

CITY OF PIGEON FORGE

Pigeon Forge, Tennessee

**FINANCIAL STATEMENTS, SUPPLEMENTARY
INFORMATION AND OTHER REPORT**

For the Fiscal Year Ended June 30, 2018



CITY OF PIGEON FORGE

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INTRODUCTORY SECTION

CITY OF PIGEON FORGE

ROSTER OF ELECTED AND MANAGEMENT OFFICIALS

June 30, 2018

David W. Wear
Kevin McClure
Tony Watts
Jay Ogle
Ken Maples
Earlene Teaster
Eric Brackins
Dennis Clabo (CMFO Designee)
Cynthia Wyrick

Mayor
Vice-Mayor
Commissioner
Commissioner
Commissioner
City Manager
Assistant City Manager
Finance Director/City Recorder
City Attorney

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Commissioners
City of Pigeon Forge
Pigeon Forge, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information and the budgetary comparison for the general fund and tourism development zone fund of City of Pigeon Forge, (the "City"), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Pigeon Forge and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund and tourism development zone fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.



An independently owned member
RSM US Alliance



TSCPA
Members of the Tennessee Society
Of Certified Public Accountants

Emphasis of Matter

As discussed in Notes 1 and 21, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14 and the schedule of changes in total OPEB liability and related ratios on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pigeon Forge's basic financial statements. The other supplementary information section as listed in the table of contents, including the schedule of expenditures of federal awards and state financial assistance, 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 the introductory and other unaudited supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the other supplementary information section as listed in the table of contents is the responsibility of management and was derived from and relates 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 information included in the other supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information included in the introductory and other unaudited supplementary information sections as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the City of Pigeon Forge'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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 10, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Pigeon Forge, Tennessee, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$222,920,952 (net position). Of this amount, \$87,305,430 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's current year change in net position was an increase of \$33,218,818.
- The governmental funds had a current year excess of revenues and other financing sources over expenditures and other financing uses of \$20,844,803. As of the close of the June 30, 2018 fiscal year, the City's governmental funds reported combined ending fund balances of \$80,343,137. Approximately 70% of this balance was available for spending at the government's discretion (unrestricted fund balance).
- At the end of the current fiscal year, unrestricted fund balance for the General Fund was \$56,030,118, or approximately 112% of total General Fund expenditures.
- In addition, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* resulting in a restatement (reduction) of beginning net position of \$911,481.
- The City had an S&P rating of AA on all of the City's outstanding debt at June 30, 2018.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This discussion and analysis will focus on the primary government, however details related to the component unit are also included. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. Activities are considered either as those of the primary government (the government as legally defined) or those of the component unit (a legally separate entity for which the primary government is financially accountable).

The *statement of net position* presents information on all of the City's assets, liabilities and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the general government fund, four special revenue funds and two capital project funds. The City's business-type activities include the water and sewer fund and the event center fund. The government-wide financials also include the City's only component unit, Industrial Development Board of the City of Pigeon Forge (the "Board").

The government-wide financial statements can be found on pages 15 and 16 of this report.

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

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

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

The City maintains seven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Tourism Development Zone Fund which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for the General Fund and Tourism Development Zone Fund to demonstrate compliance with the fund's budgets in the basic financial statements section of this report. Budgetary comparisons for the special revenue funds may be found in the other supplementary information section of this report.

The basic governmental fund financial statements can be found on pages 17, 19 and 20 of this report.

Proprietary Funds. The City uses enterprise funds to account for its water and sewer, events center operations, and baseball park operations. Enterprise funds are a type of proprietary fund used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, LeConte Center Fund operations, and Sports Facility Fund operations. The proprietary funds are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 28 through 30 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 55 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented on pages 57 through 58 of this report. Budgetary comparison schedules for the Special Revenue Funds are presented on pages 59 through 61 following the combining financial statements.

Other supplementary schedules are presented on pages 62 through 64, and other unaudited supplemental information is presented on pages 65 through 71.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$222,920,952 at the close of the June 30, 2018 fiscal year.

The largest portion of the City's net position (approximately 44%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Pigeon Forge Condensed Statement of Net Position as of June 30, 2018 and 2017:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Assets						
Current and Other Assets	\$ 97,237,718	\$ 74,337,747	\$ 42,620,656	\$ 36,914,850	\$ 139,858,374	\$ 111,252,597
Capital Assets, Net	118,044,831	117,718,454	160,114,417	163,879,837	278,159,248	281,598,291
Total Assets	215,282,549	192,056,201	202,735,073	200,794,687	418,017,622	392,850,888
Deferred Outflows of Resources	864,835	1,147,724	208,220	232,437	1,073,055	1,380,161
Total Assets and Deferred Outflows of Resources	<u>\$ 216,147,384</u>	<u>\$ 193,203,925</u>	<u>\$ 202,943,293</u>	<u>\$ 201,027,124</u>	<u>\$ 419,090,677</u>	<u>\$ 394,231,049</u>
Liabilities, Deferred Inflows and Net Position						
Liabilities						
Current Liabilities	\$ 6,823,626	\$ 7,286,394	\$ 4,557,720	\$ 4,196,398	\$ 11,381,346	\$ 11,482,792
Noncurrent Liabilities	72,747,627	77,032,381	108,795,160	109,953,596	181,542,787	186,985,977
Total Liabilities	79,571,253	84,318,775	113,352,880	114,149,994	192,924,133	198,468,769
Deferred Inflows of Resources	1,428,183	2,826,469	1,817,409	2,322,196	3,245,592	5,148,665
Net Position						
Net Investment in Capital Assets	48,244,028	43,548,920	49,977,035	51,931,900	98,221,063	95,480,820
Restricted	37,358,679	23,249,561	35,780	35,780	37,394,459	23,285,341
Unrestricted	49,545,241	39,260,200	37,760,189	32,587,254	87,305,430	71,847,454
Total Net Position	135,147,948	106,058,681	87,773,004	84,554,934	222,920,952	190,613,615
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 216,147,384</u>	<u>\$ 193,203,925</u>	<u>\$ 202,943,293</u>	<u>\$ 201,027,124</u>	<u>\$ 419,090,677</u>	<u>\$ 394,231,049</u>

An additional portion of the City's net position (\$37,394,459 or approximately 17%) represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net position of \$87,305,430, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in both the governmental and the business-type activity categories of net position as a whole.

Current and other assets in the governmental activities increased by approximately \$22,900,000. This increase is partially due to revenue collected exceeding cash expenditures, resulting in an increase of cash and cash equivalents. Also included in current and other assets, restricted cash and cash equivalents increased approximately \$8,800,000 primarily due to an increase in restricted TDZ sales tax. TDZ restricted receivables increased approximately \$3,800,000.

Current and other assets in the business type activities increased approximately \$5,705,000 primarily due to an increase in cash and cash equivalents because of less funds being used for capital projects and revenue collected exceeding cash expenses.

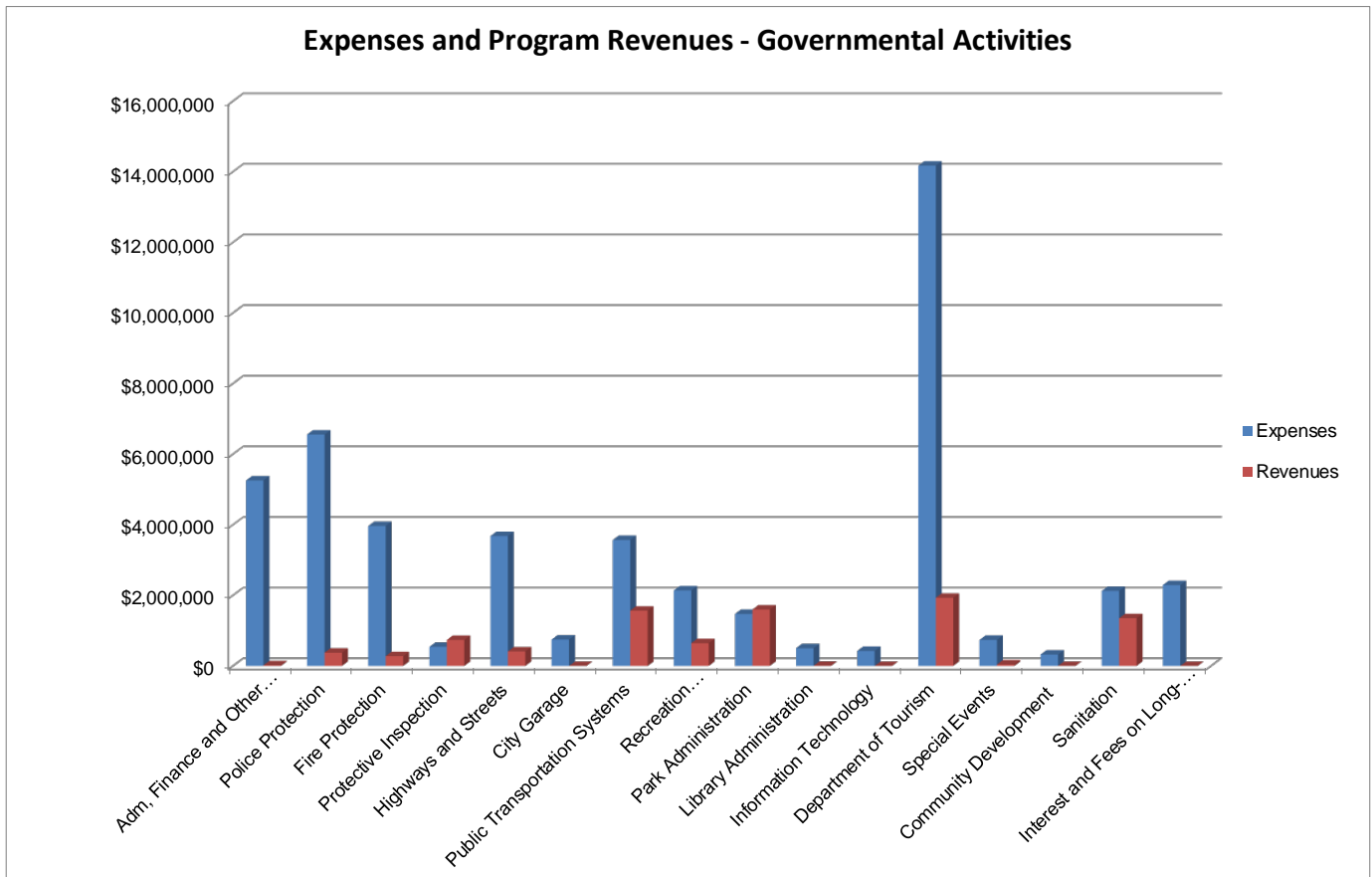
Noncurrent liabilities in the governmental activities decreased by approximately \$5,057,000 primarily due to scheduled debt service payments. Noncurrent liabilities in the business type activities decreased by approximately \$1,297,000 primarily due to scheduled debt service payments.

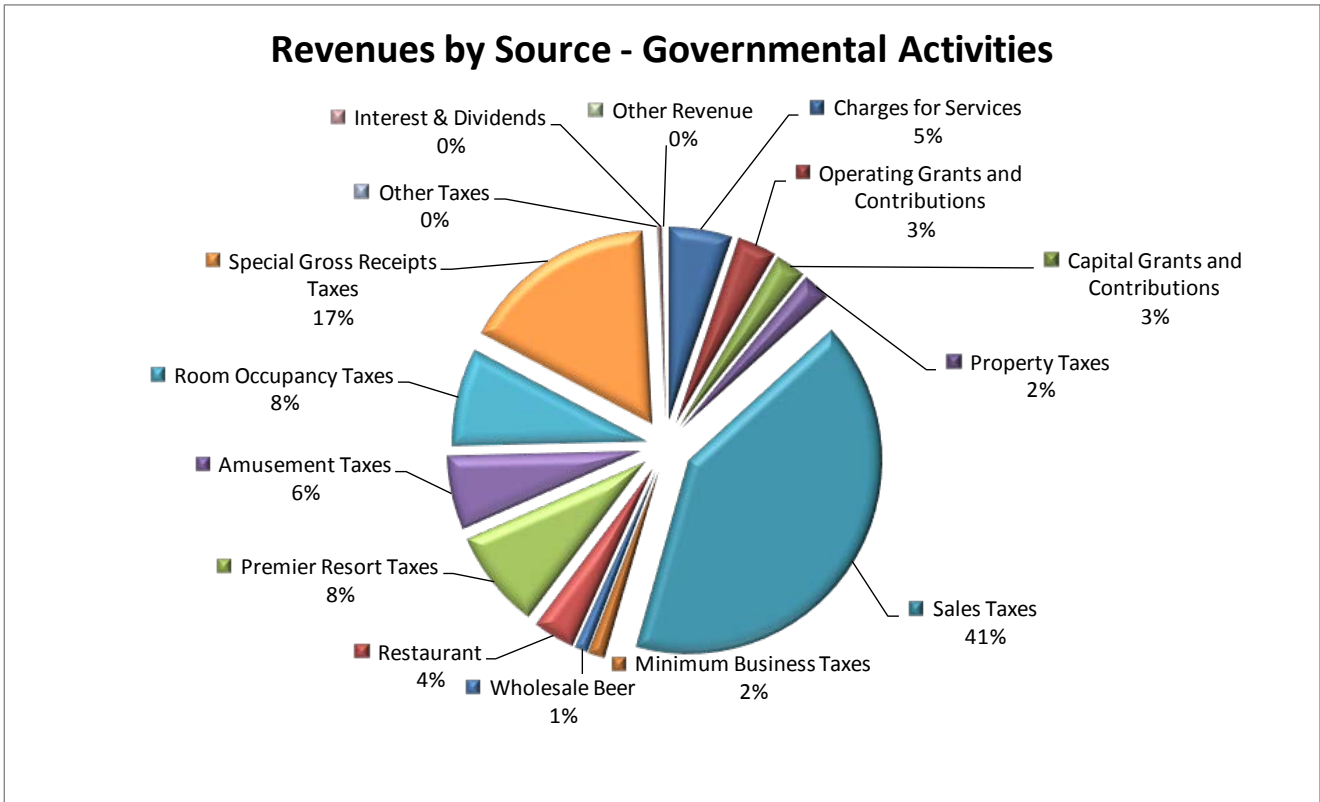
City of Pigeon Forge, Condensed Statement of Changes in Net Position for the Years Ended June 30, 2018 and 2017:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charges for Services	\$ 4,244,894	\$ 4,395,510	\$ 19,364,979	\$ 18,809,260	\$ 23,609,873	\$ 23,204,770
Operating Grants and Contributions	2,649,471	1,333,079	0	0	2,649,471	1,333,079
Capital Grants and Contributions	2,068,654	132,078	0	0	2,068,654	132,078
General Revenues:						
Taxes:						
Property	1,943,263	1,882,423	0	0	1,943,263	1,882,423
Sales	33,925,382	30,514,047	0	0	33,925,382	30,514,047
Premier Resort	6,779,744	3,469,016	0	0	6,779,744	3,469,016
Minimum Business	1,128,538	1,169,491	0	0	1,128,538	1,169,491
Restaurant	2,851,795	2,691,984	0	0	2,851,795	2,691,984
Wholesale Beer	888,540	878,789	0	0	888,540	878,789
Special Gross Receipts	13,540,404	12,636,075	0	0	13,540,404	12,636,075
Amusement	5,051,270	4,794,601	0	0	5,051,270	4,794,601
Room Occupancy	6,738,751	6,062,163	0	0	6,738,751	6,062,163
Other Taxes	181,578	176,257	0	0	181,578	176,257
Other General Revenues	473,885	429,764	109,582	57,118	583,467	486,882
Total Revenues	82,466,169	70,565,277	19,474,561	18,866,378	101,940,730	89,431,655
Expenses:						
Administration, Finance and Other						
General Government	5,256,033	4,763,023	0	0	5,256,033	4,763,023
Police Protection	6,556,105	6,157,697	0	0	6,556,105	6,157,697
Fire Protection	3,966,255	3,714,715	0	0	3,966,255	3,714,715
Protective Inspection	542,189	499,856	0	0	542,189	499,856
Highways and Streets	3,680,525	3,757,029	0	0	3,680,525	3,757,029
City Garage	748,658	715,366	0	0	748,658	715,366
Public Transportation Systems	3,569,279	3,770,801	0	0	3,569,279	3,770,801
Recreation Administration /						
Community Center	2,141,571	1,896,881	0	0	2,141,571	1,896,881
Park Administration	1,474,219	1,568,727	0	0	1,474,219	1,568,727
Library Administration	503,799	454,748	0	0	503,799	454,748
Information Technology	424,798	327,884	0	0	424,798	327,884
Department of Tourism	14,172,758	15,488,366	0	0	14,172,758	15,488,366
Special Events	738,680	707,125	0	0	738,680	707,125
Community Development	322,564	321,230	0	0	322,564	321,230
Sanitation	2,125,143	2,070,083	0	0	2,125,143	2,070,083
Interest and Fees on Long-Term Debt	2,291,879	2,653,144	0	0	2,291,879	2,653,144
Water and Sewer	0	0	11,361,333	12,212,214	11,361,333	12,212,214
LeConte Center	0	0	5,322,131	5,319,532	5,322,131	5,319,532
Sports Facility	0	0	3,911,577	3,382,636	3,911,577	3,382,636
Loss on Disposition of Capital Assets	41,797	516,796	0	556,631	41,797	1,073,427
Net (Gain) Losses on Investment Portfolio	19,196	78,049	38,698	18,620	57,894	96,669
(Increase) Decrease in						
Fair Value of Derivatives	0	0	(507,875)	(812,224)	(507,875)	(812,224)
Total Expenses	48,575,448	49,461,520	20,125,864	20,677,409	68,701,312	70,138,929
Capital Contributions, Net	(20,600)	(1,141,517)	0	0	(20,600)	(1,141,517)
Transfers	(4,008,082)	(3,754,081)	4,008,082	3,754,081	0	0
Change in Net Position	29,862,039	16,208,159	3,356,779	1,943,050	33,218,818	18,151,209
Net Position - Beginning of Year	106,058,681	89,850,522	84,554,934	82,611,884	190,613,615	172,462,406
Restatement of Beginning Net Position	(772,772)	0	(138,709)	0	(911,481)	0
Net Position - End of Year	\$ 135,147,948	\$ 106,058,681	\$ 87,773,004	\$ 84,554,934	\$ 222,920,952	\$ 190,613,615

Governmental Activities - Governmental activities increased the City's net position in the current year by \$29,862,039 compared to an increase of \$16,208,159 in 2017. In addition, a restatement of the fiscal year 2018 beginning net position, based on a change in method of accounting for OPEB, decreased the total governmental activities net position by \$772,772. Key elements of the change in net position are as follows:

- Sales tax revenue increased approximately \$3,411,000, restaurant tax increased approximately \$160,000, gross receipts tax revenue increased approximately \$904,000, amusement tax revenue increased approximately \$257,000, and room occupancy tax revenue increased approximately \$677,000 primarily due to growth in businesses and tourist attractions.
- Operating grants and contributions increased approximately \$1,316,000 primarily due to a grant from the State of Tennessee in the amount of \$1,435,000 for a fire recovery marketing campaign as a result of the wildfires in November 2016. The funding was received in advance in fiscal year 2017 and recognized as revenue in the current year.
- Capital grants and contributions increased approximately \$1,937,000 primarily due to a grant used to fund greenway construction costs for approximately \$1,581,000.
- Premier Resort revenue increased approximately \$3,311,000 primarily due to the State of Tennessee lifting statutory restrictions for a four-year period beginning in fiscal year 2018 due to wildfires in November 2016.
- Administration, finance, and other general government increased approximately \$439,000 primarily due to an increase in donations made to Walter State Community College.
- Recreation Administration / Community Center increased approximately \$245,000 primarily due to facility renovations.
- Interest and Fees on Long-Term Debt decreased approximately \$361,000 due to changes in variable rate debt and the long-term debt payment schedules with the issuance of bond series 2017 in the prior year.
- Loss on disposition of capital assets decreased approximately \$475,000 primarily due to engineering and site preparation costs expensed in the prior year for a transit center that will no longer be built at that planned location.





As noted in the graphs charting expenses and program revenues and revenues by source, the City's largest expense is the promotion of the tourism industry. Accordingly, a large majority of the revenues the City collects is generated by taxes that are either directly or indirectly related to the tourism industry.

