agreements outstanding at June 30, 2017, including interest rates and other loan fees:

Description	Original Amount of Loan Agreement	Outstanding Principal 6-30-17	Interest Type	Interest Rate as of 6-30-17	Other Fees on Variable Rate Debt
Series VII-A-4 (Refunding)(1)	\$ 6,900,000	\$ 3,915,000	Variable	1.24%	0.27%
Series VII-B-1 (Refunding)(2)	42,495,000	34,340,000	Variable	0.93	0.84
Series VII-B-1	21,450,000	21,350,000	Variable	0.93	0.84
Series V-F-1 (Refunding)	13,625,000	<u>6,475,000</u>	Fixed	3.5 - 5	N/A
Total		<u>\$ 66,080,000</u>			

(1) This issue refunded other issues for which outstanding interest rate swap agreements exist (Series IV-E-4 and Series IV-H-3).

(2) This issue refunded other issues for which outstanding interest rate swap agreements exist (Series IV-A-2 and Series V-A-1).

The annual requirements to amortize all general obligation bonds, and other loans outstanding as of June 30, 2017, including interest payments and other loan fees, are presented in the following tables.

Estimated interest payments and estimated other fees are included for the loan agreements. The Series VII-A-4 and VII-B-1 carry variable interest rates with the rates changing weekly or monthly. Interest payments included in the table for the variable rate issues are computed based on the rates in effect at June 30, 2017. Net interest rate swap payments, discussed in Note IV.B., are in addition to interest and other fee amounts reflected in the following tables.

Year Ending June 30	Bonds		
	Principal	Interest	Total
2018	\$ 3,350,027	\$ 1,693,292	\$ 5,043,319
2019	4,305,027	1,621,648	5,926,675
2020	3,095,027	1,553,648	4,648,675
2021	3,865,027	1,485,023	5,350,050
2022	3,995,027	1,409,848	5,404,875
2023-2027	16,909,122	6,066,712	22,975,834
2028-2032	8,580,000	1,335,851	9,915,851
2033-2037	4,580,000	378,050	4,958,050
Total	<u>\$ 48,679,257</u>	<u>\$ 15,544,072</u>	<u>\$ 64,223,329</u>

Year Ending June 30	Other Loans			
	Principal	Interest	Other Fees	Total
2018	\$ 4,764,996	\$ 965,163	\$ 478,367	\$ 6,208,526
2019	4,074,996	861,345	458,054	5,394,395
2020	5,219,996	732,417	436,776	6,389,189
2021	4,504,996	625,779	398,952	5,529,727
2022	4,681,703	571,308	370,515	5,623,526
2023-2027	22,750,000	1,764,572	1,350,150	25,864,722
2028-2032	20,575,000	593,572	536,129	21,704,701
<b>Total</b>	<b>\$ 66,571,687</b>	<b>\$ 6,114,156</b>	<b>\$ 4,028,943</b>	<b>\$ 76,714,786</b>

There is \$27,130,618 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita totaled \$542, based on the 2010 federal census. Total debt per capita, including bonds, other loans, and unamortized debt premiums totaled \$1,294, based on the 2010 federal census.

During the year, based on budgetary appropriations, the School Department remitted \$6,546,791 to the primary government's General Debt Service Fund to be applied to the retirement of debt issued for the benefit of the School Department.

#### Changes in Long-term Obligations

Long-term obligations activity for the year ended June 30, 2017, was as follows:

##### Governmental Activities:

	Bonds	Notes	Other Loans
Balance, July 1, 2016	\$ 37,729,284	\$ 200,000	\$ 71,141,683
Additions	14,230,000	0	0
Reductions	(3,280,027)	(200,000)	(4,569,996)
<b>Balance, June 30, 2017</b>	<b>\$ 48,679,257</b>	<b>\$ 0</b>	<b>\$ 66,571,687</b>
<b>Balance Due Within One Year</b>	<b>\$ 3,350,027</b>	<b>\$ 0</b>	<b>\$ 4,764,996</b>

Governmental Activities (Cont.):

	<u>Other Postemployment Benefits</u>
Balance, July 1, 2016	\$ 2,399,125
Additions	478,855
Reductions	<u>(114,950)</u>
Balance, June 30, 2017	<u>\$ 2,763,030</u>
Balance Due Within One Year	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2017	\$ 118,013,974
Less: Balance Due Within One Year	(8,115,023)
Add: Unamortized Premium on Debt	<u>1,103,365</u>
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 111,002,316</u>

Other postemployment benefits will be paid from the employing funds, primarily the General and Highway/Public Works funds.