Business-type Activities. The business-type activities (Water and Sewer Fund, LeConte Center Fund, Sports Facility Fund) increased the City's net position by \$3,356,779 in the current year, compared to an increase of \$1,943,050 in the prior year. Key elements of the current year increase in net position related to business-type activities are as follows:

- Total Operating Revenues for the business-type activities increased by approximately \$556,000 primarily as a result of increased operating revenues from the operations of the LeConte Center Fund and Sports Facility Fund.
- Nonoperating expenses decreased approximately \$569,000 due to an approximate \$557,000 loss on disposal of the retired wastewater treatment plant in fiscal year 2017.
- The change in fair value of the interest rate swap (derivative) is recorded as an increase or decrease in net position. For 2018, the change was an increase in fair value of \$507,875 as compared to an increase in fair value of \$812,224 in 2017.

Discretely Presented Component Unit - Industrial Development Board

	<u>Component Unit</u>	
	<u>2018</u>	<u>2017</u>
Assets		
Current and Other Assets	\$ 1,240	\$ 1,239
Net Investment in Capital Lease	47,938,997	48,340,330
Total Assets	<u>\$ 47,940,237</u>	<u>\$ 48,341,569</u>
Liabilities:		
Current Liabilities	\$ 588,990	\$ 590,323
Noncurrent Liabilities	48,907,467	49,393,594
Total Liabilities	<u>49,496,457</u>	<u>49,983,917</u>
Net position:		
Unrestricted (Deficit)	<u>(1,556,220)</u>	<u>(162,348)</u>
Total Net Position (Deficit)	<u>(1,556,220)</u>	<u>(162,348)</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 47,940,237</u>	<u>\$ 49,821,569</u>

	<u>Component Unit</u>	
	<u>2018</u>	<u>2017</u>
Revenues:		
Interest From Capital Lease	\$ 2,282,246	\$ 2,293,500
Interest and Dividends	1	45
	<u>2,282,247</u>	<u>2,293,545</u>
Expenses:		
Interest Expense, Net	2,196,119	2,207,373
General and Administrative	20,600	19,950
Developer Contributions	0	1,000,000
	<u>2,216,719</u>	<u>3,227,323</u>
Increase (Decrease) in Net Position before Capital Contribution	65,528	(933,778)
Capital Contribution - to City of Pigeon Forge	0	0
Capital Contribution - from City of Pigeon Forge	<u>20,600</u>	<u>1,141,517</u>
Increase (Decrease) in Net Position	86,128	207,739
Net Position - Beginning of Year (Deficit)	<u>(1,642,348)</u>	<u>(1,850,087)</u>
Net Position - End of Year (Deficit)	<u>\$ (1,556,220)</u>	<u>\$ (1,642,348)</u>

In 2011, the Board issued bonds in the amount of \$49,445,000 to fund the development of an events center and a capital lease agreement was entered into where the Board agreed to lease all property of the events center to the City. Upon completion of construction of the LeConte Center in September 2013, all leased property was transferred and recorded as an asset of the City in the LeConte Center fund with a corresponding lease liability to the Board and with a lease receivable (net investment in capital lease) recorded on the Board. The actual bond liability remains on the books of the Board (included above in noncurrent liabilities). The Board is a separate legal entity from the City and therefore has been reported as a discretely presented component unit within these financial statements.

The change in net investment in capital lease represents lease payments received by the Board from the City. In addition, the change in total liabilities consists primarily of scheduled bond payments.

Lease revenues in 2018 and 2017 for the Board consist of interest revenue recognized from the LeConte Center lease agreement. Current and prior year interest expense represents interest expensed for the related bond issue.

Capital contributions from the City to the Board in 2017 consisted of \$1,000,000 to fund the remaining installment of a contribution agreement to promote economic development.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$80,343,137, after a current year excess of revenues and other financing sources over expenditures and other financing uses of \$20,844,803. Approximately 70% of this ending fund balance, or \$56,429,305, constitutes unrestricted fund balance, which is available for spending at the government's discretion. The City has committed approximately \$71,000 of the unrestricted fund balance for future capital outlay and assigned approximately \$3,582,000 for various purposes. The General Fund restricted fund balance includes approximately \$1,028,000, of unspent debt proceeds issued to fund various future capital outlay expenditures. The remainder of fund balance is nonspendable or restricted primarily for the purposes of the special revenue funds or the funds are invested in material inventories in the General Fund.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unrestricted fund balance of the General Fund was \$56,030,118, while total General Fund balance reached \$57,780,689. As a measure of the General Fund's liquidity, it may be useful to compare both unrestricted fund balance and total fund balance to total fund expenditures. The unrestricted General Fund balance represents approximately 112% of total General Fund expenditures, while the total General Fund balance represents approximately 115% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$10,223,070 during the current fiscal year. General Fund revenues in 2018 increased over 2017 by approximately \$8,576,000 (see discussion on revenue increases noted above) during the fiscal year and General Fund expenditures decreased by approximately \$722,000. The following expense increases/decreases were noteworthy:

- City Hall Buildings increased by approximately \$210,000 primarily due to the completion of the IT addition at City Hall.
- Legislative increased by approximately \$213,000 primarily due to a donation to Walter State Community College in the amount of \$250,000.
- Other General Government decreased approximately \$2,409,000 primarily due to a reduction in capital outlay and contributions.
- Grant Projects increased approximately \$1,459,000 primarily due to increased capital outlay for the greenway project.
- Fire Protection decrease approximately \$423,000 due to a reduction in capital outlay.
- Highways and Streets decreased by approximately \$597,000 primarily due to less paving done in the current year.
- Recreation Administration/Community Center increased approximately \$235,000 primarily due to an increase in facility renovations.

Intergovernmental sales tax in the tourism development zone fund increased approximately \$3,836,550. The amount varies from year to year based upon economic activity and growth in business in the development zone.

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

Unrestricted net position of the Proprietary Funds at the end of the year amounted to \$37,760,189. Other factors concerning the financial activity of this fund have already been addressed in the discussion of the business-type activities.

General Fund Budgetary Highlights

The City made certain supplementary budgetary appropriations during the year. Differences between the original budget and the final amended budget amounted to net *increases* of budgeted expenditures and transfers totaling \$1,707,000.

The major adjustments are as follows:

- \$250,000 in increases allocated to Legislative primarily due to the donation made to Walter State Community College.
- \$1,435,000 in increases allocated to Department of Tourism primarily due to a special marketing campaign as a result of the wildfires in November 2016.

These *increases* were originally anticipated to be funded by reducing fund balance in the General Fund.

Capital Asset and Debt Administration

Capital Assets. The investment in capital assets for the City’s governmental and business-type activities as of June 30, 2018, amounts to \$278,159,248 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, equipment, vehicles, park facilities, roads, highways, bridges and water/sewer infrastructure.

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

- The City purchased approximately \$1,579,000 of new vehicles for various departments.
- The City purchased various pieces of new equipment for approximately \$547,000 during the year.
- The City completed an addition to City Hall for the IT department in the amount of approximately \$370,000.
- The City completed waterline upgrades to Ruth Hall in September 2017 and Cool Hollow in October 2017.
- The City has several capital projects in the engineering and construction phases. The construction in progress additions in the current year primarily include the following projects: Greenway Extension - \$1,588,000 and Jake Thomas Road Extension - \$335,000.

Capital assets, net of depreciation, as of June 30, 2018 and 2017 are as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 40,096,541	\$ 40,096,541	\$ 29,721,159	\$ 29,721,159	\$ 69,817,700	\$ 69,817,700
Construction in Progress	14,816,143	13,364,530	995,906	694,535	15,812,049	14,059,065
Buildings	19,762,920	19,377,369	70,105,765	70,105,765	89,868,685	89,483,134
Improvements Other Than Buildings	11,242,720	11,168,030	36,847,804	36,782,814	48,090,524	47,950,844
Machinery and Equipment	6,563,046	6,117,186	3,927,891	3,909,329	10,490,937	10,026,515
Vehicles	17,202,637	16,468,874	1,134,143	1,071,404	18,336,780	17,540,278
Infrastructure	58,821,003	58,821,003	53,498,543	53,477,678	112,319,546	112,298,681
Accumulated Depreciation	(50,460,179)	(47,695,079)	(36,116,794)	(31,882,847)	(86,576,973)	(79,577,926)
	<u>\$ 118,044,831</u>	<u>\$ 117,718,454</u>	<u>\$ 160,114,417</u>	<u>\$ 163,879,837</u>	<u>\$ 278,159,248</u>	<u>\$ 281,598,291</u>

Additional information on the City’s capital assets can be found in Note 7 on pages 40 and 41 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total debt outstanding of \$186,163,092. All of the debt is backed by the full faith and credit of the City. Additionally, the City has pledged certain revenues to retire some its long-term debt issuances. The City's long-term debt as of June 30, 2018 and 2017 is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
General Obligation Bonds	\$ 57,252,639	\$ 61,718,163	\$ 51,057,344	\$ 51,481,819	\$ 108,309,983	\$ 113,199,982
Loans Payable to the Public						
Building Authority of Sevier County	16,995,000	17,120,000	11,000,000	11,435,000	27,995,000	28,555,000
Capital Lease	<u>0</u>	<u>0</u>	<u>47,800,000</u>	<u>48,150,000</u>	<u>47,800,000</u>	<u>48,150,000</u>
	74,247,639	78,838,163	109,857,344	111,066,819	184,104,983	189,904,982
Plus Premiums on Issuance	1,939,269	2,179,062	118,840	139,504	2,058,109	2,318,566
Total	<u>\$ 76,186,908</u>	<u>\$ 81,017,225</u>	<u>\$ 109,976,184</u>	<u>\$ 111,206,323</u>	<u>\$ 186,163,092</u>	<u>\$ 192,223,548</u>

The City's total debt decreased by approximately \$6,060,000 (3%) during the current fiscal year. This change is primarily due to scheduled debt service payments.

	<u>Component Unit</u>	
	<u>2018</u>	<u>2017</u>
Public Facility Bonds Series 2011	\$ 47,750,000	\$ 48,150,000
Plus Premiums on Issuance	<u>1,557,467</u>	<u>1,643,594</u>
Total	<u>\$ 49,307,467</u>	<u>\$ 49,793,594</u>

In 2011, the Industrial Development Board issued bond series 2011 in the amount of \$49,445,000 to fund the development of the LeConte Center. The liability for these bonds remains on the books of the Board, but upon the recording of the capital lease with the City in September 2013, a corresponding lease receivable (net investment in capital lease) has been recorded on the Board.

Portions of the long-term debt consist of loans payable to the Public Building Authority of Sevier County (Authority). The loan agreements provide for the Authority to issue variable rate bonds and loan the proceeds to the City on an as needed basis for various capital projects. Under certain of the loan agreements, the Authority, at the request of the City, entered into interest rate swap agreements in order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt. The intention of the swaps was to effectively change the City's variable interest rates on the bonds to synthetic fixed rates.

Additional information on the City's long-term debt can be found in Note 9 on pages 42 through 46 of this report.

Deferred Inflows and Outflows of Resources

Deferred outflows of resources consist of deferred charges resulting from debt refundings. Deferred inflows of resources consist of property taxes, the negative fair value of the derivative instrument and deferred other post-employment benefits. Deferred outflows of resources decreased approximately \$307,000 due to amortization of debt refunding losses. Deferred inflows decreased approximately \$1,903,000 primary due to the spending of grant money that was received in the prior fiscal year, net of a decrease in the negative fair value of the derivative instrument.

Future Outlook and Next Year's Budget

The General Fund revenue estimates for next year (fiscal year ended June 30, 2019) were projected with an increase of 4.0%.

The Water and Sewer Fund budget for next year was prepared using a projected operating revenue decrease of approximately 2.8%.

In April of 2006, the State of Tennessee approved the City's application for a Tourism Development Zone (TDZ). The boundaries of the TDZ are within the boundaries of the City's Central Business Improvement District. Under the TDZ plan, the City is authorized to borrow up to \$179 million to develop new Qualified Public Use Facilities. Since commencement of the improvements under the TDZ, the City has issued debt totaling approximately \$113 million through June 30, 2018. These borrowings will be paid through an apportionment of the incremental increase in sales and use taxes generated as a result of the improvements. These planned public use facilities, which are part of the City's strategy to continue to enhance tourism and economic development in Pigeon Forge and the State of Tennessee, included a civic events center, mass transit facility, amphitheater and festival center. Other planned TDZ projects included a wastewater treatment plant expansion, improvements to roadways and other necessary public infrastructure improvements, all of which should facilitate significant new private development. To date, the City has purchased land and completed a public parking lot, made sewer line improvements, completed the waste water treatment plant, constructed the LeConte Center, and is in the process of design and construction of a mass transit facility.

In November 2018, the City authorized and issued General Obligation Bonds, Series 2018 in the amount of \$32,275,000. The Series 2018 bonds will be paid for by tourism development zone revenues. The proceeds of the Series 2018 issuance will used to fund public improvement projects.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of City Manager, City of Pigeon Forge, P.O. Box 1350, Pigeon Forge, Tennessee, 37868.

CITY OF PIGEON FORGE
STATEMENT OF NET POSITION
June 30, 2018

ASSETS	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit Industrial Development Board
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 27,840,834	\$ 23,582,181	\$ 51,423,015	\$ 1,240
Certificates of Deposit	9,988,615	1,057,509	11,046,124	0
Investments	10,902,466	8,690,619	19,593,085	0
Receivables, Net	9,542,798	1,318,687	10,861,485	0
Sponsorships Receivable	0	26,898	26,898	0
Net Investment in Capital Lease - Current Portion	0	0	0	400,000
Inventories	428,992	508,534	937,526	0
Prepaid Items	357	40,803	41,160	0
Total Current Assets	58,704,062	35,225,231	93,929,293	401,240
NONCURRENT ASSETS				
Restricted Assets:				
Cash and Cash Equivalents	22,797,037	1,394,903	24,191,940	0
Investments	1,028,396	0	1,028,396	0
Receivable - TDZ and Streets	14,708,223	0	14,708,223	0
Net Investment in Capital Lease	0	0	0	47,538,997
Investment in Joint Venture	0	6,000,522	6,000,522	0
Capital Assets:				
Nondepreciable	54,912,684	30,717,065	85,629,749	0
Depreciable, Net of Accumulated Depreciation	63,132,147	129,397,352	192,529,499	0
Total Noncurrent Assets	156,578,487	167,509,842	324,088,329	47,538,997
Total Assets	215,282,549	202,735,073	418,017,622	47,940,237
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Charge on Refunding	864,835	208,220	1,073,055	0
Total Deferred Outflows of Resources	864,835	208,220	1,073,055	0
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 216,147,384	\$ 202,943,293	\$ 419,090,677	\$ 47,940,237
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 1,360,262	\$ 855,369	\$ 2,215,631	\$ 0
Due to Other Governmental Agencies	352,000	0	352,000	0
Interfund Balances, Net	(538,329)	538,329	0	0
Accrued Interest	187,822	367,020	554,842	188,990
Taxes Payable	6,475	99,911	106,386	0
Unearned Revenue	0	1,320,487	1,320,487	0
Other Long-Term Liabilities - Current Portion	663,000	69,000	732,000	0
Long-Term Debt - Current Portion	4,792,396	1,307,604	6,100,000	400,000
Total Current Liabilities	6,823,626	4,557,720	11,381,346	588,990
NONCURRENT LIABILITIES				
Other Long-Term Liabilities	1,353,115	176,580	1,529,695	0
Long-Term Debt	71,394,512	108,618,580	180,013,092	48,907,467
Total Noncurrent Liabilities	72,747,627	108,795,160	181,542,787	48,907,467
Total Liabilities	79,571,253	113,352,880	192,924,133	49,496,457
DEFERRED INFLOWS OF RESOURCES				
Deferred Current Property Taxes	1,405,328	0	1,405,328	0
Deferred Other Post-Employment Benefits	22,855	3,088	25,943	0
Derivative Instrument - Interest Rate Swap	0	1,814,321	1,814,321	0
Total Deferred Inflows of Resources	1,428,183	1,817,409	3,245,592	0
NET POSITION				
Net Investment in Capital Assets	48,244,028	49,977,035	98,221,063	0
Restricted	37,358,679	35,780	37,394,459	0
Unrestricted (Deficit)	49,545,241	37,760,189	87,305,430	(1,556,220)
Total Net Position (Deficit)	135,147,948	87,773,004	222,920,952	(1,556,220)
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 216,147,384	\$ 202,943,293	\$ 419,090,677	\$ 47,940,237

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

CITY OF PIGEON FORGE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

FUNCTIONS AND PROGRAMS	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			Component Unit Industrial Development Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Governmental Activities:								
Administration, Finance and Other								
General Government	\$ 5,256,033	\$ 18,059	\$ 0	\$ 1,546,736	\$ (3,691,238)	\$ 0	\$ (3,691,238)	\$ 0
Police Protection	6,556,105	359,229	3,747	13,356	(6,179,773)	0	(6,179,773)	0
Fire Protection	3,966,255	56,750	0	220,392	(3,689,113)	0	(3,689,113)	0
Protective Inspection	542,189	736,892	0	0	194,703	0	194,703	0
Highways and Streets	3,680,525	89,411	322,842	0	(3,268,272)	0	(3,268,272)	0
City Garage	748,658	0	0	0	(748,658)	0	(748,658)	0
Public Transportation Systems	3,569,279	443,170	869,482	254,150	(2,002,477)	0	(2,002,477)	0
Recreation Administration/Community Center	2,141,571	645,822	0	0	(1,495,749)	0	(1,495,749)	0
Park Administration	1,474,219	0	18,400	34,020	(1,421,799)	0	(1,421,799)	0
Library Administration	503,799	4,230	0	0	(499,569)	0	(499,569)	0
Information Technology	424,798	0	0	0	(424,798)	0	(424,798)	0
Department of Tourism	14,172,758	497,536	1,435,000	0	(12,240,222)	0	(12,240,222)	0
Special Events	738,680	40,438	0	0	(698,242)	0	(698,242)	0
Community Development	322,564	0	0	0	(322,564)	0	(322,564)	0
Sanitation	2,125,143	1,353,357	0	0	(771,786)	0	(771,786)	0
Interest and Fees on Long-Term Debt	2,291,879	0	0	0	(2,291,879)	0	(2,291,879)	0
Total Governmental Activities	48,514,455	4,244,894	2,649,471	2,068,654	(39,551,436)	0	(39,551,436)	0
Business-Type Activities:								
Water and Sewer	11,361,333	14,344,230	0	0	0	2,982,897	2,982,897	0
LeConte Center	5,322,131	1,389,759	0	0	0	(3,932,372)	(3,932,372)	0
Sports Facility	3,911,577	3,630,990				(280,587)	(280,587)	0
Total Business-Type Activities	20,595,041	19,364,979	0	0	0	(1,230,062)	(1,230,062)	0
Total Primary Government	\$ 69,109,496	\$ 23,609,873	\$ 2,649,471	\$ 2,068,654	(39,551,436)	(1,230,062)	(40,781,498)	0
Component Unit:								
Industrial Development Board	\$ 2,216,719	\$ 0	\$ 0	\$ 0	0	0	0	(2,216,719)
General Revenues								
Taxes								
Property					1,943,263	0	1,943,263	0
Sales					33,925,382	0	33,925,382	0
Premier Resort					6,779,744	0	6,779,744	0
Minimum Business					1,128,538	0	1,128,538	0
Restaurant					2,851,795	0	2,851,795	0
Wholesale Beer					888,540	0	888,540	0
Special Gross Receipts					13,540,404	0	13,540,404	0
Amusement					5,051,270	0	5,051,270	0
Room Occupancy					6,738,751	0	6,738,751	0
Other					181,578	0	181,578	0
Interest From Capital Lease					0	0	0	2,282,246
Licenses and Permits					43,470	0	43,470	0
Interest and Dividends					250,078	109,582	359,660	1
Rents and Royalties					180,337	0	180,337	0
Net Loss on Disposal of Capital Assets					(41,797)	0	(41,797)	0
Change in Fair Value of Investments					(19,196)	(38,698)	(57,894)	0
Change in Fair Value of Derivatives - Interest Rate Swap					0	507,875	507,875	0
Capital Contributions					(20,600)	0	(20,600)	20,600
Interfund Transfers, Net					(4,008,082)	4,008,082	0	0
Total General Revenues and Other Items					69,413,475	4,586,841	74,000,316	2,302,847
Change in Net Position					29,862,039	3,356,779	33,218,818	86,128
Net Position (Deficit), Beginning of Year					106,058,681	84,554,934	190,613,615	(1,642,348)
Restatement of Beginning Net Position (Deficit) - See Note 21					(772,772)	(138,709)	(911,481)	0
Net Position (Deficit), Beginning of Year - as Restated - See Note 21					105,285,909	84,416,225	189,702,134	(1,642,348)
Net Position (Deficit), End of Year					\$ 135,147,948	\$ 87,773,004	\$ 222,920,952	\$ (1,556,220)

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

CITY OF PIGEON FORGE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Tourism Development Zone Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 27,457,954	\$ 0	382,880	\$ 27,840,834
Certificates of Deposit	9,988,615	0	0	9,988,615
Investments	10,902,466	0	0	10,902,466
Property Taxes Receivables, Net	1,465,193	0	0	1,465,193
Other Tax and Nonexchange Revenue Receivable	8,077,605	0	0	8,077,605
Due from Other Funds	437	19,871,144	538,337	20,409,918
Inventories	428,992	0	0	428,992
Prepays	357	0	0	357
Restricted Assets:				
Cash	20,971,902	0	1,825,135	22,797,037
Investments	1,028,396	0	0	1,028,396
Receivables	0	0	56,818	56,818
TOTAL ASSETS	\$ 80,321,917	\$ 19,871,144	2,803,170	\$ 102,996,231
LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 1,248,719	\$ 0	111,547	\$ 1,360,266
Due to Other Funds	19,871,270	0	319	19,871,589
Taxes Payable	6,475	0	0	6,475
Total Liabilities	21,126,464	0	111,866	21,238,330
DEFERRED INFLOWS OF RESOURCES				
Deferred Property Taxes	1,414,764	0	0	1,414,764
Total Deferred Inflows of Resources	1,414,764	0	0	1,414,764
FUND BALANCES				
Non-Spendable:				
General Fund				
Inventory On Hand	428,992	0	0	428,992
Prepays	357	0	0	357
Restricted:				
General Fund	1,321,222	0	0	1,321,222
Special Revenue Funds:				
State Street Aid Fund	0	0	878,413	878,413
Solid Waste Fund	0	0	1,136,653	1,136,653
Drug Fund	0	0	277,051	277,051
TDZ Fund	0	19,871,144	0	19,871,144
Unrestricted:				
Committed	71,005	0	0	71,005
Assigned	3,183,014	0	399,187	3,582,201
Unassigned	52,776,099	0	0	52,776,099
Total Fund Balances	57,780,689	19,871,144	2,691,304	80,343,137
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES	\$ 80,321,917	\$ 19,871,144	2,803,170	\$ 102,996,231

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

CITY OF PIGEON FORGE

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

June 30, 2018

Ending Total Fund Balances - Governmental Funds - Balance Sheet (page 17)	\$ 80,343,137
Amounts reported for governmental activities in the statement of net positions are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	118,044,831
Other assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	14,660,845
Due to other governmental agencies are not due and payable in the current period and, therefore, are not reported in the funds.	(352,000)
Accrued compensated absences and other post employment benefits, net of deferred other post employment benefits inflows are not due and payable in the current period and, therefore, are not reported in the funds	(2,038,970)
Long-term debt, net of unamortized premiums and unamortized deferred losses, and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(75,509,895)</u>
Net Position of Governmental Activities - Statement of Net Position (page 15)	\$ <u><u>135,147,948</u></u>

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

CITY OF PIGEON FORGE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

	General Fund	Tourism Development Zone Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property Tax	\$ 1,420,271	\$ 0	\$ 0	\$ 1,420,271
Payments in Lieu of Tax	522,992	0	0	522,992
Local Sales Tax	15,437,427	0	0	15,437,427
Wholesale Beer Tax	888,540	0	0	888,540
Minimum Business Tax	1,128,538	0	0	1,128,538
Amusement Tax	5,051,270	0	0	5,051,270
Gross Receipts Tax	13,540,404	0	0	13,540,404
Restaurant Tax	2,851,795	0	0	2,851,795
Cable Television Franchise Tax	143,369	0	0	143,369
Room Occupancy Tax	6,738,751	0	0	6,738,751
Other Taxes	6,991	0	0	6,991
Total Taxes	<u>47,730,348</u>	<u>0</u>	<u>0</u>	<u>47,730,348</u>
Intergovernmental:				
Grants	4,395,282	0	0	4,395,282
Sales Tax	0	14,651,405	0	14,651,405
State Premier Resort Tax	6,779,744	0	0	6,779,744
State Gasoline and Motor Fuel Tax	0	0	322,841	322,841
Other	33,454	0	0	33,454
Total Intergovernmental	<u>11,208,480</u>	<u>14,651,405</u>	<u>322,841</u>	<u>26,182,726</u>
Licenses and Permits	780,362	0	0	780,362
Fees and Charges for Services	1,829,617	0	1,341,494	3,171,111
Fines and Penalties	268,291	0	68,601	336,892
Interest and Dividends	209,198	0	1,382	210,580
Net Loss on Investment Portfolio	(19,196)	0	0	(19,196)
Rents and Royalties	180,337	0	0	180,337
Other Revenues	157,324	0	0	157,324
Total Revenues	<u>62,344,761</u>	<u>14,651,405</u>	<u>1,734,318</u>	<u>78,730,484</u>
EXPENDITURES				
Current:				
Administration, Finance and Other General Government:				
City Court	22,764	0	0	22,764
City Hall Building Operations	372,519	0	0	372,519
Financial Administration	1,178,247	0	0	1,178,247
Legislative	803,573	0	0	803,573
Other General Government	3,238,795	0	0	3,238,795
City Maintenance	903,028	0	0	903,028
Grants	2,295,809	0	0	2,295,809
City Garage	747,372	0	0	747,372
Department of Tourism	14,119,250	0	0	14,119,250
Drug Prevention	0	0	171,350	171,350
Fire Protection and Control	3,779,064	0	0	3,779,064
Highways and Streets	2,491,972	0	176,173	2,668,145
Information Technology	424,799	0	0	424,799
Library Administration	468,942	0	0	468,942
Park Administration	1,133,276	0	0	1,133,276
Police	6,557,140	0	0	6,557,140
Protective Inspection	540,726	0	0	540,726
Public Transportation Systems	2,671,321	0	0	2,671,321
Recreation Administration/Community Center	1,913,444	0	0	1,913,444
Solid Waste/Sanitation	0	0	1,930,998	1,930,998
Special Events	710,962	0	0	710,962
Community Development	315,739	0	0	315,739

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

CITY OF PIGEON FORGE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued)
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Tourism Development Zone Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
EXPENDITURES (Continued)				
Debt Service:				
Principal Retirement	3,830,000	760,523	0	4,590,523
Interest	1,472,715	765,633	0	2,238,348
Fees	42,800	0	0	42,800
Capital Projects - Capital Outlay	0	0	401,088	401,088
Total Expenditures	50,034,257	1,526,156	2,679,609	54,240,022
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,310,504	13,125,249	(945,291)	24,490,462
OTHER FINANCING SOURCES (USES)				
Other Financing Sources:				
Insurance Recoveries	142,950	0	219,473	362,423
Transfers from Other Funds	0	0	905,882	905,882
Other Financing Uses:				
Transfers to Other Funds	(2,230,384)	(2,683,580)	0	(4,913,964)
Total Other Financing Sources (Uses)	(2,087,434)	(2,683,580)	1,125,355	(3,645,659)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	10,223,070	10,441,669	180,064	20,844,803
FUND BALANCES, BEGINNING OF YEAR	47,557,619	9,429,475	2,511,240	59,498,334
FUND BALANCES, END OF YEAR	\$ 57,780,689	\$ 19,871,144	\$ 2,691,304	\$ 80,343,137

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

CITY OF PIGEON FORGE

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, 2018

Net Change in Fund Balances - Total Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances (page 20)	\$ 20,844,803
Amounts Reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation (\$3,442,488) was exceeded by capital outlays (\$4,236,311) in the current period.	793,823
In the Statement of Activities, only the net gain/loss from the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sales increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets which were sold.	(467,446)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	3,834,315
The issuance of long-term debt (e.g. bonds, loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positions. 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 net effect of these differences in the treatment of long-term debt and related accounts.	4,547,431
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 governmental funds.	
Change in Accrued Interest Expense	32,366
Change in Compensated Absences Payable and Other Post Employment Benefits net of Deferred Other Post Employment Benefits does not require the use of current financial resources, and therefore, are not reported in the governmental funds.	(75,253)
Change in Due to Other Governmental Agencies	<u>352,000</u>
Change in Net Position of Governmental Activities - Statement of Activities (page 16)	<u>\$ 29,862,039</u>

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

CITY OF PIGEON FORGE
GENERAL FUND
STATEMENT OF GENERAL FUND BUDGETARY COMPARISON
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Local Taxes:				
Current Year Property Taxes	\$ 1,346,974	\$ 1,346,974	\$ 1,407,900	\$ 60,926
Payments in Lieu of Tax	497,924	497,924	522,992	25,068
Prior Years Property Taxes	0	0	3,833	3,833
Penalties Property Taxes	10,000	10,000	8,538	(1,462)
Amusement Tax	4,985,696	4,985,696	5,051,270	65,574
Cable Television Franchise Tax	130,000	130,000	143,369	13,369
Room Occupancy Tax	6,285,319	6,285,319	6,738,751	453,432
Local Sales Tax	15,810,335	15,810,335	15,437,427	(372,908)
Wholesale Beer Tax	850,000	850,000	888,540	38,540
Minimum Business Tax	971,000	971,000	1,128,538	157,538
Restaurant Tax	2,823,936	2,823,936	2,851,795	27,859
Gross Receipts Tax	13,122,174	13,122,174	13,540,404	418,230
Other Taxes	8,000	8,000	6,991	(1,009)
Total Taxes	46,841,358	46,841,358	47,730,348	888,990
Licenses and Permits:				
Beer Licenses	8,100	8,100	8,450	350
Building and Related Permits	210,000	210,000	244,582	34,582
Liquor Licenses	35,000	35,000	35,020	20
Alcoholic Beverage Inspection Fee	320,000	320,000	492,310	172,310
Total Licenses and Permits	573,100	573,100	780,362	207,262
Intergovernmental:				
Grants	2,298,208	2,298,208	4,395,282	2,097,074
State Premier Resort Tax	3,469,347	3,469,347	6,779,744	3,310,397
Franchise and Income Tax	30,000	30,000	18,873	(11,127)
Tax Sharing for Streets	12,000	12,000	11,840	(160)
State Beer and Alcohol Tax	1,500	1,500	2,741	1,241
Total Intergovernmental	5,811,055	5,811,055	11,208,480	5,397,425
Fees and Charges for Services:				
Trolley Income	440,000	440,000	443,170	3,170
Street Maintenance Contracts	89,511	89,511	89,411	(100)
Parks & Recreation Charges	640,680	640,680	645,822	5,142
Special Events Revenues	70,000	70,000	40,438	(29,562)
Fire Protection	49,750	49,750	56,750	7,000
Online Advertising Sales	290,000	290,000	141,970	(148,030)
Police Protection	30,000	30,000	30,000	0
Tourism Income	531,250	531,250	339,895	(191,355)
Miscellaneous Income	30,500	30,500	42,161	11,661
Total Fees and Charges for Services	2,171,691	2,171,691	1,829,617	(342,074)
Fines and Penalties	223,250	223,250	268,291	45,041
Interest and Dividends	92,000	92,000	209,198	117,198
Net Loss on Investment Portfolio	0	0	(19,196)	(19,196)
Rents and Royalties	99,598	99,598	180,337	80,739
Other Revenues	65,400	65,400	157,324	91,924
Total Revenues	55,877,452	55,877,452	62,344,761	6,467,309

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

CITY OF PIGEON FORGE
GENERAL FUND
STATEMENT OF GENERAL FUND BUDGETARY COMPARISON (Continued)
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
EXPENDITURES				
Administration, Finance, and Other General Government:				
City Court:				
Personnel Costs	22,979	22,979	22,764	215
City Hall Building Operations:				
General Services	589,700	589,700	372,519	217,181
Capital Outlay	10,000	10,000	0	10,000
Total City Hall Building Operations	599,700	599,700	372,519	227,181
Financial Administration:				
Personnel Costs	990,219	1,039,219	1,028,680	10,539
Supplies	47,850	47,850	23,689	24,161
Maintenance	50,356	50,356	39,223	11,133
General Services	144,800	144,800	86,655	58,145
Total Financial Administration	1,233,225	1,282,225	1,178,247	103,978
Legislative:				
Personnel Costs	87,495	110,995	110,881	114
General Services	462,521	712,521	692,692	19,829
Total Legislative	550,016	823,516	803,573	19,943
Other General Government:				
Personnel Costs	1,419,120	895,620	140,644	754,976
Supplies	42,500	42,500	34,228	8,272
General Services	1,714,950	1,714,950	1,818,329	(103,379)
Capital Outlay	2,443,242	2,443,242	1,245,594	1,197,648
Total Other General Government	5,619,812	5,096,312	3,238,795	1,857,517
City Maintenance:				
Personnel Costs	571,759	582,759	579,177	3,582
Supplies	87,080	87,080	75,650	11,430
Maintenance	203,020	203,020	150,172	52,848
General Services	35,516	35,516	10,983	24,533
Capital Outlay	122,500	122,500	87,046	35,454
Total City Maintenance	1,019,875	1,030,875	903,028	127,847
Grant Projects:				
General Services	5,000	5,000	20,017	(15,017)
Capital Outlay - Greenway	2,538,425	2,538,425	2,275,792	262,633
Total Grant Projects	2,543,425	2,543,425	2,295,809	247,616
Total Administration, Finance, and Other General Government	11,589,032	11,399,032	8,814,735	2,584,297
City Garage:				
Personnel Costs	594,290	629,290	623,546	5,744
Supplies	62,590	62,590	43,088	19,502
Maintenance	8,100	8,100	9,912	(1,812)
General Services	63,012	63,012	44,411	18,601
Capital Outlay	28,800	28,800	26,415	2,385
Total City Garage	756,792	791,792	747,372	44,420

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

CITY OF PIGEON FORGE
GENERAL FUND
STATEMENT OF GENERAL FUND BUDGETARY COMPARISON (Continued)
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (Continued)				
Department of Tourism:				
Personnel Costs	989,722	1,018,722	991,179	27,543
Supplies	24,950	24,950	22,431	2,519
Maintenance	8,500	8,500	8,462	38
General Services	1,162,025	1,162,025	1,053,678	108,347
Capital Outlay	33,000	33,000	28,607	4,393
Advertising	10,574,488	12,009,488	12,014,893	(5,405)
Total Department of Tourism	12,792,685	14,256,685	14,119,250	137,435
Fire Protection and Control:				
Personnel Costs	2,983,093	3,096,093	3,107,359	(11,266)
Supplies	419,705	419,705	388,895	30,810
Maintenance	66,450	66,450	73,641	(7,191)
General Services	151,766	151,766	142,164	9,602
Capital Outlay	164,000	164,000	67,005	96,995
Total Fire Protection and Control	3,785,014	3,898,014	3,779,064	118,950
Highway and Streets:				
Personnel Costs	1,450,208	1,499,208	1,452,038	47,170
Supplies	231,392	231,392	166,711	64,681
Maintenance	154,014	154,014	98,014	56,000
General Services	227,424	227,424	136,504	90,920
Capital Outlay	699,257	699,257	638,705	60,552
Total Highway and Streets	2,762,295	2,811,295	2,491,972	319,323
Information Technology:				
Personnel Costs	212,337	220,337	216,247	4,090
Supplies	1,300	1,300	1,030	270
Maintenance	36,995	36,995	18,147	18,848
General Services	315,644	315,644	179,315	136,329
Capital Outlay	14,111	14,111	10,060	4,051
Total Information Technology	580,387	588,387	424,799	163,588
Library Administration:				
Personnel Costs	362,632	362,632	353,248	9,384
Supplies	43,100	43,100	33,899	9,201
Maintenance	10,500	10,500	8,100	2,400
General Services	118,780	118,780	73,695	45,085
Total Library Administration	535,012	535,012	468,942	66,070
Park Administration:				
Personnel Costs	873,802	901,802	792,552	109,250
Supplies	165,180	165,180	124,387	40,793
Maintenance	83,700	83,700	64,198	19,502
General Services	161,067	161,067	117,371	43,696
Capital Outlay	41,000	41,000	34,768	6,232
Total Park Administration	1,324,749	1,352,749	1,133,276	219,473

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

CITY OF PIGEON FORGE
GENERAL FUND
STATEMENT OF GENERAL FUND BUDGETARY COMPARISON (Continued)
For the Year Ended June 30, 2018

EXPENDITURES (Continued)	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Police:				
Personnel Costs	5,693,111	5,814,111	5,326,039	488,072
Supplies	623,519	623,519	470,059	153,460
Maintenance	171,458	171,458	130,801	40,657
General Services	157,667	157,667	83,840	73,827
Capital Outlay	556,400	556,400	546,401	9,999
Total Police	7,202,155	7,323,155	6,557,140	766,015
Protective Inspection:				
Personnel Costs	467,295	484,295	480,867	3,428
Supplies	23,800	23,800	9,925	13,875
Maintenance	45,150	45,150	43,609	1,541
General Services	13,920	13,920	6,325	7,595
Total Protective Inspection	550,165	567,165	540,726	26,439
Public Transportation Systems:				
Personnel Costs	2,533,684	2,533,684	2,096,874	436,810
Supplies	450,671	450,671	359,164	91,507
Maintenance	200,291	200,291	152,140	48,151
General Services	94,393	94,393	63,143	31,250
Total Public Transportation Systems	3,279,039	3,279,039	2,671,321	607,718
Recreation Administration/Community Center:				
Personnel Costs	1,214,851	1,260,851	1,203,722	57,129
Supplies	160,953	160,953	133,848	27,105
Maintenance	32,610	32,610	15,034	17,576
General Services	525,151	525,151	468,494	56,657
Capital Outlay	140,000	140,000	92,346	47,654
Total Recreation Administration/Community Center	2,073,565	2,119,565	1,913,444	206,121
Special Events:				
Personnel Costs	256,095	256,095	254,388	1,707
Supplies	11,900	11,900	6,601	5,299
Maintenance	5,800	5,800	5,173	627
General Services	459,040	459,040	444,800	14,240
Total Special Events	732,835	732,835	710,962	21,873
Community Development:				
Personnel Costs	276,566	292,566	292,045	521
Supplies	20,320	20,320	7,683	12,637
Maintenance	3,550	3,550	600	2,950
General Services	37,392	37,392	15,411	21,981
Total Community Development	337,828	353,828	315,739	38,089

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

CITY OF PIGEON FORGE
GENERAL FUND
STATEMENT OF GENERAL FUND BUDGETARY COMPARISON (Continued)
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
EXPENDITURES (Continued)				
Debt Service:				
Debt Service - Principal	3,830,000	3,830,000	3,830,000	0
Debt Service - Interest	1,515,515	1,515,515	1,472,715	42,800
Debt Service - Fees	0	0	42,800	(42,800)
Total Debt Service	<u>5,345,515</u>	<u>5,345,515</u>	<u>5,345,515</u>	<u>0</u>
Total Expenditures	<u>53,647,068</u>	<u>55,354,068</u>	<u>50,034,257</u>	<u>5,319,811</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,230,384</u>	<u>523,384</u>	<u>12,310,504</u>	<u>11,787,120</u>
Other Financing Sources (Uses):				
Insurance Recoveries	0	0	142,950	142,950
Transfers to Other Funds	<u>(2,230,384)</u>	<u>(2,230,384)</u>	<u>(2,230,384)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(2,230,384)</u>	<u>(2,230,384)</u>	<u>(2,087,434)</u>	<u>142,950</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	0	(1,707,000)	10,223,070	11,930,070
Fund Balance at Beginning of Year	<u>47,557,619</u>	<u>47,557,619</u>	<u>47,557,619</u>	<u>0</u>
Fund Balance at End of Year	<u>\$ 47,557,619</u>	<u>\$ 45,850,619</u>	<u>\$ 57,780,689</u>	<u>\$ 11,930,070</u>

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

CITY OF PIGEON FORGE
SPECIAL REVENUE FUND - TOURISM DEVELOPMENT ZONE FUND
STATEMENT OF TOURISM DEVELOPMENT ZONE FUND BUDGETARY COMPARISON
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
State Sales Tax	\$ 10,814,854	\$ 10,814,854	\$ 14,651,405	\$ 3,836,551
EXPENDITURES				
Debt Service - Principal	760,523	760,523	760,523	0
Debt Service - Interest	1,304,219	1,304,219	765,633	538,586
Total Expenditures	<u>2,064,742</u>	<u>2,064,742</u>	<u>1,526,156</u>	<u>538,586</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>8,750,112</u>	<u>8,750,112</u>	<u>13,125,249</u>	<u>4,375,137</u>
OTHER FINANCING SOURCES (USES)				
Transfer to LeConte Center Fund	<u>(2,683,875)</u>	<u>(2,683,875)</u>	<u>(2,683,580)</u>	<u>295</u>
Total Other Financing Sources (Uses)	<u>(2,683,875)</u>	<u>(2,683,875)</u>	<u>(2,683,580)</u>	<u>295</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	6,066,237	6,066,237	10,441,669	4,375,432
FUND BALANCES, BEGINNING OF YEAR	<u>9,429,475</u>	<u>9,429,475</u>	<u>9,429,475</u>	<u>0</u>
FUND BALANCES, END OF YEAR	<u>\$ 15,495,712</u>	<u>\$ 15,495,712</u>	<u>\$ 19,871,144</u>	<u>\$ 4,375,432</u>