Defeasance of Prior Debt

In prior years, Sevier 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 until their call date, at which time the bonds will be redeemed. Accordingly, the trust accounts and the defeased bonds are not included in the county's financial statements. At June 30, 2017, the following outstanding bonds are considered defeased:

	<u>Amount</u>
General Obligation Refunding Bonds, Series 2008	\$ 7,565,000
General Obligation Bonds, Series 2009	1,420,000

These outstanding bonds are callable on June 1, 2018.

**Discretely Presented Sevier County School Department**

**Changes in Long-term Obligations**

Long-term obligations activity for the discretely presented School Department for the year ended June 30, 2017, was as follows:

Governmental Activities:

	Other Postemployment Benefits	Teacher Legacy Plan - Net Pension Liability
Balance, July 1, 2016	\$ 23,092,024	\$ 652,286
Additions	5,210,951	26,832,204
Reductions	(2,872,535)	(17,021,962)
Balance, June 30, 2017	<u>\$ 25,430,440</u>	<u>\$ 10,462,528</u>
Balance Due Within One Year	<u>\$ 0</u>	<u>\$ 0</u>

Analysis of Noncurrent Liabilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2017	\$ 35,892,968
Less: Balance Due Within One Year	0
Noncurrent Liabilities - Due in More Than One Year - Exhibit A	<u>\$ 35,892,968</u>

Other postemployment benefits will be paid from the employing funds, primarily the General Purpose School, School Federal Projects, and Central Cafeteria funds.

**I. On-Behalf Payments**

**Discretely Presented Sevier County School Department**

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the Sevier 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, 2017, were \$328,116 and \$62,488, respectively. The School Department has recognized these on-behalf payments as revenues and expenditures in the General Purpose School Fund.

V. **OTHER INFORMATION**

A. **Risk Management**

The county has chosen to establish three self-insurance funds for risks associated with the employees' health, dental, and vision plans for the primary government, and risks associated with workers' compensation claims for both the primary government and the School Department. The self-insurance funds are accounted for as internal service funds where assets are set aside for claim settlements. The county retains the risk of loss to a limit of \$135,000 for each employee and approximately \$6,550,000 for all claims in any plan year for health coverage. The county also retains the risk of loss to a limit of \$500,000 per occurrence and approximately \$1,654,697 for all claims in any plan year for workers' compensation coverage. The county has obtained stop/loss commercial insurance policies to cover claims beyond these limits. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

All full-time employees of the primary government are eligible to participate in the health, dental, and vision programs. A premium charge is allocated to each fund that accounts for employees who are covered by the employee health insurance plan and/or the workers' compensation plan. This charge is based on actuarial estimates of the amounts needed to pay prior- and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$863,890 for health coverage, \$130,392 for dental and vision coverage and \$653,938 for workers' compensation coverage at June 30, 2017. Liabilities of these funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The self-insurance funds establish claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities include specific, incremental claim adjustment expenditures/expenses, if any. In addition, estimated recoveries, if any, on settled claims have been deducted from the liability for unpaid claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

**Employee Insurance - Health Fund**

		Beginning of Fiscal Year Liability	Current Year Claims and Estimates	Payments	Balance at Fiscal Year End
2015-2016	\$	495,212	\$ 6,346,933	\$ (6,145,734)	696,411
2016-2017		696,411	5,543,659	(5,664,964)	575,106

**Employee Insurance - Dental and Vision Fund**

	Beginning of Fiscal Year Liability	Current Year Claims and Estimates	Payments	Balance at Fiscal Year End
2015-2016	\$ 4,844	\$ 82,313	\$(69,695)	17,462
2016-2017	17,462	42,004	(45,466)	14,000

**Employee Insurance - Workers' Compensation Fund**

	Beginning of Fiscal Year Liability	Current Year Claims and Estimates	Payments	Balance at Fiscal Year End
2015-2016	\$ 63,328	\$ 550,498	\$(529,201)	84,625
2016-2017	84,625	542,931	(562,084)	65,472

The discretely presented Sevier County 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, *Tennessee Code Annotated (TCA)*, all local educational 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.

The county and the discretely presented School Department continue to carry commercial insurance for all other risks of loss, including general liability, property, and casualty. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. Accounting Changes**

Provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; Statement No. 77, *Tax Abatement Disclosures*; Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; Statement No. 80, *Blending Requirements for Certain Component Units*; and Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*, became effective for the year ended June 30, 2017.

GASB Statement No. 74, establishes accounting and reporting requirements for postemployment benefits other than pensions (other postemployment benefits or OPEB), which are included in the general purpose external financial reports of state and local governmental OPEB plans. This statement replaces GASB Statements No. 43 and No. 57. It also includes requirements for defined contribution OPEB plans that replace the requirements in statements No. 25, No. 43, and No. 50. The scope of this statement includes OPEB plans, both defined benefit and defined contribution, administered through trusts meeting the necessary criteria as well as reporting assets accumulated through OPEB plans that are not administered through trusts that meet the specified criteria.

GASB Statement No. 77, established reporting requirements for tax abatements. This standard requires the disclosure of information about the nature and magnitude of tax abatement agreements entered into by state and local governments that reduce the government's tax revenues.

GASB Statement No. 78, amends Statement No. 68 to exclude certain pensions provided to employees of state or local governments through a cost-sharing multiple-employer pension plans that are not state or local plans and meet specific other criteria. This statement establishes recognition, measurement, and reporting requirements criteria for these plans.

GASB Statement No. 80, amends the blending requirements of paragraph 53 of Statement No. 14. This standard adds additional blending criterion, which requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

GASB Statement No. 82 amends Statements No. 67, No. 68, and No. 73. This standard establishes covered payroll as the payroll on which contributions to a pension plan are based in the Required Supplementary Information. In addition, this standard clarifies that employer paid member contributions should be considered plan member contributions for purposes of applying Statement No. 67, and employee contributions for the purposes of applying Statement No. 68. This standard further states that an employer's expense and expenditures for employer paid member contributions should be recognized in the period for which the contribution is assessed and classified in the same manner that the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

### C. Contingent Liabilities

Sevier County is contingently liable for the Tennessee Department of Environment and Conservation's financial assurance requirements regarding landfill closure/postclosure care costs (\$1,467,291 at June 30, 2017). The county would be obligated for this amount in the event of default on closure/postclosure care costs by Sevier Solid Waste, Inc., a joint venture discussed in Note V.E.



earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

### Net Pension Liability (Asset)

Sevier County's net pension liability (asset) was measured as of June 30, 2016, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability as of the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25%
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expenses, Including Inflation
Cost of Living Adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study, adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimate of

arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage Long-term Expected Real Rate of Return	Percentage Target Allocations
U.S. Equity Developed Market	6.46 %	33 %
International Equity Emerging Market	6.26	17
International Equity Private Equity and Strategic Lending	6.40	5
U.S. Fixed Income Real Estate	4.61	8
Short-term Securities	0.98	29
	4.73	7
	0.00	1
<b>Total</b>		100 %

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current rate and that contributions from Sevier County will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total	Plan	Net
	Pension Liability (a)	Fiduciary Net Position (b)	Pension Liability (a)-(b)
Balance, July 1, 2015	\$ 113,273,538	\$ 121,275,482	\$ (8,001,944)
Changes for the year:			
Service Cost	\$ 3,328,622	\$ 0	\$ 3,328,622
Interest	8,613,091	0	8,613,091
Differences Between Expected and Actual Experience	(620,095)	0	(620,095)
Contributions-Employer	0	3,785,512	(3,785,512)
Contributions-Employees	0	1,998,862	(1,998,862)
Net Investment Income	0	3,242,578	(3,242,578)
Benefit Payments, Including Refunds of Employee Contributions	(3,521,901)	(3,521,901)	0
Administrative Expense	0	(101,968)	101,968
Other Changes	0	13,303	(13,303)
Net Changes	\$ 7,799,717	\$ 5,416,386	\$ 2,383,331
Balance, June 30, 2016	\$ 121,073,255	\$ 126,691,868	\$ (5,618,613)