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

CITY OF PIGEON FORGE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Water and Sewer Fund	LeConte Center Fund	Sports Facility Fund	Total Proprietary Funds
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 18,087,132	\$ 2,569,935	\$ 2,925,114	\$ 23,582,181
Certificates of Deposit	1,057,509	0	0	1,057,509
Investments	8,690,619	0	0	8,690,619
Receivables, Net	1,318,687	0	0	1,318,687
Sponsorships Receivable	0	0	26,898	26,898
Prepaid Items	0	0	40,803	40,803
Inventories	322,172	0	186,362	508,534
Total Current Assets	29,476,119	2,569,935	3,179,177	35,225,231
NONCURRENT ASSETS				
Restricted Cash and Cash Equivalents	1,394,903	0	0	1,394,903
Investment in Joint Venture	6,000,522	0	0	6,000,522
Capital Assets:				
Nondepreciable	15,281,719	3,185,168	12,250,178	30,717,065
Depreciable, Net of Accumulated Depreciation	66,348,104	46,443,582	16,605,666	129,397,352
Total Capital Assets, Net of Accumulated Depreciation	81,629,823	49,628,750	28,855,844	160,114,417
Total Noncurrent Assets	89,025,248	49,628,750	28,855,844	167,509,842
DEFERRED OUTFLOWS OF RESOURCES	208,220	0	0	208,220
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 118,709,587	\$ 52,198,685	\$ 32,035,021	\$ 202,943,293
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	\$ 255,629	\$ 36,945	\$ 562,795	\$ 855,369
Due to Other Funds, Net	538,455	(126)	0	538,329
Accrued Interest	178,030	188,990	0	367,020
Taxes Payable	61,957	201	37,753	99,911
Compensated Absences - Current Portion	60,000	9,000	0	69,000
Unearned Revenue	0	114,446	1,206,041	1,320,487
Long-Term Debt - Current Portion	907,604	400,000	0	1,307,604
Total Current Liabilities	2,001,675	749,456	1,806,589	4,557,720
NONCURRENT LIABILITIES				
Compensated Absences	12,318	25,961	0	38,279
Other Post-Employment Benefits	102,738	35,563	0	138,301
Long-Term Debt	61,268,580	47,350,000	0	108,618,580
Total Noncurrent Liabilities	61,383,636	47,411,524	0	108,795,160
Total Liabilities	63,385,311	48,160,980	1,806,589	113,352,880
DEFERRED INFLOWS OF RESOURCES				
Deferred Other Post-Employment Benefits Inflows	2,294	794	0	3,088
Derivative Instrument - Interest Rate Swap	1,814,321	0	0	1,814,321
NET POSITION	19,242,441	1,878,750	28,855,844	49,977,035
Net Investment in Capital Assets	19,242,441	1,878,750	28,855,844	49,977,035
Restricted for Capital Asset Activities	35,780	0	0	35,780
Unrestricted	34,229,440	2,158,161	1,372,588	37,760,189
Total Net Position	53,507,661	4,036,911	30,228,432	87,773,004
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 118,709,587	\$ 52,198,685	\$ 32,035,021	\$ 202,943,293

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

CITY OF PIGEON FORGE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2018

	Water and Sewer Fund	LeConte Center Fund	Sports Facility Fund	Total Proprietary Funds
OPERATING REVENUES				
Fees and Charges for Services	\$ 13,748,039	\$ 1,389,719	\$ 3,166,555	\$ 18,304,313
Fines and Penalties	128,418	0	0	128,418
Other Revenues	164,624	40	0	164,664
Tap Fees	303,149	0	0	303,149
Sponsorships	0	0	464,435	464,435
Total Operating Revenues	<u>14,344,230</u>	<u>1,389,759</u>	<u>3,630,990</u>	<u>19,364,979</u>
OPERATING EXPENSES				
Purification	1,402,987	0	0	1,402,987
Transmission and Distribution	1,228,618	0	0	1,228,618
Sewer System	397,537	0	0	397,537
Sewer Treatment and Disposal	2,764,559	0	0	2,764,559
Customer Accounting and Collections	163,368	0	0	163,368
Administrative and General	867,218	0	0	867,218
Personnel Costs	0	518,603	621,640	1,140,243
Supplies	0	94,044	6,550	100,594
Maintenance	0	62,983	130,652	193,635
General Services	0	940,723	2,210,445	3,151,168
Depreciation	1,961,390	1,423,531	942,290	4,327,211
Total Operating Expenses	<u>8,785,677</u>	<u>3,039,884</u>	<u>3,911,577</u>	<u>15,737,138</u>
OPERATING INCOME (LOSS)	<u>5,558,553</u>	<u>(1,650,125)</u>	<u>(280,587)</u>	<u>3,627,841</u>
NONOPERATING REVENUES (EXPENSES)				
Interest and Dividends	109,582	0	0	109,582
Debt Service Fees	(30,338)	0	0	(30,338)
Interest Expense	(2,545,318)	0	0	(2,545,318)
Interest on Capital Lease	0	(2,282,247)	0	(2,282,247)
Change in Fair Value of Investments	(38,698)	0	0	(38,698)
Change in Fair Value of Derivatives - Interest Rate Swap	507,875	0	0	507,875
Total Nonoperating Expenses	<u>(1,996,897)</u>	<u>(2,282,247)</u>	<u>0</u>	<u>(4,279,144)</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	3,561,656	(3,932,372)	(280,587)	(651,303)
TRANSFERS FROM OTHER FUNDS	<u>0</u>	<u>4,008,082</u>	<u>0</u>	<u>4,008,082</u>
CHANGE IN NET POSITION	<u>3,561,656</u>	<u>75,710</u>	<u>(280,587)</u>	<u>3,356,779</u>
NET POSITION, BEGINNING OF YEAR	50,049,046	3,996,869	30,509,019	84,554,934
RESTATEMENT OF BEGINNING NET POSITION				
- SEE NOTE 21	<u>(103,041)</u>	<u>(35,668)</u>	<u>0</u>	<u>(138,709)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED - SEE NOTE 21	<u>49,946,005</u>	<u>3,961,201</u>	<u>30,509,019</u>	<u>84,416,225</u>
NET POSITION, END OF YEAR	<u>\$ 53,507,661</u>	<u>\$ 4,036,911</u>	<u>\$ 30,228,432</u>	<u>\$ 87,773,004</u>

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

CITY OF PIGEON FORGE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2018

	Water and Sewer Fund	LeConte Center Fund	Sports Facility Fund	Total Proprietary Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received from Customers	\$ 14,414,472	\$ 1,504,205	\$ 3,844,856	\$ 19,763,533
Cash Paid to or on Behalf of Employees	(1,541,162)	(516,213)	0	(2,057,375)
Cash Paid to Suppliers	(4,887,428)	(1,607,103)	(2,823,423)	(9,317,954)
Net Cash Provided by (Used in) Operating Activities	<u>7,985,882</u>	<u>(619,111)</u>	<u>1,021,433</u>	<u>8,388,204</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(513,230)	(34,397)	(14,164)	(561,791)
Principal Paid on Debt Maturities	(859,477)	(400,000)	0	(1,259,477)
Interest Expense	(2,587,468)	(2,283,580)	0	(4,871,048)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(3,960,175)</u>	<u>(2,717,977)</u>	<u>(14,164)</u>	<u>(6,692,316)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers from Other Funds	0	4,008,082	0	4,008,082
Net Cash Provided by (Used in) Noncapital and Related Financing Activities	<u>0</u>	<u>4,008,082</u>	<u>0</u>	<u>4,008,082</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Increase of Certificates of Deposit	(4,217)	0	0	(4,217)
Purchases of Investments	(6,878,581)	0	0	(6,878,581)
Cash Receipts on Sales of Investments	1,800,000	0	0	1,800,000
Interest and Dividends	109,582	0	0	109,582
Net Cash Provided by (Used in) Investing Activities	<u>(4,973,216)</u>	<u>0</u>	<u>0</u>	<u>(4,973,216)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(947,509)	670,994	1,007,269	730,754
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>20,429,544</u>	<u>1,898,941</u>	<u>1,917,845</u>	<u>24,246,330</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 19,482,035</u>	<u>\$ 2,569,935</u>	<u>\$ 2,925,114</u>	<u>\$ 24,977,084</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows From Operating Activities				
Operating Income (Loss)	\$ 5,558,553	\$ (1,650,125)	\$ (280,587)	\$ 3,627,841
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Depreciation	1,961,390	1,423,531	942,290	4,327,211
(Increase) Decrease in Assets:				
Accounts Receivable	70,242	0	37,070	107,312
Due From Other Funds	424,219	15,007	(10,161)	429,065
Inventories	(32,159)	0	(31,849)	(64,008)
Prepaid Items	0	0	25,744	25,744
Increase (Decrease) in Liabilities:				
Accounts Payable and Accrued Expenses	(483)	(524,557)	143,682	(381,358)
Taxes Payable	(3,409)	197	18,448	15,236
Compensated Absences	5,538	1,701	0	7,239
Other Post Employment Benefits	(303)	(105)	0	(408)
Deferred Other Post Employment Benefits Inflows	2,294	794	0	3,088
Unearned Revenue	0	114,446	176,796	291,242
Total Adjustments	<u>2,427,329</u>	<u>1,031,014</u>	<u>1,302,020</u>	<u>4,760,363</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ 7,985,882</u>	<u>\$ (619,111)</u>	<u>\$ 1,021,433</u>	<u>\$ 8,388,204</u>
Supplemental Disclosure of Noncash Investing and Financing Activities				
Change in Fair Value of Derivatives - Interest Rate Swap	\$ 507,875	\$ 0	\$ 0	\$ 507,875
Amortization of Deferred Amount of Refunding	\$ 24,217	\$ 0	\$ 0	\$ 24,217
Amortization of Bond Premium	\$ (20,662)	\$ 0	\$ 0	\$ (20,662)
Change in Fair Value of Investments	\$ (38,698)	\$ 0	\$ 0	\$ (38,698)

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

CITY OF PIGEON FORGE

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The City of Pigeon Forge (the "City") is a primary government entity governed by an elected five-member board of commissioners from whom the mayor is chosen. The reporting entity also includes the City's component unit.

The Industrial Development Board of the City of Pigeon Forge (the "Board") is a non-profit corporation formed pursuant to the specific authority granted at Tennessee Code Annotated Section 7-53-101 et seq. The board members of the Board are appointed by City Council. The Board performs public functions on behalf of the City and its purpose is to undertake the financing and development of projects deemed by the Act to promote industry, trade, commerce, tourism and recreation and housing construction. The Board participates in economic development activities by serving as a conduit for financing commerce and tourism projects. The Board accounts for its operations as an enterprise fund. The Board is reported in a single column in the combined financial statements to emphasize that it is legally separate from the City. Complete financial statements for the Board may be obtained from their administrative office at 3221 Rena Street, Pigeon Forge, Tennessee 37863.

The accounting and reporting policies of the City relating to the accounts included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. All applicable GASB Statements have been implemented.

Government-Wide Statements - The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the City. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The legally separate component unit, for which the primary government is financially accountable, is reported in the government-wide financial statements in a separate column as a discretely presented component unit.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The Statement of Net Position presents the City's assets, deferred outflows or resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in three categories:

Net Investment in Capital Assets - This component of net position 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted Net Position - This component of net position consists of restrictions placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - Unrestricted net position consist of net position that does not meet the definition of "restricted" or "net investment in capital assets." These are available for current use by the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements - The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

The various fund categories and fund types presented in the financial statements are described below.

Description of Funds - In accordance with the City's charter and ordinances, several different types of funds are used to record the City's financial transactions. For financial reporting, they have been grouped and are presented in this report as follows:

Governmental Fund Types

General Fund - To account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources that are restricted by law to expenditures for specific purposes.

Capital Projects Funds - To account for the financial resources to be used for the construction or renovation of major capital facilities.

Proprietary Fund Type - Enterprise Funds

Water and Sewer System, LeConte Center and Sports Facility - To account for operations (a) that are financed and operated in a manner similar to private business enterprise - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Discretely Presented Component Unit

Industrial Development Board - The Board is included in the government-wide financial statements and is accounted for on the same basis as the City's proprietary funds.

Fund Balance Classifications - The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition* ("GASB 54") effective for the fiscal year ended June 30, 2011. GASB 54 established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications include non-spendable, restricted, committed, assigned, and unassigned and are based on the relative strength of the constraints that control how specific amounts can be spent. Also, GASB 54 clarified the definitions of the General Fund and the special revenue, capital projects, and debt service fund types. These classifications are defined as follows:

Non-spendable 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. These amounts include inventories and prepaid items.

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 City Council, the City's highest level of decision-making authority. The distinction between restricted and committed fund balances is the source and strength of the constraints placed on them.

Assigned Fund Balance - includes amounts that the City intends to use for a specific purpose, but for which the use is not legislatively mandated. City Council is the authorized body to make assignments.

Unassigned Fund Balance - the residual classification of the General Fund. 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 Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-Wide

The government-wide financial statements are reported using the economic resource measurement focus and accrual basis of accounting, as are the proprietary fund financial statements and the discretely presented component unit. 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.

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.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized only as they become susceptible to accrual (measurable and available):

- A. Revenue considered susceptible to accrual includes: property taxes, shared revenues, licenses, interest revenue and charges for services (collected within sixty days after year-end).
- B. Interest and principal on general long-term debt indebtedness are not accrued but are recorded as an expenditure on their due date.
- C. Compensated absences are not accrued but are recorded as expenditures.
- D. Disbursements for purchase of capital assets providing future benefits are considered expenditures; loan and bond proceeds are reported as other financing sources.
- E. Other tax and non-exchange revenue receivable includes local and state taxes, local beer tax, state income tax, special gross receipts tax, amusement tax, room occupancy tax, cable TV franchise tax, and state gasoline and motor fuel taxes. Certain non-exchange transactions related to minimum business tax, city and court fines and costs, and drug related fines are not recognized because they are not measurable. Certain other non-exchange transaction revenue was not recognized due to immateriality or not being susceptible to accrual.

Proprietary Funds

The City's proprietary funds use the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

Major Funds

Major Governmental Fund: The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Tourism Development Zone fund is used to primarily account for the taxes generated from activities in a portion of a tourism development zone as designated per Tennessee Code.

Major Proprietary Funds: The Water and Sewer Fund is the operating fund for the City's water and wastewater systems. The LeConte Center Fund is the operating fund for the City's LeConte Center. The Sports Facility Fund is the operating fund for the City's baseball sports complex.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discretely Presented Component Unit

The City's discretely presented component unit (Industrial Development Board) uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the fund are lease payments received from the City for the use of the LeConte Center (see Note 16). Operating expenses for the fund include general and administrative expenses and interest.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Restrictions - When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is also the City's policy that committed amounts would be reduced first, followed by assigned amounts, then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

Cash Equivalents - Cash equivalents consist of certificates of deposit, money market investment accounts and other temporary investments maturing within 90 days of original purchase, except for cash and cash equivalents held in investment accounts to be used to purchase investments.

Restricted Cash, Cash Equivalents and Investments - Cash, cash equivalents and investments in certain funds are classified as restricted because the restriction is either imposed by enabling legislation or the source of funds restricts their use to specific purposes.

Internal Activity - As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and wastewater utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Sponsorships Receivable - Sponsorships consist of corporate agreements to provide support for events and programs. The sponsor receives no substantial benefit other than the use or acknowledgement of the sponsors name, logo, or product line. Sponsorships are recognized as receivables at the execution of an agreement and revenue is recognized over the contract term.

Allowance for Doubtful Accounts - The allowance is determined using historical information and current evaluations of accounts receivable.

Investments - Investments are carried at fair value as determined by quoted market prices as of June 30, 2018, and any unrealized gain/loss is recorded in change in fair value of investments.

Inventories - Inventories are valued at the lower of cost (first-in, first-out) or market and determined by physical count. Inventories consist of parts and supplies held for consumption. The costs thereof are recorded as an expenditure when consumed rather than when purchased. Reported inventories in the General Fund are equally offset by an equal fund balance amount shown as non-spendable.

Interest Costs - The City capitalizes interest at the government wide level and proprietary fund types as a component of the cost of property, plant and equipment constructed for its own use, where appropriate.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Governmental Funds: Capital outlays are recorded as expenditures on the governmental fund financial statements and as assets on the government-wide financial statements.

Proprietary Fund Types: Capital outlays of the proprietary funds are recorded as capital assets on both the fund basis and the government-wide basis.

All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available based on independent consultant studies. Donated assets are valued at their fair market value on the date donated.

Capital assets are stated at cost or estimated original cost, net of accumulated depreciation. Depreciation on capital assets has been recorded over the estimated useful lives using the straight-line method. The City's capitalization threshold is \$5,000. Repairs and maintenance are charged to expense when incurred. When capital assets are sold or retired, the cost of the assets and the related accumulated depreciation are eliminated and a gain or loss is recognized.

Depreciation rates are as follows:

Buildings and Improvements	15-50 years
Equipment	5-20 years
Automobiles	5-30 years
Infrastructure	10-70 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. This consists of deferred charges on debt refundings resulting from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Long-Term Obligations - The City reports long-term debt and other long-term obligations as liabilities in the government-wide and proprietary fund financial statements. Bond premiums and discounts, the difference between the carrying amount of defeased debt and its reacquisition price are deferred and amortized over the life of the bond. Bond premiums and discounts are amortized proportionately to the amount of principal paid in a given year on the debt. The difference between the carrying amount of defeased debt and its reacquisition price is amortized over the shorter of the life of the refunded debt or the life of the refunding debt. Loan and bonds payable are reported net of the applicable premium or discount.

In governmental fund financial statements debt proceeds and payments, premiums and discounts, as well as issuance costs, are recognized during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

The Public Building Authority, on behalf of the City has entered into an interest rate swap agreement to modify interest rates on certain outstanding debt.

Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. Employees, upon termination of employment, are paid for accrued vacation leave. A liability for accumulated vacation that is attributable to service already rendered and that is not contingent on a specific event that is outside the control of the City and its employees is accrued as employees earn the rights to the benefits. Accumulated vacation amounts that relate to future services or that are contingent on a specific event that is outside the control of the City and its employees are accounted for in the period in which such services are rendered or such events take place. Compensated absences for vacation is accrued when incurred in government-wide and proprietary fund and reported as a fund liability. The governmental fund financial statements record an expenditure when vacation is taken and no liability is recorded.

Employees are not paid for unused sick days upon termination of employment; accordingly, sick pay is charged to expenditures when taken, and no provision has been made in the financial statements for unused sick leave.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Principles - All funds except the capital projects funds of the City operate under annual appropriations budgets. The appropriation ordinance is passed on a departmental level for the general and proprietary funds and on a fund level for the special revenue funds. The budget documents are prepared in accordance with the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America for all funds, except for the proprietary fund.

The City's policy is to include debt service fees in the interest budget line.

The City is not required to present a budget for the proprietary funds. The City's policy is to budget a nominal amount in the proprietary fund for depreciation and none for amortization.

Capital projects funds are normally budgeted over the life of the project and not on an annual basis.

The budgets are properly amended by ordinances of the board of commissioners and the budget amounts shown in the financial statements are the original budget and final budget as revised during the year. All annual appropriations lapse at fiscal year-end.

Water and Sewer Fund Revenue and Expenses - Certain revenue and expenses of the water department and sewer department that cannot be directly attributed to the operations of each division are allocated on a pro-rata basis of 60% and 40%, respectively.

Property Taxes - Property taxes are levied as of January 1 on property values assessed on the same date (the lien date). The tax levy is billed on or about October 1 of the same year. Taxes become delinquent on the first day of March and are subject to penalties of 2% per month, not to exceed 24%. Property assessments are provided by the Sevier County Tax Assessor; however, the City bills and collects its own property taxes.

Deferred Inflows of Resources - As noted above, property taxes for 2018 are recognized as an enforceable legal claim on January 1, 2018. However, the revenue net of estimated refunds and estimated uncollectible amounts is recognized in the year in which the levy occurs and therefore is deferred until the following year. The negative fair value of the derivative instrument is reported as a deferred inflow of resources. Deferred other post-employment benefits inflows represent inflows for change in assumptions for the OPEB plan.

Unearned Revenue - Unearned revenue consists of deposits received in advance for future events booked at the sports facility and sponsorships deferred which will be recognized as revenue over the term of the sponsorship agreement.