### Allocation of Agent Plan Changes in the Net Pension Liability (Asset)

		Total	Plan	Net
		Pension	Fiduciary	Pension
		Liability	Net	Liability
			Position	(Asset)
Primary Government	52.03%	\$ 62,994,415	\$ 65,917,779	\$ (2,923,364)
School Department	47.97%	58,078,840	60,774,089	(2,695,249)
Total		\$ 121,073,255	\$ 126,691,868	\$ (5,618,613)

*Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents the net pension liability (asset) of Sevier County calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
<u>Sevier County</u>	6.5%	7.5%	8.5%

Net Pension Liability \$ 10,588,303 \$ (5,618,613) \$ (19,125,981)

**Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions**

*Pension Expense.* For the year ended June 30, 2017, Sevier County recognized pension expense of \$377,439.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* For the year ended June 30, 2017, Sevier County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 0	\$ 3,741,350
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	4,271,041	0
Contributions Subsequent to the Measurement Date of June 30, 2016 (1)	3,243,182	N/A
<b>Total</b>	<b>\$ 7,514,223</b>	<b>\$ 3,741,350</b>

- (1) The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2016," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

**Allocation of Agent Plan Deferred Outflows of Resources and  
Deferred Inflows of Resources**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Primary Government	\$ 3,954,749	\$ 1,946,624
School Department	3,559,474	1,794,726
<b>Total</b>	<b>\$ 7,514,223</b>	<b>\$ 3,741,350</b>

Amounts reported as deferred outflows of resources, with the exception of contributions subsequent to the measurement date, and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	\$ (476,898)
2019	(476,898)
2020	1,309,413
2021	277,419
2022	(103,349)
Thereafter	0

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

**Discretely Presented Sevier County School Department**

**Non-certified Employees**

**General Information About the Pension Plan**

*Plan Description.* As noted above under the primary government, employees of Sevier County and non-certified employees of the discretely presented Sevier County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprise 52.03 percent and the non-certified employees of the discretely presented School Department comprise 47.97 percent of the plan based on contribution data.

## Certified Employees

### Teacher Retirement Plan

#### **General Information About the Pension Plan**

*Plan Description.* Teachers of the Sevier County School Department with membership in the TCRS before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost-sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan is closed to new membership. Teachers with membership in the TCRS after June 30, 2014, are provided with pensions through a legally separate plan referred to as the Teacher Retirement Plan, a cost-sharing multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits Provided.* TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members are eligible to retire with an unreduced benefit at age 65 with five years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available to vested members at age 60 or pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. Members who leave employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLA, can be

The county is involved in several pending lawsuits. Based on letters from attorneys, management believes that the potential claims against the county not covered by insurance resulting from such litigation would not materially affect the county's financial statements.

**D. Change in Administration**

On November 30, 2016, Jettie Clabo left the Office of County Trustee and was succeeded by Greg Patterson.

**E. Joint Ventures**

Sevier Solid Waste, Inc., is a nonprofit organization created under the laws of the State of Tennessee to develop and implement a comprehensive program for collecting, transporting, disposing, and recycling solid waste generated within Sevier County and the cities of Gatlinburg, Pigeon Forge, and Sevierville. The corporation was formed in 1988 pursuant to a mutual interlocal cooperation agreement between each of the governmental entities. It is governed by a board of directors, which consists of one representative from each governmental unit. Sevier County has control over budgeting and financing the joint venture only to the extent of representation by the one board member appointed and is responsible for funding a pro-rata share of any deficits from operations. The corporation receives financial support from each of these four government entities that created it. These contributors pay a pro-rata share based on their percentage of total waste brought to the disposal facility during the previous year.

Sevier Water Board, Inc., is a nonprofit organization created under the laws of the State of Tennessee that was designed to carry out future planning and implementing of certain water-related functions within Sevier County and the cities of Gatlinburg, Pigeon Forge, Sevierville, and Pittman Center. The corporation was formed in 1995 pursuant to a mutual interlocal cooperation agreement between each of the governmental entities. It is governed by a board of directors, which consists of one representative from each governmental unit. Sevier County has control over budgeting and financing the joint venture only to the extent of representation by the one board member appointed and is responsible for funding a pro-rata share of any deficits from operations.

Sevier County and the City of Sevierville jointly constructed a baseball stadium, which they leased to a minor league baseball club. The Stadium Advisory Committee was created by an interlocal agreement between Sevier County and the City of Sevierville to oversee operations of the stadium facility and to report to the Sevier County Commission and the City of Sevierville Board of Mayor and Aldermen. The committee includes seven members nominated jointly by the county and city mayors who are appointed to four-year terms by both legislative bodies. Operations of the joint venture are split 70 percent (City of Sevierville) and 30 percent (Sevier County). The City of

Sevierville maintains financial transactions relating to the joint venture, and complete financial statements may be obtained from the City of Sevierville.

Sevier County and the City of Gatlinburg jointly constructed a youth sports complex, Rocky Top Sports World. The Youth Sports Complex Advisory Board/Authority was created by an interlocal agreement between Sevier County and the City of Gatlinburg to oversee operations of the sports facility and to report to the Sevier County Commission and the City of Gatlinburg Commission. The board includes seven members, which include from the county: the county mayor, the director of schools, and one member nominated by the county commission; and from the city: the city manager and three members nominated by the city commission. Sevier County contributed \$2,000,000 during the 2012-13 year and \$1,000,000 during both the 2015-16 year and the 2016-2017 year toward the construction. The county has also committed to making payments of \$1,000,000 per year toward the city's cost of construction for the next two years. Operations of the joint venture are split 70 percent (City of Gatlinburg) and 30 percent (Sevier County). The City of Gatlinburg maintains financial transactions relating to the joint venture, and complete financial statements may be obtained from the City of Gatlinburg.

The Fourth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Fourth Judicial District; Sevier, Cocke, Grainger, and Jefferson counties; and various cities within these counties. 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 participating law enforcement agencies within each judicial district. Sevier County made no contributions to the DTF for the year ended June 30, 2017, and does not have any equity interest in this joint venture.

The Sevier County Economic Development Council is a joint venture operated by Sevier County, the cities of Sevierville, Pigeon Forge, Gatlinburg, and various local private enterprises. The board is comprised of 12 members, two of whom represent Sevier County. The purpose is to coordinate the governmental and private sector activities in attracting businesses and industries to the Sevier County area. Sevier County contributed \$172,600 to the operations of the Economic Development Council for the 2016-17 year.

Complete financial statements for Sevier Solid Waste, Inc., Sevier Water Board, Inc., Fourth Judicial District Drug Task Force, and Sevier County Economic Development Council can be obtained from their administrative offices at the following addresses:



adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

*Contributions.* Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers are required to contribute five percent of their salary to the plan. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing TCRS, the employer contribution rate cannot be less than four percent, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions for the year ended June 30, 2017, to the Teacher Retirement Plan were \$285,247, which is four percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

#### **Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Liabilities (Assets).* At June 30, 2017, the Sevier County School Department reported an asset of \$104,055 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Sevier County School Department's proportion of the net pension asset was based on the Sevier County School Department's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016, the Sevier County School Department's proportion was .999536 percent. The proportion measured as of June 30, 2015, was .690934 percent.

*Pension Expense.* For the year ended June 30, 2017, the Sevier County School Department recognized pension expense of \$86,395.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* For the year ended June 30, 2017, the Sevier County School Department reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 10,082	\$ 11,997
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	17,037	0
Changed in proportion of Net Pension Liability (Asset)	0	8,656
LEA's Contributions Subsequent to the Measurement Date of June 30, 2016	285,247	N/A
<b>Total</b>	<b>\$ 312,366</b>	<b>\$ 20,653</b>

The Sevier County School Department's employer contributions of \$285,247, reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase of net pension asset in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	\$ 3,491
2019	3,491
2020	3,491
2021	2,678
2022	(972)
Thereafter	(5,712)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

*Actuarial Assumptions.* The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25%
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expenses, Including Inflation
Cost of Living Adjustment	2.5%

Mortality rates are customized based on the June 30, 2012, actuarial experience study and some included adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage Long-term Expected Real Rate of Return	Percentage Target Allocations
U.S. Equity Developed Market	6.46 %	33 %
International Equity Emerging Market	6.26	17
International Equity	6.40	5
Private Equity and Strategic Lending	4.61	8
U.S. Fixed Income	0.98	29
Real Estate	4.73	7
Short-term Securities	0.00	1
Total		100 %

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents the Sevier County School Department's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Sevier County School Department's proportionate share of the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

Administrative Offices:

Sevier Solid Waste, Inc.  
1826 Ridge Road  
P.O. Box 4520  
Sevierville, TN 37864