Revenues - Exchange and Nonexchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. The City records revenue as billed to its customers based on a monthly meter reading cycle in the proprietary fund. Any service rendered from the latest billing cycle date to the end of the month is unbilled and is not reflected in the financial statements.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See "Property Taxes" above.) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Tap Fees - In the Water and Sewer Fund all tap fees are recorded as operating revenue and the related cost of setting taps is expensed. The amount assessed does not substantially exceed the cost to connect.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - During the fiscal year ended June 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. The requirements of this new standard and their effect on the financial statements are more fully explained in Note 12 and Note 21.

Reclassifications - Certain amounts in the financial statements and/or accompanying footnotes related to June 30, 2017 balances may have been reclassified in order to be consistent with their classification for June 30, 2018.

NOTE 2 - CASH AND CERTIFICATES OF DEPOSIT

Custodial Credit Risk - Deposits - In the case of cash and certificates of deposit, this is the risk that in the event of a bank failure, the City's deposits will not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City follows State law regarding collateralization of deposits, which requires collateral to be obtained on any deposits exceeding insurance coverage of the Federal Deposit Insurance Corporation (FDIC). As of June 30, 2018, the book balances of cash, certificates of deposit, and restricted cash totaled \$86,661,079 and the bank balances totaled \$87,098,564 (\$1,994,508 of which was covered by FDIC insurance, \$63,261,902 was insured by the Tennessee Bank Collateral Pool Board of the State of Tennessee Treasury Department and \$21,842,154 which is in a financial institution not participating in the bank pool, but this institution pledges collateral held in safekeeping by a third party bank acting as an agent of the City in the City's name).

The Board has book and bank balances of cash and restricted cash totaling \$1,239 as of June 30, 2018. The Board has no balance of uninsured cash as of June 30, 2018.

NOTE 3 - INVESTMENTS

Investment Policies

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the holder of the investment. Investing is performed in accordance with investment policies which comply with applicable state statutes. The City's Investment Policy allows only investments in the highest-grade securities. As of June 30, 2018, The City's investment holdings were in compliance with state statutes.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City places no limit on the amount it may invest in any one issuer. As of June 30, 2018, 100% of the City's investments are in U.S. Treasuries. All U.S. Treasuries have an Aaa credit rating.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment broker at June 30, 2018 provides Securities Investor Protection Corporation (SIPC) and other insurance.

As of June 30, 2018, the City had the following investments:

	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 2 Years</u>	<u>2 - 4 Years</u>
Investments				
Primary Government:				
U.S. Treasuries	\$ <u>20,621,481</u>	\$ <u>10,887,918</u>	\$ <u>9,733,563</u>	\$ <u>0</u>

NOTE 4 - FAIR VALUE OF INVESTMENTS

GASB Statement 72 *Fair Value Measurements and Disclosures* (GASB 72) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB 72 also established a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2018:

U.S. Treasuries - Actively traded individual debt securities are valued at the quoted market prices for identical assets in active markets. For non-actively traded individual debt securities are valued using pricing models that maximize the use of observable inputs for similar securities which includes the yield currently available on comparable securities of issuers with similar maturities and credit ratings.

Derivative Liabilities - Interest Rate Swap - Valued based on the interest rate swap agreement's valuation models and assumptions and available market data.

The following table summarizes the assets and liabilities of the City and Board for which fair values are determined on a recurring basis as of June 30, 2018:

	Carrying Amount in the Balance Sheet	Fair Value Measurements Using		
		Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary Government Investments:				
U.S. Treasuries	\$ 20,621,481	\$ 20,621,481	\$ 0	\$ 0
Derivative Liability:				
Derivative Liability - Interest Rate Swap	\$ 1,814,321	\$ 0	\$ 1,814,321	\$ 0

NOTE 5 - OTHER TAX AND NONEXCHANGE REVENUE RECEIVABLE

Receivables as of year-end for the government's individual major funds and nonmajor funds in the aggregate, including allowances for uncollectible accounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Other Tax and Nonexchange Revenue Receivable:			
Interest	\$ 7,827	\$ 0	\$ 7,827
Taxes:			
Sales	1,375,926	0	1,375,926
Special Gross Receipts	1,551,956	0	1,551,956
Amusement	661,273	0	661,273
Restaurant	337,516	0	337,516
Room Occupancy	798,511	0	798,511
Premier Resort	1,314,678	0	1,314,678
Gasoline (Restricted for Streets and Highways)	0	56,818	56,818
Wholesale Beer	95,267	0	95,267
Minimum Business	34,283	0	34,283
Other	98,740	0	98,740
Intergovernmental	1,801,628	0	1,801,628
Total Other Tax and Nonexchange Revenue Receivable	\$ 8,077,605	\$ 56,818	\$ 8,134,423

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2018 is as follows:

	Due From Other Funds	Due to Other Funds	Total Internal Balances
Governmental Activities:			
General Fund	\$ 437	\$ (19,871,270)	\$ (19,870,833)
Tourism Development Zone Fund	19,871,144	0	19,871,144
Nonmajor Funds	538,337	(319)	538,018
Total Governmental Activities	<u>\$ 20,409,918</u>	<u>\$ (19,871,589)</u>	<u>\$ 538,329</u>
Business-type Activities:			
Water and Sewer	\$ 0	\$ (538,455)	\$ (538,455)
LeConte Center	126	0	126
Sports Facility	0	0	0
Total Business-type Activities	<u>\$ 126</u>	<u>\$ (538,455)</u>	<u>\$ (538,329)</u>

These balances relate primarily to the reimbursement of expenditures incurred, or income earned, by one fund but paid by, or received by, another fund. All interfund balances are short term and scheduled to be collected/paid in the subsequent year.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Interfund transfers during the fiscal year were as follows:

	<u>Transfers From:</u>		
	<u>Governmental Activities</u>		
	General Fund	Tourism Development Zone Fund	Total
<u>Transfers To:</u>			
<i>Governmental Activities:</i>			
Nonmajor Funds	\$ 905,882	\$ 0	\$ 905,882
<i>Business-type Activities:</i>			
LeConte Center Fund	<u>1,324,502</u>	<u>2,683,580</u>	<u>4,008,082</u>
	<u>\$ 2,230,384</u>	<u>\$ 2,683,580</u>	<u>\$ 4,913,964</u>

Transfers at the fund level are used to (1) move revenues or other cash receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 40,096,541	\$ 0	\$ 0	\$ 40,096,541
Construction in Progress	<u>13,364,530</u>	<u>2,210,909</u>	<u>(759,296)</u>	<u>14,816,143</u>
Total Capital Assets, Not Being Depreciated	<u>53,461,071</u>	<u>2,210,909</u>	<u>(759,296)</u>	<u>54,912,684</u>
Capital Assets, Being Depreciated:				
Buildings	19,377,369	385,551	0	19,762,920
Improvements other than Buildings	11,168,030	74,690	0	11,242,720
Equipment	6,117,186	498,135	(52,275)	6,563,046
Automobiles	16,468,874	1,452,577	(718,814)	17,202,637
Infrastructure	<u>58,821,003</u>	<u>0</u>	<u>0</u>	<u>58,821,003</u>
Total Capital Assets, Being Depreciated	<u>111,952,462</u>	<u>2,410,953</u>	<u>(771,089)</u>	<u>113,592,326</u>
Less accumulated depreciation for:				
Buildings	(8,403,469)	(497,962)	0	(8,901,431)
Improvements other than Buildings	(5,388,344)	(485,804)	0	(5,874,148)
Equipment	(4,518,035)	(354,960)	52,275	(4,820,720)
Automobiles	(9,307,138)	(1,102,423)	625,113	(9,784,448)
Infrastructure	<u>(20,078,093)</u>	<u>(1,001,339)</u>	<u>0</u>	<u>(21,079,432)</u>
Total Accumulated Depreciation	<u>(47,695,079)</u>	<u>(3,442,488)</u>	<u>677,388</u>	<u>(50,460,179)</u>
Total Capital Assets, Being Depreciated, Net	<u>64,257,383</u>	<u>(1,031,535)</u>	<u>(93,701)</u>	<u>63,132,147</u>
Governmental Activities Capital Assets, Net	<u>\$ 117,718,454</u>	<u>\$ 1,179,374</u>	<u>\$ (852,997)</u>	<u>\$ 118,044,831</u>

(Table continued on next page.)

NOTE 7 - CAPITAL ASSETS (Continued)

Business-Type Activities:

Capital Assets, Not Being Depreciated:				
Land and Land Rights	\$ 29,721,159	\$ 0	\$ 0	\$ 29,721,159
Construction in Progress	694,535	358,589	(57,218)	995,906
Total Capital Assets, Not Being Depreciated	<u>30,415,694</u>	<u>358,589</u>	<u>(57,218)</u>	<u>30,717,065</u>
Capital Assets, Being Depreciated:				
Buildings	70,105,765	0	0	70,105,765
Water Plant and Improvements other than Buildings	36,782,814	64,990	0	36,847,804
Equipment	3,909,329	48,562	(30,000)	3,927,891
Automobiles	1,071,404	126,003	(63,264)	1,134,143
Infrastructure	53,477,678	20,865	0	53,498,543
Total Capital Assets, Being Depreciated	<u>165,346,990</u>	<u>260,420</u>	<u>(93,264)</u>	<u>165,514,146</u>
Less Accumulated Depreciation for:				
Buildings	(4,154,762)	(1,594,067)	0	(5,748,829)
Water Plant and Improvements other than Buildings	(3,628,643)	(1,200,525)	0	(4,829,168)
Equipment	(1,071,941)	(337,905)	30,000	(1,379,846)
Automobiles	(609,432)	(68,081)	63,264	(614,249)
Infrastructure	(22,418,069)	(1,126,633)	0	(23,544,702)
Total Accumulated Depreciation	<u>(31,882,847)</u>	<u>(4,327,211)</u>	<u>93,264</u>	<u>(36,116,794)</u>
Total Capital Assets, Being Depreciated, Net	<u>133,464,143</u>	<u>(4,066,791)</u>	<u>0</u>	<u>129,397,352</u>
Business-type Activities Capital Assets, Net	<u>\$ 163,879,837</u>	<u>\$ (3,708,202)</u>	<u>\$ (57,218)</u>	<u>\$ 160,114,417</u>

Depreciation was charged to primary government governmental activities as follows:

Administration, Finance and Other General Government:	
Administration/Finance	\$ 123,350
City Maintenance	60,858
City Garage	23,940
Community Development	5,649
Department of Tourism	74,576
Fire Protection	257,668
Highways and Streets	1,272,377
Library Administration	32,910
Park Administration	373,768
Police Protection	321,126
Protective Inspection	1,463
Public Transportation System	455,013
Recreation Administration/Community Center	222,585
Sanitation	190,659
Special Events	26,546
Total Governmental Depreciation	<u>\$ 3,442,488</u>

At June 30, 2018, the City had significant contractual commitments for construction totaling approximately \$7,669,000 with total related expenditures to date of approximately \$7,545,000.

NOTE 8 - EQUIPMENT AND OTHER LEASE COMMITMENTS

The City has equipment leases that are classified as operating leases. Rental expense under all operating leases amounted to \$14,153. The contracts provide for termination of the leases under certain conditions.

Also, see Notes 15 and 16 for other lease agreements.

NOTE 9 - LONG-TERM OBLIGATIONS AND INTEREST RATE SWAP

The long-term obligations outstanding and the changes therein for the year ended June 30, 2018 are as follows:

Debt Issue	Balance July 01, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion
Governmental Activities:					
Long-Term Debt:					
General Obligation Bonds:					
Refunding, Series 2008A	\$ 291,880	\$ 0	\$ 291,880	\$ 0	\$ 0
Refunding, Series 2009B	6,670,000	0	2,140,000	4,530,000	2,230,000
Series 2012	22,875,000	0	775,000	22,100,000	800,000
Series 2014	9,085,000	0	345,000	8,740,000	360,000
Series 2015	9,170,000	0	370,000	8,800,000	380,000
Refunding, Series 2016	8,166,283	0	93,644	8,072,639	387,396
Series 2017	5,460,000	0	450,000	5,010,000	485,000
Loans Payable to the Public:					
Building Authority of Sevier County:					
Loan Series VII-K-1	17,120,000	0	125,000	16,995,000	150,000
Premium on Issuance	2,179,062	0	239,793	1,939,269	0
Total Long-Term Debt	<u>\$ 81,017,225</u>	<u>\$ 0</u>	<u>\$ 4,830,317</u>	<u>\$ 76,186,908</u>	<u>\$ 4,792,396</u>

Business-Type Activities:

Long-Term Debt					
General Obligation Bonds,					
Refunding, Series 2008A	\$ 208,102	\$ 0	\$ 208,102	\$ 0	\$ 0
Refunding, Series 2009	580,000	0	190,000	390,000	195,000
Series 2010	45,000,000	0	0	45,000,000	0
Refunding, Series 2016	1,548,717	0	16,373	1,532,344	27,604
Refunding, Series 2017	4,145,000	0	10,000	4,135,000	225,000
Loans Payable to the Public					
Building Authority of Sevier County:					
Loan Series VII-K-1	11,435,000	0	435,000	11,000,000	460,000
Premium on Issuance	139,504	2,212	22,876	118,840	0
Capital Lease	48,150,000	0	350,000	47,800,000	400,000
Total Long-Term Debt	<u>\$ 111,206,323</u>	<u>\$ 2,212</u>	<u>\$ 1,232,351</u>	<u>\$ 109,976,184</u>	<u>\$ 1,307,604</u>

During 2011, the City issued \$45,000,000 in General Obligation Bonds - Series 2010 (Federally Taxable - Build America Bonds). Interest payments are made semi-annually at a gross interest rate of 6.875%, or at a net rate of 3.78%. The City receives a direct subsidy of 41.76% from the United States Government that reduces its interest costs. The City has no assurance that the United States Government will continue to make the direct subsidy payments or reduce the amount of future subsidies. Interest subsidies received by the City during 2017 totaled \$1,334,137.

Component Unit:	Balance July 01, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion
Long-Term Debt					
Public Facility Bonds, Series 2011	\$ 48,150,000	\$ 0	\$ 400,000	\$ 47,750,000	\$ 400,000
Total Long-Term Debt	48,150,000	0	400,000	47,750,000	400,000
Premiums on Issuance	1,643,594	0	86,127	1,557,467	0
Total Long-Term Obligations	<u>\$ 49,793,594</u>	<u>\$ 0</u>	<u>\$ 486,127</u>	<u>\$ 49,307,467</u>	<u>\$ 400,000</u>

NOTE 9 - LONG-TERM OBLIGATIONS AND INTEREST RATE SWAP (Continued)

General obligation bonds and loans payable currently outstanding are as follows:

<u>Debt Issue</u>	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance June 30, 2018</u>
Governmental Activities:					
Loan Payable to the Public Building Authority of Sevier County - Series VII-K-1	5.00%	6/1/2011	6/1/2034	\$ 17,235,000	\$ 16,995,000
General Obligation Refunding Bonds - Series 2009B	2.50% - 4.25%	11/19/2009	6/1/2020	17,750,000	4,530,000
General Obligation Bonds Series 2012	2.50% - 4.00%	6/28/2012	6/1/2037	25,000,000	22,100,000
General Obligation Bonds Series 2014	2.00% - 3.50%	12/18/2014	6/30/2037	9,750,000	8,740,000
General Obligation Bonds Series 2015	2.00% - 3.00%	2/20/2015	6/30/2037	9,890,000	8,800,000
General Obligation Refunding Bonds - Series 2016	2.00%	11/30/2016	6/1/2028	8,166,283	8,072,639
General Obligation Bonds Series 2017	2.00% - 4.00%	4/20/2017	6/1/2027	5,460,000	5,010,000
Total Governmental Activities Debt					\$ <u>74,247,639</u>
Business-Type Activities:					
Loan Payable to the Public Building Authority of Sevier County - Series VII-K-1	See interest rate swap information below	6/1/2011	6/1/2034	\$ 12,465,000	\$ 11,000,000
General Obligation Refunding Bonds - Series 2009	3.00% - 3.80%	3/12/2009	6/1/2020	3,465,000	390,000
General Obligation Bonds - Series 2010	6.875% - 7.125%	12/29/2010	6/1/2040	45,000,000	45,000,000
General Obligation Refunding Bonds - Series 2016	2.00%	11/30/2016	6/1/2028	1,548,717	1,532,344
General Obligation Refunding Bonds - Series 2017	2.00% - 2.50%	4/20/2017	6/1/2028	4,145,000	4,135,000
Total Business-Type Activities Debt					\$ <u>62,057,344</u>
Component Unit:					
Long-Term Debt Public Facility Bonds, Series 2011	3.00% - 5.00%	8/23/2011	6/1/2036	\$ 49,445,000	\$ <u>47,750,000</u>

All bonds and loans are backed by the full faith and credit of the City. The City has pledged tourism development zone revenue as collateral to repay its Series VII-K-1, Series 2010, Series 2012, Series 2016 and Series 2017 long-term debt. These debt issues were used primarily to fund public improvement projects of the City. For the year ended June 30, 2018, principal and interest payments on these debt issues were approximately 28% of the pledged revenue. Principal and interest remaining to be paid on VII-K-1, Series 2010, Series 2012, Series 2016, and Series 2017 is approximately \$88,462,000, of which \$43,840,000 will be funded by governmental activities, based on market interest rates effective on June 30, 2018.

Additionally, the City has pledged future water and sewer operating revenues to repay its proprietary fund long-term debt. The debt issues of the proprietary fund, which mature through 2040, were used primarily to fund water and sewer improvement projects. For the year ended June 30, 2018, principal and interest payments on these debt issues were approximately 24% of the pledged revenue. Principal and net interest remaining to be paid on the proprietary fund debt is approximately \$97,580,000, based on market interest rates effective on June 30, 2018.

NOTE 9 - LONG-TERM OBLIGATIONS AND INTEREST RATE SWAP (Continued)

Loans payable as of June 30, 2018 consist of loans payable to the Public Building Authority of Sevier County (Authority). The loan agreements provide for the Authority to issue variable rate local government improvement bonds and loan the proceeds to the City on an as needed basis for various capital projects. In connection therewith, the Authority, under these loan agreements, at the request of and on behalf of the City, has entered into an interest rate swap agreement for certain of these local government improvement bonds.

Also, see Note 17 related to conduit debt of the City's component unit (IDB).

Interest Rate Swap

Under its loan agreement, the Public Building Authority of Sevier County, Tennessee (the "Authority"), at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series IV-E-1. The Series IV-E-1 bonds have since been refunded with a portion of the proceeds of the Series VII-K-1 bonds, and the interest rate swap is now associated with the Series VII-K-1.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by city governments. Derivative instruments are financial arrangements used by governments as investments; hedges against identified financial risks; or to lower the costs of borrowings. Interest rate swaps and locks, options, swaptions, forward contracts, and futures contracts are among the commonly used types of derivatives mentioned in GASB Statement No. 53. This GASB statement requires most derivatives to be reported at fair value in the statement of net positions. Changes in fair value for derivative instruments that are reported like investment derivative instruments because of ineffectiveness are reported as changes in the statement of activities. Alternatively, the changes in fair value of derivative instruments that are classified as hedging (i.e. effective) derivative instruments are reported in the statement of net position as deferrals. Interest rate swaps are classified as hedging derivative instruments if the hedging instruments meet effectiveness criteria established by GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The swap agreement described below did not meet that criteria and therefore is classified as an investment derivative.

Objective of the Interest Rate Swap - In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Authority, on behalf of the City, entered into an interest rate swap in connection with its \$13 million Series IV-E-1 bond issue which has now been refunded to Series VII-K-1. The intention of the swap is to effectively change the City's variable interest rates on the bonds to synthetic fixed rates.

Terms - Under the swap, the Authority pays the counterparty a fixed payment of 4.44% and receives a variable payment computed as 63.1% of the five-year London Interbank Offered Rate (LIBOR). The bonds hedged by the interest rate swap agreement had an original outstanding principal amount of \$13 million. At no time will the notional amount on interest rate swap agreement exceed the outstanding principal of the Series VII-K-1 Bonds. The bonds' variable-rates have historically approximated the Securities Industry and Financial Markets Association Index (the "SIFMA"). The related swap agreement matures on June 1, 2030. As of June 30, 2018, rates were as follows:

	<u>Terms</u>	<u>Rates</u>
Interest Rate Swap:		
Fixed Payment to Counterparty	Fixed	4.44%
Variable Payment from Counterparty	% LIBOR	-1.82%
Net Interest Rate Swap Payments		<u>2.62%</u>
True Interest Cost		<u>2.01%</u>
Synthetic Interest Rate on Bonds		<u>4.63%</u>

NOTE 9 - LONG-TERM OBLIGATIONS AND INTEREST RATE SWAP (Continued)

The terms and rates of the outstanding swap as of June 30, 2018, were as follows.