Sevier Water Board, Inc.  
125 Court Avenue, Suite 201E  
Sevierville, TN 37862

District Attorney General  
Fourth Judicial District  
125 Court Avenue, Suite 301  
Sevierville, TN 37862

Sevier County Economic Development Council  
321 Court Avenue  
Sevierville, TN 37864

**F. Retirement Commitments**

**1. Tennessee Consolidated Retirement System (TCRS)**

**Primary Government**

**General Information About the Pension Plan**

*Plan Description.* Employees of Sevier County and non-certified employees of the discretely presented Sevier County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The primary government employees comprised 52.03 percent and the non-certified employees of the discretely presented School Department comprised 47.97 percent of the plan based on contribution data. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits Provided.* TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the

member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available to vested members at age 55. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria.

Member and beneficiary annuitants are entitled to an automatic cost of living adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions plus any accumulated interest.

*Employees Covered by Benefit Terms.* At the measurement date of June 30, 2016, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries	
Currently Receiving Benefits	463
Inactive Employees Entitled to But Not Yet	
Receiving Benefits	651
Active Employees	1,363
 Total	 <u>2,477</u>

*Contributions.* Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute five percent of their salary. Sevier County elected to make employer contributions at a rate higher than the minimum rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2017, the employer contributions for Sevier County were \$3,243,182 based on a rate of eight percent of covered payroll. The minimum rate established by the Board of Trustees was 3.96 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Sevier County's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits

School Department's Proportionate Share of the Net Pension Liability (Asset)	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
------------------------------------------------------------------------------	---------------------	-------------------------------	---------------------

Net Pension Liability	\$ 49,136	\$ (104,055)	\$ (216,926)
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*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

### Teacher Legacy Pension Plan

#### General Information About the Pension Plan

*Plan Description.* Teachers of the Sevier County School Department with membership in the TCRS before July 1, 2014, are provided with pensions through the Teacher Legacy Pension Plan, a cost-sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under *Tennessee Code Annotated (TCA)*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits Provided.* TCA, Title 8, Chapters 34-37 establish the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available to vested members at age 55. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits is available under various eligibility criteria. Member and beneficiary annuitants are entitled to an automatic cost of living

adjustment (COLA) after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

*Contributions.* Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers are required to contribute five percent of their salaries. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. The TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by the Sevier County School Department for the year ended June 30, 2017, to the Teacher Legacy Pension Plan were \$5,432,525, which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

#### **Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension Liability (Assets).* At June 30, 2017, the Sevier County School Department reported a liability of \$10,462,528 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The Sevier County School Department's proportion of the net pension liability (asset) was based on the Sevier County School Department's long-term share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016, the Sevier County School Department's proportion was 1.674153 percent. The proportion measured at June 30, 2015, was 1.592362 percent.



*Pension Expense.* For the year ended June 30, 2017, the Sevier County School Department recognized pension expense of \$1,488,037.

*Deferred Outflows of Resources and Deferred Inflows of Resources.* For the year ended June 30, 2017, the Sevier County School Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 440,300	\$ 12,666,655
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	11,681,555	0
Changes in Proportion of Net Pension Liability (Asset)	1,144,215	0
LEA's Contributions Subsequent to the Measurement Date of June 30, 2016	5,432,525	N/A
<b>Total</b>	<b>\$ 18,698,595</b>	<b>\$ 12,666,655</b>

The Sevier County School Department's employer contributions of \$5,432,525 reported as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2018	\$ (1,702,674)
2019	(1,702,674)
2020	3,900,960
2021	805,154
2022	(701,350)
Thereafter	0

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

*Actuarial Assumptions.* The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary Increases	Graded Salary Ranges from 8.97% to 3.71% Based on Age, Including Inflation, Averaging 4.25%
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expenses, Including Inflation
Cost of Living Adjustment	2.5%

Mortality rates are customized based on the June 30, 2012, actuarial experience study and some included adjustments for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Percentage Long-term Expected Real Rate of Return	Percentage Target Allocations
U.S. Equity Developed Market	6.46 %	33 %
International Equity Emerging Market	6.26	17
International Equity	6.40	5
Private Equity and Strategic Lending	4.61	8
U.S. Fixed Income	0.98	29
Real Estate	4.73	7
Short-term Securities	0.00	1
<b>Total</b>		100 %

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

*Discount Rate.* The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current rate and that contributions from all the LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate.* The following presents the Sevier County School Department's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Sevier County School Department's proportionate share of the net pension liability (asset) would be if it was calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

School Department's Proportionate Share of the Net Pension Liability (Asset)	1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
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Net Pension Liability      \$ 57,451,543   \$ 10,462,528   \$ (28,461,052)

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

2. Deferred Compensation

Teachers hired after July 1, 2014, by the discretely presented Sevier County School Department are required to participate in a hybrid pension plan administered by the Tennessee Consolidated Retirement System. This hybrid pension plan requires that these teachers contribute five percent of their salaries into a deferred compensation plan managed by the hybrid plan pursuant to IRC Section 401(k). As part of their employment package, the Sevier County School Department has assumed all costs of funding this program on-behalf of the plan participants. The Section 401(k) plan assets remain the property of the participating teachers and are not presented in the accompanying financial statements. IRC Section 401(k), establishes participation, contribution, and withdrawal provisions for the plans. During the year, the Sevier County School Department contributed \$356,558 to the 401(k) portion of the hybrid pension plan on-behalf of the plan participants.

G. Other Postemployment Benefits (OPEB)

Primary Government

Sevier County participates in a self-insured postemployment benefits plan administered by Humana for medical benefits for retirees and their beneficiaries. For accounting purposes, the plan is a single-employer defined benefit OPEB plan. Benefits are established and amended by the county commission.

Sevier County also participates in the state-administered Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Section 8-27-701, *Tennessee Code Annotated*. The Medicare Supplement Plan is 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/article/fa-accfin-cafr>.

Funding Policy

The premium requirements of plan members are established and may be amended by the county commission. The plans are self-insured and financed on a pay-as-you-go basis. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The county develops its own contribution policy in terms of subsidizing active employees or retired employees' premiums. Eligible employees must be age 55 with 15 years of service or any age with 30 years of service until attainment of age 65 when they become eligible for Medicare. Retirees are required to pay between \$180 and \$202.50 per month for their insurance coverage depending on the plan they choose. The retiree's spouse is eligible for coverage until age 65, as long as the retiree is eligible for coverage or has reached age 65. The county also provides a partial subsidy to post-65 retirees based on years of service in the Medicare Supplement Plan. The employee must have at least 15 years of service and be a member in the state's retirement system to be eligible for the Medicare Supplement Plan. During the year ended June 30, 2017, the county contributed \$114,950 for postemployment benefits.

Annual OPEB Cost and Net OPEB Obligation

	Self-Insured Plan	Medicare Supplement Plan
ARC	\$ 319,000	\$ 163,000
Interest on the NOPEBO	57,000	36,192
Adjustment to the ARC	(60,000)	(36,337)
Annual OPEB cost	\$ 316,000	\$ 162,855
Amount of contribution	(113,000)	(1,950)
Increase/decrease in NOPEBO	\$ 203,000	\$ 160,905
Net OPEB obligation, 7-1-16	1,434,000	965,125
Net OPEB obligation, 6-30-17	\$ 1,637,000	\$ 1,126,030

Fiscal Year Ended	Plans	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6-30-15	Self-insured	\$ 317,000	46.1	% \$ 1,290,000
6-30-16	Self-insured	317,000	54.6	1,434,000
6-30-17	Self-insured	316,000	35.8	1,637,000
6-30-15	Medicare Supplement	57,776	3.4	809,197
6-30-16	Medicare Supplement	157,878	1.2	965,125
6-30-17	Medicare Supplement	162,855	1.2	1,126,030

### Funded Status and Funding Progress

The funded status of the plans as of the latest actuarial valuations was as follows:

### Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, for the Self-Insured Plan and July 1, 2015, for the Medicare Supplement Plan was as follows:

	Self-Insured Plan	Medicare Supplement Plan
Actuarial valuation date	7-1-16	7-1-15
Actuarial accrued liability (AAL)	\$ 3,161,000	\$ 1,532,000
Actuarial value of plan assets	\$ 0	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 3,161,000	\$ 1,532,000
Actuarial value of assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	\$ 20,552,000	N/A
UAAL as a % of covered payroll	15.4%	N/A

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, 2016, and July 1, 2015, actuarial valuations of the self-insured plan and the Medicare Supplement Plan, respectively, the projected unit credit actuarial cost method was used. The actuarial assumptions included a four percent investment rate of return (net of administrative expenses) for the commercial plan and 3.75 percent for the Medicare Supplement plan. For the

self-insured plan, an initial annual healthcare cost trend rate of seven percent was assumed, reduced by decrements of .5 percent until an ultimate rate of five percent is reached. The annual healthcare cost trend rate for the Medicare Supplement Plan was six percent in fiscal year 2017, and then will be reduced by decrements to an ultimate rate of 4.345 percent by fiscal year 2050. The 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 35-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 2.5 percent for the commercial plan.