<u>Associated Debt Issue</u>	<u>Original Notional Amount</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Synthetic Rate</u>	<u>Swap Termination Date</u>
Business-Type Activities						
Loan Payable to the Public Building Authority of Sevier County - Series IV-E-1 ¹	\$ 13,000,000	12/28/2001	4.44%	63.10% of 5 Year LIBOR	4.63%	06/01/2030

¹Refunded to Series V-H-1 previously and then to Series VII-K-1 in 2011.

Fair Value - As of June 30, 2018, the swap has a negative fair value. The negative fair value of the swap may be countered by reductions in total interest payments required under the underlying bond, creating lower synthetic rates. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows to their present value.

The current notional and fair value amounts of the outstanding swap as of June 30, 2018, were as follows.

<u>Associated Debt Issue</u>	<u>Changes in Fair Value</u>		<u>Fair Value at June 30, 2018</u>		<u>June 30, 2018</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional Amount</u>
Business-Type Activities					
Investment Derivative:					
Loan Payable to the Public Building Authority of Sevier County - Series IV-E-1 ¹	Interest and Investment Earnings	\$ 507,875	Deferred Inflow of Resources	\$ (1,814,321)	\$ 11,000,000

¹Refunded to Series V-H-1 previously and then to Series VII-K-1 in 2011.

Credit Risk - As of June 30, 2018, the City was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the City would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty, Morgan Keegan Financial Products, was rated Baa1/BB+ by Moody's and Standard and Poor's as of June 30, 2018, with its Credit Support Provider, Deutsche Bank, rated A3/BBB+/A- by Moody's, Standard & Poor's and Fitch, respectively.

Basis Risk - As noted above, the swap exposes the City to basis risk should the rate on the bonds increase to above 63.10% of LIBOR, thus increasing the synthetic rate on the bonds. If a change occurs that results in the rate on the bonds to be below 63.1% 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 underlying bonds 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.

NOTE 9 - LONG-TERM OBLIGATIONS AND INTEREST RATE SWAP (Continued)

Swap Payments and Associated Debt - As of June 30, 2018, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain unchanged, for their terms were as shown below. As rates vary, variable-rate bond interest payments and net swap payments will vary. The following schedules do not include fees paid to administer the debt. These fees are expensed as incurred and are based on the amount of principal outstanding.

Governmental Activities:

Year Ending June 30,	General Obligation Bonds		Loans Payable to Public Building Authority		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 4,642,396	\$ 1,773,426	\$ 150,000	\$ 849,750	\$ 4,792,396	\$ 2,623,176
2020	4,768,468	1,601,103	175,000	842,250	4,943,468	2,443,353
2021	2,921,521	1,429,433	1,015,000	833,500	3,936,521	2,262,933
2022	3,067,660	1,339,203	1,085,000	782,750	4,152,660	2,121,953
2023	3,177,709	1,248,949	1,095,000	728,500	4,272,709	1,977,449
2024-2028	16,779,885	4,935,284	5,885,000	2,804,000	22,664,885	7,739,284
2029-2033	11,290,000	2,956,801	6,990,000	849,000	18,280,000	3,805,801
2034-2037	10,605,000	913,012	600,000	30,000	11,205,000	943,012
	<u>\$ 57,252,639</u>	<u>\$ 16,197,211</u>	<u>\$ 16,995,000</u>	<u>\$ 7,719,750</u>	<u>\$ 74,247,639</u>	<u>\$ 23,916,961</u>

Business-Type Activities:

Year Ending June 30,	General Obligation Bonds				Loans Payable to Public Building Authority *			Total		
	Principal	Coupon Interest	BABS Treasury Rebate	Net Interest	Principal	Interest	Interest Rate Swaps, Net	Principal	Net Interest	Interest Rate Swaps, Net
2019	\$ 447,604	\$ 3,332,955	\$ (1,331,598)	\$ 2,001,357	\$ 460,000	\$ 221,183	\$ 287,798	\$ 907,604	\$ 2,222,540	\$ 287,798
2020	446,532	3,315,993	(1,331,598)	1,984,395	485,000	211,933	275,763	931,532	2,196,328	275,763
2021	513,479	3,299,052	(1,331,598)	1,967,454	765,000	202,181	263,074	1,278,479	2,169,635	263,074
2022	582,340	3,280,883	(1,331,598)	1,949,285	810,000	186,799	243,059	1,392,340	2,136,084	243,059
2023	617,291	3,259,236	(1,331,598)	1,927,638	855,000	170,512	221,866	1,472,291	2,098,150	221,866
2024-2028	6,700,098	15,987,788	(6,611,844)	9,375,944	5,120,000	572,461	744,874	11,820,098	9,948,405	744,874
2029-2033	13,425,000	13,219,500	(5,545,580)	7,673,920	2,505,000	76,308	99,290	15,930,000	7,750,228	99,290
2034-2038	19,400,000	7,421,094	(3,113,149)	4,307,945	0	0	0	19,400,000	4,307,945	0
2039-2040	8,925,000	960,094	(402,759)	557,335	0	0	0	8,925,000	557,335	0
	<u>\$ 51,057,344</u>	<u>\$ 54,076,595</u>	<u>\$ (22,331,322)</u>	<u>\$ 31,745,273</u>	<u>\$ 11,000,000</u>	<u>\$ 1,641,377</u>	<u>\$ 2,135,724</u>	<u>\$ 62,057,344</u>	<u>\$ 33,386,650</u>	<u>\$ 2,135,724</u>

* Includes interest rate swap effective through 2030.

Component Unit Activities:

Year Ending June 30,	Public Facility Bonds	
	Principal	Interest
2019	\$ 400,000	\$ 2,267,875
2020	450,000	2,251,875
2021	2,000,000	2,238,375
2022	2,000,000	2,146,250
2023	2,000,000	2,046,250
2024-2028	12,100,000	8,563,750
2029-2033	15,700,000	5,433,750
2034-2036	13,100,000	1,260,000
	<u>\$ 47,750,000</u>	<u>\$ 26,208,125</u>

NOTE 10 - OTHER LONG-TERM LIABILITIES

Changes in other long-term liabilities for the year ended June 30, 2018 are as follows:

	Balance July 01, 2017	Increases	Decreases	Balance June 30, 2018	Current Portion
Governmental Activities:					
Compensated Absences	\$ 937,266	\$ 767,764	\$ 712,343	\$ 992,687	\$ 663,000
Other Postemployment Benefits	1,026,451	76,752	79,775	1,023,428	0
Total Other Long-Term Liabilities					
Governmental Activities	<u>\$ 1,963,717</u>	<u>\$ 844,516</u>	<u>\$ 792,118</u>	<u>\$ 2,016,115</u>	<u>\$ 663,000</u>
Business-Type Activities:					
Compensated Absences	\$ 100,040	\$ 80,531	\$ 73,291	\$ 107,280	\$ 69,000
Other Postemployment Benefits	138,709	10,371	10,780	138,300	0
Total Other Long-Term Liabilities					
Business-Type Activities	<u>\$ 238,749</u>	<u>\$ 90,902</u>	<u>\$ 84,071</u>	<u>\$ 245,580</u>	<u>\$ 69,000</u>

NOTE 11 - RETIREMENT PLANS

Deferred Compensation Plan

The City, through its City of Pigeon Forge, Inc. Deferred Compensation Plan, a single employer plan, provides benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months of employment and attaining age 21. Participating employees may contribute up to the maximum amount allowable under IRS code. In order to receive the City's 5% contribution, participating employees must also contribute a minimum of 5% to the plan. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after seven years of continuous service. Employees who leave employment or cease participation before seven years of service forfeit the City's portion of contributions and the related interest. The amount forfeited may be used to reduce the City's current period contribution requirement.

The following is a schedule of contributions to the deferred compensation plan for the fiscal year ending June 30, 2018:

Total Employee Contributions	\$ 836,379
City's Contributions to the Plan, Net of Forfeitures	523,895
Total Contributions to the Plan, Net of Forfeitures	<u>\$ 1,360,274</u>

Employee Retirement Plan

Effective June 1, 2006, the City froze its City of Pigeon Forge, Inc. Employees' Pension Plan, a single employer defined contribution plan. This plan no longer receives employee or employer contributions. Employees will continue to maintain account holdings (plus investment earnings/losses) in this plan and will be entitled to withdrawals as outlined in the plan document.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

General Information About the OPEB Plan

Plan Description - The City provides certain post-employment benefits to certain retirees (including former commissioners who have obtained 15 years of service with the City). The City will allow the retirees and their dependents to participate in the City’s health insurance plan and the City will pay all related premiums. Former employees that have attained the age of 62 and have at least 15 years of consecutive services may obtain health insurance coverage until the earlier of age 65, Medicare eligibility, or covered by another individual health insurance plan. The City will also provide health insurance coverage, for employees and their dependents that are deemed 100% disabled and have at least 15 years of consecutive service, for a period of 18 to 29 months or until such time the employee becomes eligible for Social Security benefits.

Benefits Provided – The City’s healthcare plan is insured and serviced by Blue Cross Blue Shield of Tennessee. A premium is paid for medical coverage which is not age related. However, the underlying cost of the medical coverage does vary by age, as medical costs tend to increase with age. As a result, older employees receive a more valuable benefit than younger employees. As the premium paid for retirees is the same as for active employees, a more valuable benefit is received by retirees as compared to younger, active employees. GASB 75 defines this benefit as an implicit rate subsidy and it is to be valued under the standards.

Employees Covered by Benefit Terms – At July 1, 2017, the following employees of the City were covered by the benefit terms of the Plan:

	2017
Inactive Employees Currently Receiving Benefit Payments	10
Inactive Employees Entitled to but Not Yet Receiving Benefit Payments	0
Active Employees	294
Total Participants	304

The contribution requirements are established and may be amended by the City. The Plan is currently being funded on a pay-as-you-go basis, whereby amounts paid to retirees are the only contributions. There are no assets accumulating in a trust that meets that criteria of paragraph 4 of GASB Statement No. 75. For the fiscal year ended June 30, 2018, the City paid \$33,337 to the Plan for OPEB benefits as they came due.

Total OPEB Liability

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.00%
Healthcare Cost Trend Rates	4.50% for 2018, remaining stagnant over the course of the next several periods.
Retiree’s Share of Benefit-Related Costs	No member contributions are required.

Actuarial valuations of an ongoing plan involve estimates of value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Total OPEB Liability (Continued)

The actuarial demographic assumptions used in the June 30, 2017 actuarial valuation were based on the results of past experience. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. The mortality rates employed in this valuation are taken from the Group Annuity 1983 Mortality Table.

Discount Rate - The discount rate used to measure the total OPEB liability as of June 30, 2018 was 3.87% (3.58% as of June 30, 2017). This rate reflects the interest rate derived from yields on 20-year, tax-exempt general obligation municipal bonds, prevailing on the measurement date, with an average rating of AA/Aa as shown on the Bond Buyer's 20-Year Municipal GO index.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
<u>Balances at July 1, 2017 - as Restated - (See Note 21)</u>	<u>\$ 1,165,161</u>
Changes for the Year	
Service Cost	44,417
Interest	42,706
Change in Assumptions	(27,434)
Benefit Payments	(63,122)
Net Changes	<u>(3,433)</u>
<u>Balances at June 30, 2018</u>	<u>\$ 1,161,728</u>

Changes in Assumptions - The discount rate was changed from 3.58% as of the beginning of the measurement period to 3.87% as of June 30, 2018. This change in assumption increased the total OPEB liability.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability related to The Plan, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

<u>Total OPEB Liability</u>	<u>1% Decrease (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase (4.87%)</u>
2018	<u>\$ 1,261,742</u>	<u>\$ 1,161,728</u>	<u>\$ 1,070,983</u>

Sensitivity of Total OPEB Liability to Changes in the Healthcare Cost Trend Rate - The following presents the total OPEB liability related to the plan, as well as what the total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (3.50%) or 1-percentage-point higher 5.50%) than the current healthcare cost trend rate.

<u>Total OPEB Liability</u>	<u>1% Decrease (3.50%)</u>	<u>Healthcare Cost Trend Rates (4.50%)</u>	<u>1% Increase (5.50%)</u>
2018	<u>\$ 1,040,197</u>	<u>\$ 1,161,728</u>	<u>\$ 1,303,170</u>

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPEB Expense - For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$83,700.

Deferred Outflows of Resources and Deferred Inflows of Resources - For the fiscal year ended June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in Assumptions	\$ 0	\$ 25,943

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

<u>For the Years ended June 30:</u>	
2019	\$ (1,441)
2020	(1,441)
2021	(1,441)
2022	(1,441)
2023	(1,441)
Thereafter	<u>(18,738)</u>
Total	<u>\$ (25,943)</u>

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

NOTE 13 - JOINT VENTURES AND OTHER INTERLOCAL GOVERNMENTAL AGREEMENTS

Sevier Solid Waste, Inc.

In 1988, the City entered into a joint venture with the City of Gatlinburg, the City of Sevierville, and Sevier County to create Sevier Solid Waste, Inc. Sevier Solid Waste, Inc. is a non-profit organization created under the laws of the State of Tennessee for the purpose of developing and implementing a comprehensive program for the collection, transportation, disposal, and recycling of solid waste generated within the cities of Gatlinburg, Pigeon Forge, Sevierville, and Sevier County, Tennessee. The Corporation received a pro-rata contribution from each of the governmental units when the management of the operation was assumed from the City of Gatlinburg in July 1990. Sevier Solid Waste, Inc. was formed pursuant to a mutual inter-local cooperation agreement between each of the governmental entities.

Sevier Solid Waste, Inc. is governed by a board of directors, which consists of one representative appointed from each governmental unit. Each director has a 25% vote. The Public Building Authority of Sevier County issued in 1995 the Solid Waste Facility Bonds, Series 1995 in the amount of \$12,500,000 to finance the capital needs of Sevier Solid Waste, Inc. In 2005, the remaining balance of these Series 1995 bonds was refinanced through the Public Building Authority of Sevier County with new bonds, Series VI-E-1, with the City's pro-rata portion being 26.19%. In 1999, the Public Building of Sevier County issued Solid Waste Facility Bonds, Series III-E-3 in the amount of \$2,500,000 to finance the capital needs of Sevier Solid Waste, Inc., with the City's pro-rata portion being 26.9%. During 2009, these debt issuances were refinanced with each governmental unit issuing debt for their pro-rata share of the outstanding debt. The City of Pigeon Forge issued \$1,635,000 in bonds (included in Series 2009 refunding bonds) for its portion of the outstanding Sevier Solid Waste Facility Bonds (see Note 9). Each governmental unit is assessed for its share of the operational costs of Sevier Solid Waste based on a preset tipping fee multiplied by the total tonnage of solid waste taken to the facility each month by the governmental entity. For the year ended June 30, 2018, the City's portion of solid waste disposal services performed was \$927,200. Complete financial statements for Sevier Solid Waste, Inc. may be obtained from their administrative office at 1826 Ridge Road, Pigeon Forge, Tennessee 37876.

NOTE 13 - JOINT VENTURES AND OTHER INTERLOCAL GOVERNMENTAL AGREEMENTS (Continued)

Sevier Water Board, Inc.

In 1994, the City entered into a joint venture with the City of Gatlinburg, the City of Sevierville, and Sevier County to create the Sevier Water Board, Inc. Sevier Water Board, Inc. is a non-profit organization created under the laws of the State of Tennessee. The purpose of the joint venture is to secure future sources of raw water for the use and benefit of the participants' citizens. An inter-local cooperation agreement, dated December 14, 1994, was entered into providing for the development of facilities for the intake of raw water from Douglas Lake and transmission of the raw water to treatment facilities servicing the participants' respective distribution systems.

The City of Pigeon Forge, through an inter-local agreement with Sevier County, the City of Gatlinburg, and the City of Sevierville agreed that it was in the best interest of these cooperative governments to jointly construct and operate water intake, pumping, treatment, and transmission facilities for the use and benefit of these entities. To finance the project, an agreement was reached with the PBA of Sevier County to issue Adjustable Rate Local Government Public Improvement Bonds, Series I-A-1. Through a loan agreement between the participating governments dated June 1, 1996, the City of Pigeon Forge's percentage of ownership and liability was determined to be 44%. During 2009, the outstanding bonds were refinanced by each participating entity issuing debt for their pro-rata share of the outstanding debt. The City of Pigeon Forge issued \$1,420,000 in bonds (included in Series 2009 refunding bonds) for the refinancing of the City's share of the debt. Total investment in the Sevier Water Board, Inc. by the City of Pigeon Forge as of June 30, 2018, was \$6,000,522 (cost). The joint venture investment and the related debt are recorded in the Water and Sewer Fund. Financial statements of the Sevier Water Board, Inc. are available at the City of Pigeon Forge.

Gatlinburg Airport Authority, Inc.

The City of Pigeon Forge, Tennessee appropriated \$100,000 to the Gatlinburg Airport Authority, Inc. (Airport) for the year ended June 30, 2018. The Cities of Gatlinburg and Pigeon Forge have equal representation of two members each on the board of the Airport. The two members representing each City are nominated by the respective City Manager, and the remaining fifth member of the board is a representative of the Sevier County industrial community chosen by consultation between the respective Cities. All members of the Airport's board of commissioners shall be considered for appointment by the City of Gatlinburg's board of commissioners and appointed by a majority vote thereof. Both Cities have agreed to make annual payments to the Airport to be used for operation, maintenance and improvements. Complete financial statements for the Gatlinburg Airport Authority, Inc. can be obtained from the City of Gatlinburg or the Airport's administrative office at 134 Air Museum Way, Sevierville, Tennessee 37862.

Sevier County Economic Development Council, Inc.

The Sevier County Economic Development Council, Inc. (Council) is jointly operated by Sevier County and the cities of Sevierville, Pigeon Forge, and Gatlinburg, and various local private enterprises. The City provides an operating contribution to the Council to assist in its purpose to coordinate the governmental and private sector activities in attracting businesses and industries to the Sevier County area. The Council's board is comprised of 12 members, one of whom represents the City of Pigeon Forge. The City has no financial obligation related to the Council other than its budgeted annual operating contribution.

Pigeon Forge Housing Bureau

During 2013, the City entered into a joint venture with the Pigeon Forge Hospitality Association to create the Pigeon Forge Housing Bureau ("PFHB"). The purpose of the PFHB is to provide event organizers in Pigeon Forge the ability to offer to its participants lodging within the corporate limits of the City at locations of the event sponsor's choosing, with the ability for event attendees to obtain their lodging through a central location. The City has no financial obligation related to PFHB other than its budgeted annual operating contribution.

NOTE 14 - MANAGEMENT CONTRACTS

The City's sewage treatment plant is operated under a contract by Veolia Water North America (VWNA). VWNA charged \$118,941 per month in 2018, subject to annual adjustment, for its management services and is responsible for all operating expenses incurred by the sewer system. All property and equipment is retained and insured by the City. At the end of each year, if VWNA has operated for less than its budgeted amount, VWNA retains 10% of the savings for its employees and returns 90% to the City of Pigeon Forge.

NOTE 14 - MANAGEMENT CONTRACTS (Continued)

The City has entered into a management agreement with Ripken Pigeon Forge, LLC (RPF) to operate and manage the City's baseball sports complex. The agreement calls for an annual fixed base fee of \$250,000 in 2018 and escalating thereafter. In addition to the fixed base fee, RPF is to receive an annual revenue percentage fee subject to maximum limitations. RPF is also to receive a productivity fee if certain revenue and facility utilization milestones are achieved. Personnel providing operating services at the complex are employees of RPF. These wages and payroll-related expenses are included in personnel costs in the Statements of Revenues, Expenses, and Changes in Net Position.

NOTE 15 - LEASE REVENUE AND INFRASTRUCTURE DEVELOPMENT FEES

The City leases property and facilities to the United States Postal Service. The initial term of the lease was for twenty years through September 2015, which has subsequently been extended through September 2020 with payments of \$5,222. The lease also has one five-year option renewal period remaining.

The City receives monthly infrastructure development fees of \$1,198 per month. The agreement requires the payments to be made through 2026.

Anticipated rent and fee income per these agreements is as follows:

<u>Fiscal Year Ended</u>	<u>Rent Income</u>	<u>Fee Income</u>
2019	\$ 62,666	\$ 14,378
2020	62,666	14,378
2021	15,666	14,378
2022	0	14,378
2023	0	14,378
Thereafter	0	37,144
	<u>\$ 140,998</u>	<u>\$ 109,034</u>

Additionally, the City allows civic and non-profit organizations to use certain City facilities at no charge. No amounts have been recorded in these financial statements for the value of these services.

NOTE 16 - LEASE AGREEMENT FOR LECONTE CENTER

The City has entered into a lease agreement with the Board to lease the facilities, furnishings and equipment of the LeConte Center that was completed and opened in September 2013. The initial term of the lease commenced as of August 23, 2011, the date of issuance of the Series 2011 bonds, and shall expire on June 1, 2036, unless terminated earlier. The scheduled lease payments from the City to the Board, which began on June 1, 2014, will mirror the bond interest and principal payments, due each December 1 and June 1. The City is responsible for all maintenance, operation and improvement costs of the leased property. The City has the option to purchase all leased property at any time at a price equal to the outstanding principal and interest due on the bonds and all costs associated with transferring the title of the property. The lease agreement states that the Board's interest in the leased property shall be transferred to the City upon this option purchase or on June 1, 2036, after the final payment of all outstanding Series 2011 bonds. Accordingly, this transaction has been recorded as a capital lease and upon completion of construction of the LeConte Center, in fiscal year 2014, all leased property was recorded as an asset of the City in the LeConte Center Fund with a corresponding lease liability to the Board and with a lease receivable (net investment in capital lease) recorded by the Board. The actual bond liability is recorded on the books of the Board.

Capital lease assets are included in capital assets in the accompanying statement of net position of the LeConte Center Fund and consist of the following as of June 30, 2018:

Land	\$ 3,185,168
Building	51,796,102
Total LeConte Center	<u>54,981,270</u>
Accumulated Amortization	<u>(6,150,788)</u>
Net Assets Under Capital Lease	<u>\$ 48,830,482</u>

NOTE 16 - LEASE AGREEMENT FOR LECONTE CENTER (Continued)

Future minimum lease payments to the Board from the LeConte Center Fund under the capital lease agreement as of June 30, 2018:

<u>Fiscal Year Ended</u>	<u>Events Center</u>
2019	\$ 2,667,875
2020	2,701,875
2021	4,238,375
2022	4,146,250
2023	4,046,250
2024-2028	20,663,750
2029-2033	21,133,750
2034-2036	<u>14,360,000</u>
	73,958,125
Less Portion Representing Interest	<u>(26,208,125)</u>
Present Value of Minimum Lease Payments Under Capital Lease	47,750,000
Less Current Maturities	<u>(400,000)</u>
	<u>\$ 47,350,000</u>

The following lists the Board’s components of the net investment in capital lease as of June 30, 2018:

Minimum Lease Payments Receivable	\$ 73,958,125
Less Unearned Income	<u>(26,019,128)</u>
Net Investment in Capital Lease	<u>\$ 47,938,997</u>

NOTE 17 - ECONOMIC DEVELOPMENT

Publix Shopping Center

In 2015, the Board entered into an agreement with PFWV, LLC (the “Developer”) to facilitate the construction of a Publix grocery store and other retail shopping in the City of Pigeon Forge, Tennessee. The Board also issued Revenue Bond (PFWV Project), Series 2015 in the amount of \$2,000,000 to finance construction and land acquisition by the Developer. The land was deeded by the Developer to the Board and then leased by the Board to the Developer for \$1 a year, plus payments in lieu of tax (PILOT). The bond purchased by Smart Bank, is to be repaid by these PILOT payments, from the revenues and receipts derived from the project. Bond and lease payments are structured to offset, with both maturing January 2035. The bond is secured by an assignment of lease payments, a Developer Assignment Agreement and personal guarantees of the developer and other related parties. The bond is considered to be conduit debt and accordingly the debt, payments and related assigned lease are not reported in the Board’s financial statements.

The Board also agreed to enter into a lease agreement with Publix Tennessee, LLC upon completion of the project to assist them in equipping the retail store with machinery, equipment, and other personal property. Rental payments during the term of this equipment lease, which took effect in May 2016, represent PILOT payments and are credited against the PILOT payments on the land lease discussed above. The payments, as with the land lease, are paid to Smart Bank, as the assignee of the Lease and holder of the above Revenue Bond (PFWV Project), Series 2015. Accordingly, this lease and related payments are also not recorded in the Board’s financial statements. This lease agreement matures January 27, 2035.

Food City

On October 9, 2017, the Board approved a resolution to enter into a payment in lieu of tax (PILOT) agreement with a project developer to facilitate the construction of a Food City grocery store and other retail shopping in the City of Pigeon Forge. In order to encourage the development of the project for the benefit of the public, the Board would provide financial assistance by reimbursing the developer for site and infrastructure improvement costs for a total not to exceed \$4,200,000 upon the developer meeting certain requirements. The Board would fund these reimbursement payments by entering into a separate capital contribution agreement with the City.

NOTE 18 - RISK MANAGEMENT

The City of Pigeon Forge purchases commercial insurance and participates in the Tennessee Municipal League Risk Management Pool to handle risks arising from workers' compensation, torts, asset theft, damage or destruction, errors or omissions, or acts of God, whereby these risks are transferred to the Pool and/or insurance company. No significant reductions were made in insurance coverage from the previous year. No insurance settlements exceeded coverage in any of the prior three years.

Coverage through the Pool is for payment of damage claims and to defend the City in any damage suit that is included in the coverage, up to the policy's applicable limits, at the Pool's expense. This includes any other necessary costs relating to the defense. The City has the responsibility of following any reporting requirements, including timely reporting of any incidents that might result in a damage claim. The City is to do everything necessary to protect the rights of recovery of the Pool and enforcement of these rights by complying with all terms of the policy. The Pool has the right to apply premium rate changes as necessary.

NOTE 19 - COMMITMENTS AND CONTINGENCIES

The City is involved from time to time in eminent domain condemnation proceedings. The City deposits funds with the Circuit Court for Sevier County, Tennessee, based on the appraised value of the property, to be used for the acquisition of various parcels of land or land rights. The amounts deposited are recorded as land and land easements on the government-wide financials once the order of possession from the Court is awarded. If the Court has not issued an order of possession, the funds are treated as restricted deposits. The parcels are not deeded to the City until the case has been settled. Any difference between the deposited funds and the final balance paid for the condemned property is adjusted in the year that the case is settled.

In April of 2006, the State of Tennessee approved the City's application for a Tourism Development Zone (TDZ). The boundaries of the TDZ are within the boundaries of the City's Central Business Improvement District. Under the TDZ plan, the City is authorized to borrow up to \$179 million to develop new Qualified Public Use Facilities. Since commencement of the improvements under the TDZ, the City has issued debt totaling approximately \$113 million through June 30, 2018. These borrowings will be paid through an apportionment of the incremental increase in sales and use taxes generated as a result of the improvements. These planned public use facilities, which are part of the City's strategy to continue to enhance tourism and economic development in Pigeon Forge and the State of Tennessee, included a civic events center, mass transit facility, amphitheater and festival center. Other planned TDZ projects included a wastewater treatment plant expansion, improvements to roadways and other necessary public infrastructure improvements, all of which should facilitate significant new private development. To date, the City has purchased land and completed a public parking lot, made sewer line improvements, completed the waste water treatment plant, constructed the LeConte Center, and is in the process of design and construction of a mass transit facility.

Various other claims and lawsuits are pending against the City. In the opinion of city management, the potential loss on all claims and lawsuits pending will not be significant to the City's financial statements.

NOTE 20 - TAX ABATEMENT

The Board is authorized by Tennessee Code Annotated Section 7-53-305, a provision of the Tennessee Industrial Development Corporations Act, and by Ordinance of the City to negotiate payments in lieu of ad valorem taxes in furtherance of the Board's public function to undertake the financing and development of projects to promote industry, trade, commerce, tourism and recreation and housing construction. As such, the Board acts as a conduit organization for property tax abatements through payment in lieu of taxes (PILOT) agreements. The abatements, which may be as much as 100% of the standard property taxes, may be granted to any qualified business relocating or developing property within the boundaries of the City. Consideration is given on a case-by-case basis and includes analysis of economic impact and capital investment.

During the fiscal year ended June 30, 2018, there was one PILOT agreement in force which commenced on January 28, 2015 with PFWV, LLC (see Note 17). PFWV, LLC will remit 0% of the standard tax applicable to property for an abatement period of 20 years. The abatement for the year ended June 30, 2018 was approximately \$5,900.

This agreement does not include a provision for the recapture of abated taxes in the event the abatement recipient does not fulfill the commitment it makes in return for the tax abatement.

NOTE 21 - PRIOR PERIOD ADJUSTMENT

Effective July 1, 2017, the City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits to their employees. See Note 12 for additional information about the City's OPEB plan. No beginning balances for deferred outflows or inflows of resources related to OPEB were reported, as it was not practical for the City to determine these amounts.

As a result of adopting GASB Statement No. 75, the City has recorded a prior period adjustment to the unrestricted net position as of July 1, 2017:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Net Position, Beginning of Year, July 1, 2017, as Originally Reported	\$ 106,058,681	\$ 84,554,934	\$ 190,613,615
Restatement to Net OPEB Liability, Beginning of Year, July 1, 2017, as calculated and reported under GASB Statements No. 75.	<u>(772,772)</u>	<u>(138,709)</u>	<u>(911,481)</u>
Net Position, Beginning of Year, July 1, 2017, as Restated	<u>\$ 105,285,909</u>	<u>\$ 84,416,225</u>	<u>\$ 189,702,134</u>

NOTE 22 - SUBSEQUENT EVENT

In November 2018, the City authorized and issued General Obligation Bonds, Series 2018 in the amount of \$32,275,000. The Series 2018 bonds will be paid for by tourism development zone revenues. The proceeds of the Series 2018 issuance will be used to fund public improvement projects.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

CITY OF PIGEON FORGE

SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Last Fiscal Year Ended June 30, 2018

Total OPEB Liability	
Service Cost	\$ 44,417
Interest	42,706
Change in Assumptions	(27,434)
Benefit Payments	<u>(63,122)</u>
Net Change in Total OPEB Liability	(3,433)
Total OPEB Liability - Beginning	<u>1,165,161</u>
Total OPEB Liability - Ending	<u>\$ 1,161,728</u>
Covered Payroll	\$ 15,652,619
Total OPEB Liability as a Percentage of Covered Payroll	7.42%

Note: There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 related to this OPEB plan. This schedule is intended to display ten years of information. Additional years will be displayed as they become available.

OTHER SUPPLEMENTARY INFORMATION SECTION

CITY OF PIGEON FORGE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Special Revenue Funds			Capital Project Funds		Total Nonmajor Governmental Funds
	State Street Aid Fund	Solid Waste Fund	Drug Fund	City Buildings	Construction	
ASSETS						
Cash and Cash Equivalents	\$ 0	\$ 0	\$ 0	\$ 71,597	\$ 311,283	\$ 382,880
Due from Other Funds	0	538,337	0	0	0	538,337
Restricted Assets:						
Cash	828,637	703,140	277,051	0	16,307	1,825,135
Receivables	<u>56,818</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>56,818</u>
TOTAL ASSETS	<u>\$ 885,455</u>	<u>\$ 1,241,477</u>	<u>\$ 277,051</u>	<u>\$ 71,597</u>	<u>\$ 327,590</u>	<u>\$ 2,803,170</u>
 LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 7,042	\$ 104,505	\$ 0	\$ 0	\$ 0	\$ 111,547
Due to Other Funds	<u>0</u>	<u>319</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>319</u>
Total Liabilities	<u>7,042</u>	<u>104,824</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>111,866</u>
 FUND BALANCES						
Restricted	878,413	1,136,653	277,051	0	0	2,292,117
Unrestricted:						
Assigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>71,597</u>	<u>327,590</u>	<u>399,187</u>
Total Fund Balances	<u>878,413</u>	<u>1,136,653</u>	<u>277,051</u>	<u>71,597</u>	<u>327,590</u>	<u>2,691,304</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 885,455</u>	<u>\$ 1,241,477</u>	<u>\$ 277,051</u>	<u>\$ 71,597</u>	<u>\$ 327,590</u>	<u>\$ 2,803,170</u>

See Independent Auditor's Report.

CITY OF PIGEON FORGE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	Special Revenue Funds			Capital Project Funds		Total Nonmajor Governmental Funds
	State Street Aid Fund	Solid Waste Fund	Drug Fund	City Buildings Fund	Construction Fund	
REVENUES:						
State Gasoline and Motor Fuel Tax (Intergovernmental)	\$ 322,841	\$ 0	\$ 0	\$ 0	\$ 0	\$ 322,841
Fees and Charges for Services	0	1,341,494	0	0	0	1,341,494
Fines and Penalties	0	11,863	56,738	0	0	68,601
Interest and Dividends	0	911	0	0	471	1,382
Total Revenues	<u>322,841</u>	<u>1,354,268</u>	<u>56,738</u>	<u>0</u>	<u>471</u>	<u>1,734,318</u>
EXPENDITURES:						
Highways and Streets	176,173	0	0	0	0	176,173
Solid Waste/Sanitation	0	1,930,998	0	0	0	1,930,998
Drug Prevention	0	0	171,350	0	0	171,350
Capital Outlay	0	401,088	0	0	0	401,088
Total Expenditures	<u>176,173</u>	<u>2,332,086</u>	<u>171,350</u>	<u>0</u>	<u>0</u>	<u>2,679,609</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>146,668</u>	<u>(977,818)</u>	<u>(114,612)</u>	<u>0</u>	<u>471</u>	<u>(945,291)</u>
OTHER FINANCING SOURCES (USES):						
Insurance Recoveries	0	219,473	0	0	0	219,473
Transfers from Other Funds	0	905,882	0	0	0	905,882
Total Other Financing Sources (Uses)	<u>0</u>	<u>1,125,355</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,125,355</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>146,668</u>	<u>147,537</u>	<u>(114,612)</u>	<u>0</u>	<u>471</u>	<u>180,064</u>
FUND BALANCES, BEGINNING OF YEAR	<u>731,745</u>	<u>989,116</u>	<u>391,663</u>	<u>71,597</u>	<u>327,119</u>	<u>2,511,240</u>
FUND BALANCES, END OF YEAR	<u>\$ 878,413</u>	<u>\$ 1,136,653</u>	<u>\$ 277,051</u>	<u>\$ 71,597</u>	<u>\$ 327,590</u>	<u>\$ 2,691,304</u>

See Independent Auditor's Report.

CITY OF PIGEON FORGE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL

SPECIAL REVENUE FUND - STATE STREET AID FUND

For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		(Unfavorable)
REVENUES:				
State Gasoline and Motor Fuel Tax	\$ 250,000	\$ 250,000	\$ 322,841	\$ 72,841
EXPENDITURES:				
Street Lighting Maintenance	75,000	75,000	85,286	(10,286)
Traffic Signal Maintenance	95,000	95,000	80,249	14,751
Street Repair and Maintenance	80,000	80,000	10,638	69,362
Total Expenditures	250,000	250,000	176,173	73,827
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	0	0	146,668	146,668
FUND BALANCES, BEGINNING OF YEAR	731,745	731,745	731,745	0
FUND BALANCES, END OF YEAR	\$ 731,745	\$ 731,745	\$ 878,413	\$ 146,668

See Independent Auditor's Report.

CITY OF PIGEON FORGE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - SOLID WASTE FUND
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Charges for Services	\$ 1,250,000	\$ 1,250,000	\$ 1,341,494	\$ 91,494
Fines and Penalties	10,000	10,000	11,863	1,863
Interest	1,000	1,000	911	(89)
Total Revenues	<u>1,261,000</u>	<u>1,261,000</u>	<u>1,354,268</u>	<u>93,268</u>
EXPENDITURES:				
Personnel Costs	801,997	801,997	750,822	51,175
Supplies	241,571	241,571	198,951	42,620
Maintenance	51,672	51,672	44,775	6,897
General Services	937,289	937,289	936,450	839
Capital Outlay	134,353	401,353	401,088	265
Total Expenditures	<u>2,166,882</u>	<u>2,433,882</u>	<u>2,332,086</u>	<u>101,796</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(905,882)</u>	<u>(1,172,882)</u>	<u>(977,818)</u>	<u>195,064</u>
OTHER FINANCING SOURCES (USES):				
Insurance Recoveries	0	0	219,473	219,473
Transfer from General Fund	905,882	905,882	905,882	0
Total Other Financing Sources (Uses)	<u>905,882</u>	<u>905,882</u>	<u>1,125,355</u>	<u>219,473</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	0	(267,000)	147,537	414,537
FUND BALANCES, BEGINNING OF YEAR	<u>989,116</u>	<u>989,116</u>	<u>989,116</u>	<u>0</u>
FUND BALANCES, END OF YEAR	<u>\$ 989,116</u>	<u>\$ 722,116</u>	<u>\$ 1,136,653</u>	<u>\$ 414,537</u>

See Independent Auditor's Report.

CITY OF PIGEON FORGE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
SPECIAL REVENUE FUND - DRUG FUND
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget
				Favorable
				(Unfavorable)
REVENUES:				
Fines and Penalties	\$ 45,000	\$ 45,000	\$ 56,738	\$ 11,738
Total Revenues	<u>45,000</u>	<u>45,000</u>	<u>56,738</u>	<u>11,738</u>
EXPENDITURES:				
Operating Supplies	40,281	40,281	24,181	16,100
Public Relations	4,500	4,500	900	3,600
Informant Payments	5,605	5,605	12,000	(6,395)
Repairs	5,060	5,060	4,098	962
Other	4,991	4,991	2,033	2,958
Capital Outlay	<u>126,400</u>	<u>126,400</u>	<u>128,138</u>	<u>(1,738)</u>
Total Expenditures	<u>186,837</u>	<u>186,837</u>	<u>171,350</u>	<u>15,487</u>
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	(141,837)	(141,837)	(114,612)	27,225
FUND BALANCES, BEGINNING OF YEAR	<u>391,663</u>	<u>391,663</u>	<u>391,663</u>	<u>0</u>
FUND BALANCES, END OF YEAR	<u>\$ 249,826</u>	<u>\$ 249,826</u>	<u>\$ 277,051</u>	<u>\$ 27,225</u>

See Independent Auditor's Report.

CITY OF PIGEON FORGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2018

Federal/Pass-through Agency/State Grantor Program Title	CFDA Number	State / Pass-through Entity Identifying Number	Expenditures
Federal Awards			
U.S. Department of Homeland Security			
U.S. Department of Homeland Security Direct Assistance:			
Assistance to Firefighters Grant	97.044	N/A	\$ 25,919
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	<u>30,309</u>
Total U.S. Department of Homeland Security Direct Programs			<u>56,228</u>
Passed-through Tennessee Department of Military:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	53192-23432	<u>122,059</u>
Total Passed-through Tennessee Department of Military			<u>122,059</u>
Total U.S. Department of Homeland Security			<u>178,287</u>
U.S. Department of Justice			
U.S. Department of Justice Direct Assistance:			
Bulletproof Vest Partnership Program	16.607	N/A	<u>3,366</u>
Total U.S. Department of Justice			<u>3,366</u>
U.S. Department of Transportation			
Passed-through Tennessee Department of Safety and Homeland Security:			
Alcohol Open Container Requirements	20.607	Z17THS272	4,990
Alcohol Open Container Requirements	20.607	Z18THS247	<u>5,000</u>
Total Passed-through Tennessee Department of Safety and Homeland Security			<u>9,990</u>
Passed-through Tennessee Department of Transportation:			
Highway Planning and Construction	20.205	160227	51,420
Highway Planning and Construction	20.205	140162	<u>1,245,943</u>
Total CFDA Number 20.205			<u>1,297,363</u>
Formula Grants for Rural Areas	20.509	Z-17-RT0002-00	274,795
Formula Grants for Rural Areas	20.509	Z-18-RT0002-00	<u>207,332</u>
Total CFDA Number 20.509			<u>482,127</u>
Total U.S. Department of Transportation			<u>1,789,480</u>
Total Federal Awards			<u>1,971,133</u>
State Financial Assistance			
Tennessee Department of Agriculture			
Wildfire Hazard Mitigation Grant	N/A	(1)	7,370
Wildfire Hazard Mitigation Grant	N/A	(1)	<u>1,000</u>
Total Tennessee Department of Agriculture			<u>8,370</u>
Tennessee Department of Military			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	N/A	53192-23432	<u>27,310</u>
Total Tennessee Department of Military			<u>27,310</u>
Tennessee Department of Tourist Development			
Direct Appropriation Marketing Grant	N/A	(1)	<u>1,435,000</u>
Total Tennessee Department of Tourist Development			<u>1,435,000</u>
Tennessee Department of Transportation			
Trolley Operating Assistance Grant	N/A	Z-18UROP09-00	624,400
Trolley Rural Transportation	N/A	Z-17-RT0002-00	212,603
Trolley Rural Transportation	N/A	Z-18-RT0002-00	<u>87,550</u>
Total Tennessee Department of Transportation			<u>924,553</u>
Total State Financial Assistance			<u>2,395,233</u>
Total Federal Awards and State Financial Assistance			<u>\$ 4,366,366</u>

(1) Information not available

The accompanying notes are an integral part of this schedule.
See Independent Auditor's Report.