### **Discretely Presented Sevier County School Department**

#### **Plan Description**

The School Department participates in the state-administered Local Education Group Insurance Plan and Medicare Supplement 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 8-27-701, *TCA*, for the Medicare Supplement Plan. Prior to reaching the age of 65, all members have the option of choosing between the standard or partnership preferred provider organization 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/article/fa-accfin-cafr>.

#### **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 plans 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 ended June 30, 2017, the School Department contributed \$1,990,244 for the Local Education Group Plan and \$12,863 for the Medicare Supplement Plan.

Annual OPEB Cost and Net OPEB Obligation

	Local Education Group Plan	Medicare Supplement Plan
ARC	\$ 3,963,000	\$ 382,000
Interest on the NOPEBO	776,745	89,206
Adjustment to the ARC	(779,864)	(89,564)
Annual OPEB cost	\$ 3,959,881	\$ 381,642
Amount of contribution	(1,990,244)	(12,863)
Increase/decrease in NOPEBO	\$ 1,969,637	\$ 368,779
Net OPEB obligation, 7-1-16	20,713,195	2,378,829
Net OPEB obligation, 6-30-17	\$ 22,682,832	\$ 2,747,608

Fiscal Year Ended	Plans	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation at Year End
6-30-15	Local Education Group	\$ 3,586,973	42.2	% \$ 18,547,070
6-30-16	Local Education Group	3,829,207	43.4	20,713,195
6-30-17	Local Education Group	3,959,881	50.3	22,682,832
6-30-15	Medicare Supplement	283,803	4.3	2,021,221
6-30-16	Medicare Supplement	369,696	3.3	2,378,829
6-30-17	Medicare Supplement	381,642	3.4	2,747,608

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2015, was as follows:

	Local Education Group Plan	Medicare Supplement Plan
Actuarial valuation date	7-1-15	7-1-15
Actuarial accrued liability (AAL)	\$ 33,851,000	\$ 4,599,000
Actuarial value of plan assets	\$ 0	\$ 0
Unfunded actuarial accrued liability (UAAL)	\$ 33,851,000	\$ 4,599,000
Actuarial value of assets as a % of the AAL	0%	0%
Covered payroll (active plan members)	\$ 89,056,782	N/A
UAAL as a % of covered payroll	38.0%	N/A



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, 2015, actuarial valuation for the Local Education Plan, the projected unit credit actuarial cost method was used and the actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of six percent in fiscal year 2017, and then be reduced by decrements to an ultimate rate of 4.645 percent by fiscal year 2050. The annual healthcare cost trend rate for the Medicare Supplement Plan was six percent for fiscal year 2017, and then will be reduced by decrements to an ultimate rate of 4.345 percent by fiscal year 2050. 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 35-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of three percent.

### **H. Purchasing Laws**

#### Office of County Mayor

The County Purchasing Law of 1983, Sections 5-14-201 through 5-14-207, *Tennessee Code Annotated (TCA)*, govern purchasing procedures for the Office of County Mayor. These statutes require all purchases exceeding \$10,000 (excluding emergency purchases) to be made on the basis of publicly advertised competitive bids.

#### Office of Road Superintendent

Chapter 133, Private Acts of 1969, and provisions of the Uniform Road Law, Section 54-7-113, *TCA*, govern purchasing procedures for the Highway Department. These statutes require all purchases exceeding \$10,000 to be made on the basis of publicly advertised competitive bids.

**Office of Director of Schools**

Purchasing procedures for the discretely presented Sevier County 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.

**I. Subsequent Event**

On August 14, 2017, Sevier County School Department raised their bid limit from \$10,000 to \$25,000.

Copies of the complete financial statements of the County for the current Fiscal Year are available at <http://www.comptroller.tn.gov/la/CountySelect.asp>.