CITY OF PIGEON FORGE

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE**

For the Year Ended June 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal and state grant activity of the City of Pigeon Forge (the "City"), and is presented on modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

Federal Financial Assistance. The Single Audit Act Amendments of 1996 (Public Law 104-156) and Uniform Guidance define federal financial assistance as grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations or other assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

Direct Payments. Assistance received directly from the Federal government is classified as direct payments on the Schedule.

Pass-through Payments. Assistance received in a pass-through relationship from entities other than the Federal government is classified as pass-through payments on the Schedule.

Major Programs. The Single Audit Act Amendments of 1996 and Uniform Guidance establish the criteria to be used in defining major programs. Major programs for the City were defined using a risk-based approach in accordance with Uniform Guidance.

Catalog of Federal Domestic Assistance. The Catalog of Federal Domestic Assistance (CFDA) is a government-wide compendium of individual federal programs. Each program included in the catalog is assigned a five-digit program identification number (CFDA Number), which is reflected in the Schedule.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Any negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 - INDIRECT COSTS

The City has elected not to use the ten percent de minimis indirect rate as allowed under Uniform Guidance.

NOTE 4 - CONTINGENCIES

The federal and state awards received by the government are subject to audit and adjustment. If any expenditures are disallowed by the grantor agencies as a result of such an audit, the grantor agency could make a claim for reimbursement.

CITY OF PIGEON FORGE
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY DIVISION
PROPRIETARY FUND - WATER AND SEWER
For the Year Ended June 30, 2018

	Water	Sewer	Total
OPERATING REVENUES:			
Fees and Charges for Services	\$ 7,853,370	\$ 5,894,669	\$ 13,748,039
Fines and Penalties	77,051	51,367	128,418
Other Revenues	114,622	50,002	164,624
Tap Fees	194,734	108,415	303,149
Total Operating Revenues	8,239,777	6,104,453	14,344,230
OPERATING EXPENSES:			
Purification	1,402,987	0	1,402,987
Transmission and Distribution	1,228,618	0	1,228,618
Sewer System	0	397,537	397,537
Sewer Treatment and Disposal	0	2,764,559	2,764,559
Customer Accounting and Collections	98,021	65,347	163,368
Administrative and General	698,351	168,867	867,218
Depreciation	668,926	1,292,464	1,961,390
Total Operating Expenses	4,096,903	4,688,774	8,785,677
OPERATING INCOME (LOSS)	4,142,874	1,415,679	5,558,553
NONOPERATING REVENUES (EXPENSES):			
Interest and Dividends	87,666	21,916	109,582
Debt Service Fees	(24,270)	(6,068)	(30,338)
Interest Expense	(1,018,127)	(1,527,191)	(2,545,318)
Change in Fair Value of Investments	(19,349)	(19,349)	(38,698)
Change in Fair Value of Derivatives - Interest Rate Swap	253,938	253,938	507,875
Total Nonoperating Revenues (Expenses)	(720,143)	(1,276,755)	(1,996,897)
CHANGE IN NET POSITION	\$ 3,422,732	\$ 138,925	3,561,656
NET POSITION, BEGINNING OF YEAR			50,049,046
RESTATEMENT OF BEGINNING NET POSITION			(103,041)
NET POSITION, BEGINNING OF YEAR, AS RESTATED - SEE NOTE 21			49,946,005
NET POSITION, END OF YEAR			\$ 53,507,661

See Independent Auditor's Report.

OTHER UNAUDITED SUPPLEMENTARY INFORMATION SECTION

CITY OF PIGEON FORGE

SCHEDULE OF LONG-TERM DEBT, PRINCIPAL, AND INTEREST REQUIREMENTS - GOVERNMENTAL ACTIVITIES

As of June 30, 2018

	General Obligation Bonds Series 2012			General Obligation Bonds Series 2014			General Obligation Bonds Series 2015		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 800,000	\$ 806,850	\$ 1,606,850	\$ 360,000	\$ 256,613	\$ 616,613	\$ 380,000	\$ 218,785	\$ 598,785
2020	825,000	774,850	1,599,850	370,000	245,813	615,813	385,000	211,185	596,185
2021	875,000	741,850	1,616,850	380,000	234,712	614,712	395,000	203,485	598,485
2022	900,000	706,850	1,606,850	390,000	223,313	613,313	400,000	195,585	595,585
2023	925,000	670,850	1,595,850	400,000	215,512	615,512	410,000	187,585	597,585
2024-2028	5,250,000	2,765,250	8,015,250	2,125,000	938,475	3,063,475	2,175,000	810,822	2,985,822
2029-2033	6,400,000	1,791,638	8,191,638	2,450,000	624,800	3,074,800	2,440,000	540,363	2,980,363
2034-2037	6,125,000	553,250	6,678,250	2,265,000	191,162	2,456,162	2,215,000	168,600	2,383,600
	<u>\$ 22,100,000</u>	<u>\$ 8,811,388</u>	<u>\$ 30,911,388</u>	<u>\$ 8,740,000</u>	<u>\$ 2,930,400</u>	<u>\$ 11,670,400</u>	<u>\$ 8,800,000</u>	<u>\$ 2,536,410</u>	<u>\$ 11,336,410</u>

	Loans Payable to Public Building Authority VII-K-1			General Obligation Refunding Bonds Series 2009B		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 150,000	\$ 849,750	\$ 999,750	\$ 2,230,000	\$ 186,775	\$ 2,416,775
2020	175,000	842,250	1,017,250	2,300,000	92,000	2,392,000
2021	1,015,000	833,500	1,848,500	0	0	0
2022	1,085,000	782,750	1,867,750	0	0	0
2023	1,095,000	728,500	1,823,500	0	0	0
2024-2028	5,885,000	2,804,000	8,689,000	0	0	0
2029-2033	6,990,000	849,000	7,839,000	0	0	0
2034	600,000	30,000	630,000	0	0	0
	<u>\$ 16,995,000</u>	<u>\$ 7,719,750</u>	<u>\$ 24,714,750</u>	<u>\$ 4,530,000</u>	<u>\$ 278,775</u>	<u>\$ 4,808,775</u>

	General Obligation Refunding Bonds Series 2016			General Obligation Bonds Series 2017		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 387,396	\$ 161,453	\$ 548,849	\$ 485,000	\$ 142,950	\$ 627,950
2020	383,468	153,705	537,173	505,000	123,550	628,550
2021	746,521	146,036	892,557	525,000	103,350	628,350
2022	832,660	131,105	963,765	545,000	82,350	627,350
2023	877,709	114,452	992,161	565,000	60,550	625,550
2024-2028	4,844,885	293,837	5,138,722	2,385,000	126,900	2,511,900
	<u>\$ 8,072,639</u>	<u>\$ 1,000,588</u>	<u>\$ 9,073,227</u>	<u>\$ 5,010,000</u>	<u>\$ 639,650</u>	<u>\$ 5,649,650</u>

See Independent Auditor's Report.

CITY OF PIGEON FORGE

SCHEDULE OF LONG-TERM DEBT, PRINCIPAL, AND INTEREST REQUIREMENTS - BUSINESS-TYPE ACTIVITIES

As of June 30, 2018

	General Obligation Refunding Bonds Series 2009			Loans Payable to Public Building Authority Series VII-K-1 **				
	Principal	Interest	Total	Principal	Interest	Interest Rate	Total	Total
						Swap, Net	Interest	
2019	\$ 195,000	\$ 14,820	\$ 209,820	\$ 460,000	\$ 221,183	\$ 287,798	\$ 508,981	\$ 968,981
2020	195,000	7,410	202,410	485,000	211,933	275,763	487,696	972,696
2021	0	0	0	765,000	202,181	263,074	465,255	1,230,255
2022	0	0	0	810,000	186,799	243,059	429,858	1,239,858
2023	0	0	0	855,000	170,512	221,866	392,378	1,247,378
2024-2028	0	0	0	5,120,000	572,461	744,874	1,317,335	6,437,335
2029-2030	0	0	0	2,505,000	76,308	99,290	175,598	2,680,598
	<u>\$ 390,000</u>	<u>\$ 22,230</u>	<u>\$ 412,230</u>	<u>\$ 11,000,000</u>	<u>\$ 1,641,377</u>	<u>\$ 2,135,724</u>	<u>\$ 3,777,101</u>	<u>\$ 14,777,101</u>

	General Obligation Bonds Series 2010				
	Principal	Coupon Interest	Treasury Rebate	Net Interest	Total
					Requirements
2019	\$ 0	\$ 3,174,250	\$ (1,331,598)	\$ 1,842,652	\$ 1,842,652
2020	0	3,174,250	(1,331,598)	1,842,652	1,842,652
2021	0	3,174,250	(1,331,598)	1,842,652	1,842,652
2022	0	3,174,250	(1,331,598)	1,842,652	1,842,652
2023	0	3,174,250	(1,331,598)	1,842,652	1,842,652
2024-2028	3,250,000	15,761,250	(6,611,844)	9,149,406	12,399,406
2029-2033	13,425,000	13,219,500	(5,545,580)	7,673,920	21,098,920
2034-2038	19,400,000	7,421,094	(3,113,149)	4,307,945	23,707,945
2039-2040	8,925,000	960,094	(402,759)	557,335	9,482,335
	<u>\$ 45,000,000</u>	<u>\$ 53,233,188</u>	<u>\$ (22,331,322)</u>	<u>\$ 30,901,866</u>	<u>\$ 75,901,866</u>

	General Obligation Refunding Bonds Series 2016			General Obligation Refunding Bonds Series 2017		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 27,604	\$ 30,647	\$ 58,251	\$ 225,000	\$ 113,238	\$ 338,238
2020	26,532	30,095	56,627	225,000	104,238	329,238
2021	118,479	29,564	148,043	395,000	95,238	490,238
2022	82,340	27,195	109,535	500,000	79,438	579,438
2023	122,291	25,548	147,839	495,000	59,438	554,438
2024-2028	1,155,098	70,663	1,225,761	2,295,000	155,875	2,450,875
	<u>\$ 1,532,344</u>	<u>\$ 213,712</u>	<u>\$ 1,746,056</u>	<u>\$ 4,135,000</u>	<u>\$ 607,465</u>	<u>\$ 4,742,465</u>

** - Includes an interest rate swap with effective date through 2030.

See Independent Auditor's Report.

CITY OF PIGEON FORGE
SCHEDULE OF LONG-TERM DEBT, PRINCIPAL, AND INTEREST
REQUIREMENTS - INDUSTRIAL DEVELOPMENT BOARD

As of June 30, 2018

Public Facility Bonds Series 2011			
	Principal	Interest	Total
2019	\$ 400,000	\$ 2,267,875	\$ 2,667,875
2020	450,000	2,251,875	2,701,875
2021	2,000,000	2,238,375	4,238,375
2022	2,000,000	2,146,250	4,146,250
2023	2,000,000	2,046,250	4,046,250
2024-2028	12,100,000	8,563,750	20,663,750
2029-2033	15,700,000	5,433,750	21,133,750
2034-2036	13,100,000	1,260,000	14,360,000
	\$ 47,750,000	\$ 26,208,125	\$ 73,958,125

See Independent Auditor's Report.

**CITY OF PIGEON FORGE
SCHEDULES OF PROPERTY TAX INFORMATION**

For the Year Ended June 30, 2018

CHANGES IN TAXES RECEIVABLE

	Current Year	Prior Years	Total
Balance at Beginning of Year	\$ 0	\$ 63,056	\$ 63,056
Add:			
2018 Taxes Levied	1,415,075	0	1,415,075
2017 Taxes Levied	1,408,106	0	1,408,106
Adjustments	7,903	0	7,903
	<u>2,831,084</u>	<u>0</u>	<u>2,831,084</u>
Less:			
Collections	<u>1,374,985</u>	<u>42,010</u>	<u>1,416,995</u>
TAXES RECEIVABLE BEFORE ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS	1,456,099	21,046	1,477,145
Less:			
Allowance for Uncollectible Accounts	<u>11,122</u>	<u>830</u>	<u>11,952</u>
TAXES RECEIVABLE, NET	\$ <u><u>1,444,977</u></u>	\$ <u><u>20,216</u></u>	\$ <u><u>1,465,193</u></u>

TAX ASSESSMENTS AND UNPAID BALANCES

Tax Year	Assessed Values	Tax Rate Per \$100	Total Levy	Adjustments, Collections, Releases and Abatements in Prior Years	Adjustments, Collections, Releases and Abatements in Current Year	Unpaid Balances
2018	\$ 707,537,651	0.200%	\$ 1,415,075	\$ 0	\$ 0	\$ 1,415,075
2017	704,052,795	0.200%	1,408,106	0	1,367,082	41,024
2016	677,140,983	0.200%	1,354,282	1,317,410	32,535	4,337
2015	631,942,813	0.200%	1,263,886	1,254,108	5,564	4,214
2014	623,249,144	0.200%	1,246,498	1,239,172	2,834	4,492
2013	610,806,170	0.200%	1,221,612	1,216,582	630	4,400
2012	608,099,103	0.200%	1,216,198	1,215,026	447	725
2011	605,096,338	0.200%	1,210,193	1,208,631	0	1,562
2010	642,934,304	0.124%	798,524	797,905	0	619
2009	641,429,200	0.124%	796,655	796,082	0	573
2008	632,897,787	0.124%	786,059	785,935	0	124
						\$ <u><u>1,477,145</u></u>

Property taxes unpaid for periods prior to 2007 have been filed with the Sevier County Circuit Court Clerk.

See Independent Auditor's Report.

CITY OF PIGEON FORGE
WATER AND SEWER FUND
SCHEDULE OF WATER AND SEWER RATES
June 30, 2018

Within City Limits
Residential and Small Commercial

	<u>Water</u>	<u>Sewer</u>
First 2,000 Gallons	\$17.70 (Minimum)	\$17.70 (Minimum)
Over 2,000 Gallons	\$6.52/1,000 Gallons	\$6.52/1,000 Gallons

Outside City Limits
Residential and Small Commercial

	<u>Water</u>	<u>Sewer</u>
First 2,000 Gallons	\$26.53 (Minimum)	\$26.53 (Minimum)
Over 2,000 Gallons	\$9.44/1,000 Gallons	\$9.44/1,000 Gallons

SCHEDULE OF NUMBER OF CUSTOMERS BY MONTH

For the Year Ended June 30, 2018


July	5,235
August	5,230
September	5,236
October	5,243
November	5,254
December	5,238
January	5,271
February	5,256
March	5,277
April	5,282
May	5,324
June	5,326

See Independent Auditor's Report.

CITY OF PIGEON FORGE

AWWA WATER AUDIT REPORTING WORKSHEET

For the Year Ended June 30, 2018



**AWWA Free Water Audit Software:
Reporting Worksheet**

WAS v5.0
American Water Works Association
Copyright © 2014, All Rights Reserved.

Click to access definition

Click to add a comment

Water Audit Report for: City of Pigeon Forge

Reporting Year: 2018 7/2017 - 6/2018

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades

All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

WATER SUPPLIED

	----- Enter grading in column 'E' and 'J' -----				
Volume from own sources:	+ ? 8	1,553.650	MG/Yr		
Water imported:	+ ? n/a		MG/Yr		
Water exported:	+ ? 9	166.500	MG/Yr		
WATER SUPPLIED:		1,387.150	MG/Yr		

Master Meter and Supply Error Adjustments

	Pcnt:		Value:	
	+ ? 8	0		
	+ ? 5	0		

Enter negative % or value for under-registration
Enter positive % or value for over-registration

AUTHORIZED CONSUMPTION

Billed metered:	+ ? 8	1,014.068	MG/Yr		
Billed unmetered:	+ ? n/a		MG/Yr		
Unbilled metered:	+ ? n/a		MG/Yr		
Unbilled unmetered:	+ ? 8	54.884	MG/Yr		
AUTHORIZED CONSUMPTION:		1,068.952	MG/Yr		

Unbilled Unmetered volume entered is greater than the recommended default value

Click here: for help using option buttons below

	Pcnt:		Value:	
	0.25%	0		
	3.00%	0		

Use buttons to select percentage of water supplied OR value

WATER LOSSES (Water Supplied - Authorized Consumption)

		318.198	MG/Yr		
--	--	---------	-------	--	--

Apparent Losses

Unauthorized consumption:	+ ?	3.468	MG/Yr		
Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed					
Customer metering inaccuracies:	+ ? 8	31.363	MG/Yr		
Systematic data handling errors:	+ ? 6	3.042	MG/Yr		
Apparent Losses:		37.873	MG/Yr		

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses:	?	280.325	MG/Yr		
WATER LOSSES:		318.198	MG/Yr		

NON-REVENUE WATER

		373.082	MG/Yr		
--	--	---------	-------	--	--

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+ ? 9	152.9	miles		
Number of <u>active AND inactive</u> service connections:	+ ? 6	5,230			
Service connection density:	?	34	conn./mile main		

Are customer meters typically located at the curbside or property line? Yes (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure:	+ ? 10	60.0	psi		
-----------------------------	--------	------	-----	--	--

COST DATA

Total annual cost of operating water system:	+ ? 10	\$4,096,903	\$/Year		
Customer retail unit cost (applied to Apparent Losses):	+ ? 9	\$6.52	\$/1000 gallons (US)		
Variable production cost (applied to Real Losses):	+ ? 8	\$526.34	\$/Million gallons	<input type="checkbox"/>	Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 80 out of 100 ***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

1: Volume from own sources

2: Unauthorized consumption

3: Billed metered

See Independent Auditor's Report.

CITY OF PIGEON FORGE

AWWA WATER AUDIT REPORTING WORKSHEET (Continued)

For the Year Ended June 30, 2018

AWWA Free Water Audit Software:		System Attributes and Performance Indicators		WAS v5.0
				American Water Works Association. Copyright © 2014, All Rights Reserved.
Water Audit Report for:		City of Pigeon Forge		
Reporting Year:		2018	7/2017 - 6/2018	
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 80 out of 100 ***				
System Attributes:				
	Apparent Losses:	37.873	MG/Yr	
	+ Real Losses:	280.325	MG/Yr	
	= Water Losses:	318.198	MG/Yr	
	? Unavoidable Annual Real Losses (UARL):	35.30	MG/Yr	
	Annual cost of Apparent Losses:	\$246,931		
	Annual cost of Real Losses:	\$147,546	Valued at Variable Production Cost	
			Return to Reporting Worksheet to change this assumption	
Performance Indicators:				
Financial:	Non-revenue water as percent by volume of Water Supplied:	26.9%		
	Non-revenue water as percent by cost of operating system:	10.3%	Real Losses valued at Variable Production Cost	
Operational Efficiency:	Apparent Losses per service connection per day:	19.84	gallons/connection/day	
	Real Losses per service connection per day:	146.85	gallons/connection/day	
	Real Losses per length of main per day*:	N/A		
	Real Losses per service connection per day per psi pressure:	2.45	gallons/connection/day/psi	
	From Above, Real Losses = Current Annual Real Losses (CARL):	280.33	million gallons/year	
	? Infrastructure Leakage Index (ILI) [CARL/UARL]:	7.94		

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

COMPLIANCE SECTION



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Board of Commissioners
City of Pigeon Forge
Pigeon Forge, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information and the budgetary comparison for the general fund and tourism development zone fund of City of Pigeon Forge as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Pigeon Forge's basic financial statements, and have issued our report thereon dated December 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Pigeon Forge's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Pigeon Forge's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Pigeon Forge's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pigeon Forge's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Pigeon Forge's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Pigeon Forge's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 10, 2018



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REPORT FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Honorable Mayor and Board of Commissioners
City of Pigeon Forge
Pigeon Forge, Tennessee

Report on Compliance for Each Major Federal Program

We have audited City of Pigeon Forge's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2018. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.



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Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 10, 2018

CITY OF PIGEON FORGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) Yes No

Major federal programs for the City of Pigeon Forge, Tennessee for the fiscal year ended June 30, 2018 are:

<u>Program Name</u>	<u>CFDA#</u>
Highway Planning and Construction	20.205

Dollar threshold used to distinguish between Type A & Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

CITY OF PIGEON FORGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

For the Year Ended June 30, 2018

Section II - Financial Statement Findings

Current Year Audit Findings: None

Section III - Federal Award Findings

Current Year Audit Findings: None

CITY OF PIGEON FORGE
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2018

There were no findings reported in the prior year.

